

## Chapter 10

### Vietnam's Comprehensive Development Strategy to Meet TPP

Vo Tri Thanh

*Central Institute for Economic Management (CIEM)*

#### **I. Introduction**

The *Doi Moi (Renovation)* initiated in 1986 and, in particular, market-oriented reforms since 1989 marked an important breakthrough in Vietnam's process of economic development. Together with wider and deeper domestic economic reforms in 1989, the country opted to carry out open-door policy, engaging itself in pro-active international economic integration. Since then, continuing domestic economic reforms and international economic integration have been in place, albeit to different extents.

The above processes have led Vietnam to remarkable socio-economic successes, the most notable of which were continuous and high economic growth, rapid shift in economic structure in line with industrialization and modernization. This helped improve Vietnam's GDP per capita from below USD 100 in 1990 to USD 1,061 in 2008, and USD 2,200 in 2015. Simultaneously, the poverty rate went down dramatically from approximately 34 per cent in 1995 to below 7 per cent in 2015.<sup>1</sup> Vietnam has also transformed itself towards more industrialized economy, with the share of agriculture contracting from 41 per cent in 1991 to 17 per cent in 2015. Vietnam's economy gradually attained larger openness over time: total trade was equivalent to roughly 160 per cent of GDP, and FDI accounted for over 20 per cent of GDP, almost 70 per cent of total exports, and above 20 per cent of total investment as of 2015.

However, the country still finds its socio-economic performance less than outstanding. The growth paradigm exhibits a range of inherent weaknesses which remain unresolved despite recognition since the last decade. Issues with growth quality were already well-documented, covering inefficient SOE sector and public investment, high business costs,

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<sup>1</sup> *Source:* General Statistics Office (GSO).

and distorted production factor markets. While engaging more deeply in international economic integration, Vietnam seemed not to benefit as anticipated, particularly due to limited spill-over from FDI and weak position in the global/regional value chains. The income gap between the rich and the poor seems to have been widened.<sup>2</sup> Meanwhile, those recently escaping poverty are still highly vulnerable to unfavourable impacts of globalization (for example, significant job losses in both formal and informal sectors due to tougher competition), and the poor remain disadvantaged in accessing fair benefits from economic reforms. In addition, the poor and those recently escaping poverty still account for a large share in the pool of unskilled labor.

In the current context of globalization focusing on trade and investment liberalization, internationally tougher competition exerts enormous pressures on Vietnam to shift its economic structure further – away from low technology-content industries to those with higher contents of modern or advanced technology. New-generation free trade agreements (FTA) such as the Trans-Pacific Partnership for even higher standards of commitments that can induce drastic changes both at the borders and behind the borders, adaptation of trade policy, re-formulation of regional production networks, etc. The implications, including both opportunities and challenges, can be diverse.

To realize opportunities and mitigate challenge, Vietnam needs to rethink its strategy of socio-economic development. Rapid and radical changes since 2011 necessitate the amendment, if not replacement, of the Socio-Economic Development Strategy for 2011-2020. Specifically, the country should keep pursuing and implementing the broad agenda to restructure the economy for the period 2016-2020, aiming to rely more on improvements in productivity, competitiveness, allocation and utilization of resources. However, trade and investment liberalization no longer suffice for sustainable socio-economic development. Instead, the new international context – with rising populism, anti-globalization, etc. - has required that the approach to economic integration and domestic economic policies need to at least incorporate substances of inclusiveness and, at best, redistribution. New-generation FTAs – where the depth and scope of integration commitments often pose a major concern to different social groups – further harden the need for such an approach, to ensure that the benefits from integration were accessed by domestic citizens.

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<sup>2</sup> The Gini Index for Vietnam rose from 35.65 in 1992 to 42.68 in 2010, then decreasing slightly to 37.59 in 2014.

This paper attempts to elaborate on the need to amend Vietnam's socio-economic development strategy ahead of the new-generation FTAs, including the Trans-Pacific Partnership (TPP). In doing so, the paper looks into the possible changes to Vietnam's development strategy and reforms induced by the new-generation FTAs, especially the TPP.

The remainder of the paper is structured as follows. Section II briefly overviews the key policy challenges to Vietnam in pursuing economic integration. Section III then discusses the major milestones in Vietnam's economic integration processes and potential impacts of new FTAs. Section IV discusses the selected impacts of economic integration on trade and investment of Vietnam. Section V envisions some recommended changes in Vietnam's socio-economic development policies to effectively implement new FTAs.

## **II. Key challenges to Vietnam in pursuing effective economic integration**

Vietnam has to address several key issues and challenges in furthering economic integration. *First*, the country still needs to actively develop itself as well as to contribute to narrowing down the development gap with partners. The process is prioritized under ASEAN initiatives, but appeared to be slow. Notwithstanding the attempts to facilitate trade and investment liberalization and the pledged commitments towards an AEC, in the years from 2000 to 2009, the development gap within ASEAN is still huge (especially between CLMV, Philippines and Indonesia, and the rest of ASEAN in terms of PPP-income). Table 1 depicts the PPP-income gap between several ASEAN countries. With Vietnam serving as a base, the PPP-income gap was material in the years from 2000-2008. Even so, the change in income gap over 2008-2015 was hardly unambiguous. Lao PDR and Cambodia still had the lowest income levels, while Singapore remained the richest. In the absence of more meaningful measures to address regional development gap, ASEAN may find the momentum for furthering regional integration weakened. From Vietnam's perspective, similarly, failure to promptly foster sustainable, innovative and inclusive growth and to catch up with ASEAN-6 will undermine the country's contribution to ASEAN integration process.

**Table 1: PPP-Income Gaps between Asian Countries**

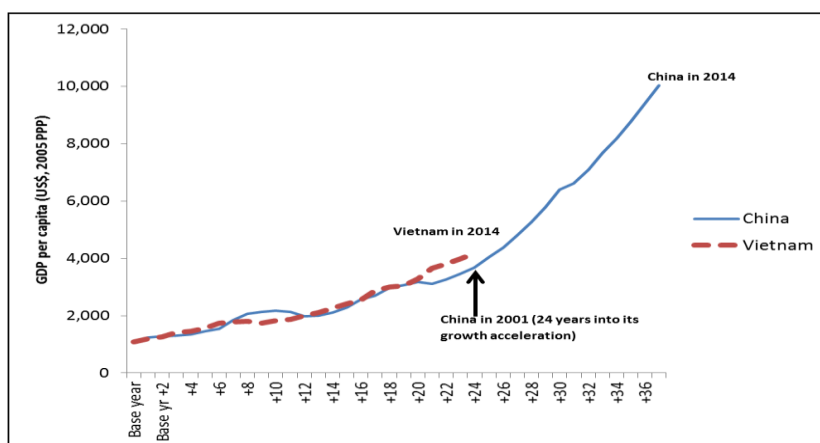
|                 | <b>2000</b> | <b>2005</b> | <b>2008</b> | <b>2015</b> |
|-----------------|-------------|-------------|-------------|-------------|
| <b>Cambodia</b> | <b>0.6</b>  | <b>0.7</b>  | <b>0.7</b>  | <b>0.6</b>  |
| Indonesia       | 1.6         | 1.4         | 1.4         | 1.8         |

|                |            |            |            |            |
|----------------|------------|------------|------------|------------|
| <b>Lao PDR</b> | <b>0.8</b> | <b>0.8</b> | <b>0.8</b> | <b>0.9</b> |
| Malaysia       | 6.0        | 5.3        | 5.1        | 4.5        |
| Philippines    | 1.7        | 1.5        | 1.4        | 1.2        |
| Singapore      | 23.7       | 19.9       | 17.8       | 14.1       |
| Thailand       | 3.3        | 3.1        | 2.2        | 2.7        |
| <b>Vietnam</b> | <b>1.0</b> | <b>1.0</b> | <b>1.0</b> | <b>1.0</b> |

*Note:* Vietnam's PPP-income is set at unity.

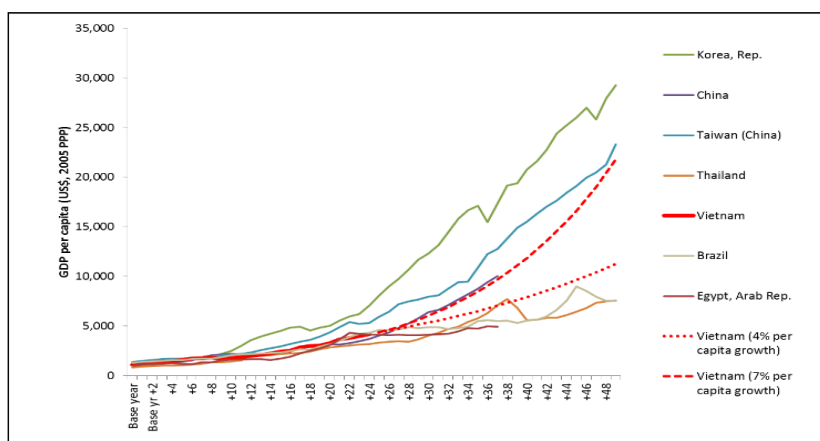
*Source:* Ministry of Planning and Investment of Vietnam; figures for 2015 are from authors' calculations based on WDI statistics.

**Figure 1: GDP per capita of Vietnam and China**



*Source:* Penn World Tables 8.0.

**Figure 2: Projection of GDP per capita**



*Source:* Penn World Tables 8.0.

*Second*, while the needs to deepen economic integration prevail, Vietnam also encounters challenges in building awareness and consensus for domestic reforms. Notwithstanding the top-down approach towards formulating reforms in past decades, Vietnam has more recently endeavoured to consult stakeholders as part of the process of implementing its regional economic integration commitments and domestic reforms. The scope of consultation has gradually been expanding. Various workshops and dialogues have been organized to consult the business community about various integration roadmaps and other related issues. Regarding ASEAN integration, the views of stakeholders on such major issues as tariff reductions for sensitive and highly sensitive products, sanitary and phytosanitary measures and trade facilitation were collected.

However, the effectiveness of such consultation is somewhat restricted. With regard to international economic integration, consultation efforts have often been confined to traditional stakeholders such as government agencies, researchers and the business community. Non-governmental organizations have thus far raised concerns on behalf of various social groups only with respect to the AEC and other important FTAs such as the EU-Vietnam FTA and the TPP. Even in the case of domestic reforms that were induced by other international FTAs, the consultation process was not more effective. Consultation was only undertaken with care for major laws such as the Constitution, Enterprise Law, Investment Law, and so on, not only because of their importance to the people, but because significant resources (time and money) were dedicated to the drafting processes. Inadequate attention has been paid to various measures of ASEAN integration (such as mutual recognition and services liberalization). Possible reasons include the lack of a regulatory framework for sharing confidential information and technical details during the negotiation process. Accordingly, while various Vietnamese stakeholders had no opportunity to make comments during the negotiation and inception of AEC-related measures, they were also not given sufficient information to plan ahead for the implementation of these measures. In addition, stakeholders were hardly consulted formally on the reduction of a policy space to support domestic economic activities (due to a phasing out of barriers to trade and investment).

*Third*, Vietnam must strive to harmonize the integration tracks/routes. The WTO commitments have so far been the most comprehensive. Trade agreements with other key partners - such as China, India, Japan, US - have been signed either under the umbrella of ASEAN or on a bilateral basis, and have already been implemented. More comprehensive

and more in-depth FTAs are to be signed and/or implemented. However, the risk may arise from the discrepancy in commitments that Vietnam made under those different agreements. As such, harmonizing the integration tracks emerges as an important need, so as to prevent any unwanted inducement of distorted resource allocation. Furthermore, the Vietnam has to attach the liberalization to development cooperation, aiming at not only domestic economic reforms but also deeper economic relations with other countries in the region (such as ASEAN member countries).

### **III. International integration strategy**

Since the start of Doi Moi (Renovation) in 1986, Vietnam already embarked on gradually opening up the economy to foreign trade and foreign investment. The process of economic integration of Vietnam became more rapid since 1995 with 4 most significant milestones.

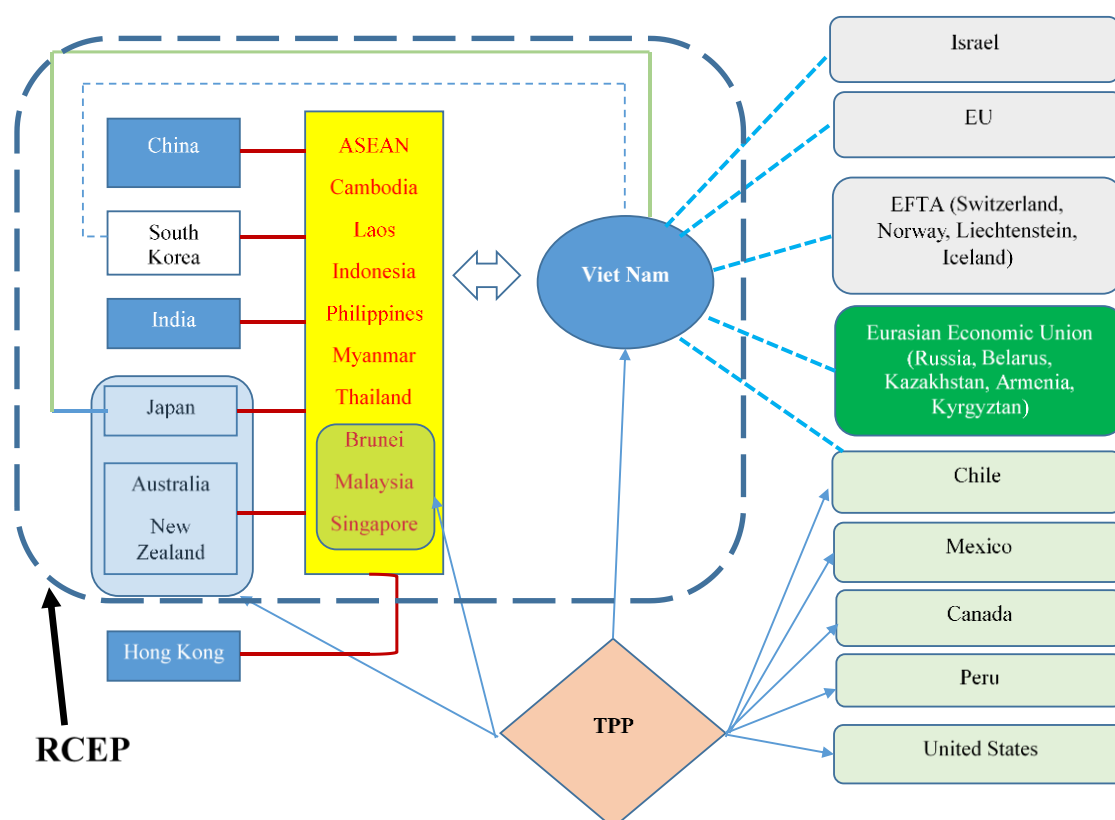
*First*, Vietnam joined the Association of South East Asian Nations (ASEAN) in 1995 and participated in the ASEAN Free Trade Area (AFTA) since 1996. Over the two decades till 2016, Vietnam was also signatory to an array of FTAs under the ASEAN-plus framework. By the end of 2015, in addition, Vietnam was member of the ASEAN community in general, as well as the Economic Community and Socio-Cultural Community of ASEAN in particular. As of 2016, Vietnam is active in the negotiation of the Regional Comprehensive Economic Partnership (between ASEAN and China, Korea, Japan, Australia, New Zealand and India) and the FTA between ASEAN and Hong Kong (China).

*Second*, Vietnam negotiated and signed the Vietnam - US bilateral trade agreement in 2000. This agreement, on one hand, laid an important foundation with induced preparations for Vietnam before participating more deeply in the regional (FTA-based) integration and WTO process. Under the agreement, Vietnam was for the first time exposed to a range of new liberalization issues – such as intellectual property rights – which later on help shape new-generation type of FTAs. On the other hand, this agreement enhanced Vietnam's access to the largest export market with less discrimination compared to other major exporters.

*Third*, Vietnam made huge negotiation attempts to join WTO and became official member of the organization in January 2007. The largest sources of pressures under the WTO are related to institutional reforms and service sector (CIEM 2013). In order to

fulfill WTO commitments, Vietnam had to amend and/or promulgate many laws, ordinances, and decrees related to domestic regulations (institutions).

**Figure 3: Vietnam's FTAs**



*Source:* Authors' compilations.

*Fourth*, starting from 2008, Vietnam focused more on bilateral and plurilateral FTAs. The first among them was the Economic Partnership Agreement (EPA) with Japan, which is effectively a bilateral FTA. By 2016, Vietnam had signed various other FTAs, including the TPP, FTA with the EU, FTA with Chile, FTA with Korea, FTA with Eurasian Economic Union.

Among the above milestones, ASEAN integration still attains the highest importance to Vietnam for several reasons. *First*, ASEAN was the first playing field for trade and investment liberalization, which matches the relatively low development level of Vietnam. The gradualism nature of ASEAN integration also permits Vietnam's less costly adjustment in terms of regulatory and economic aspects. The consolidated market of ASEAN is also appealing, with 628.1 million persons, USD 2,431 billion of GDP, USD 2,270 billion of trade, and USD 120 billion of FDI in 2015. *Second*, ASEAN integration has become more comprehensive, covering not only trade and investment but also aspects

of socio-economic, foreign affairs and security cooperation, even non-traditional security issues. *Third*, ASEAN member states have been working together to reduce intra-regional development gap, particularly between the CLMV and the rest. *Finally*, ASEAN - as a single body - has been emerging in popularity in international and regional initiatives, such as East Asia Summit, Asia-Europe Meeting, etc. Being member of ASEAN, thus, Vietnam could contribute to the various regional activities and dialogues, which helped promote further economic integration and sustainable development that surrounds South East Asia.

The new FTAs also boast importance to Vietnam's economy. *First*, these FTAs cover large markets. The TPP market has a population of 900 million person, accounting for 28 per cent of global trade and 37 per cent of world GDP. The RCEP region, meanwhile, makes up 48 per cent of world population, 30 per cent of global trade and 30 per cent of world GDP. FTA with the EU gives Vietnam's access to an export market with 500 million people, 20 per cent of world trade, and 26 per cent of world GDP. *Second*, the depth of commitments under these FTAs also implies significant pressures for Vietnam, not just in terms of institutional capacity but also the competitiveness of enterprises. *Third*, the major FTAs may induce drastic shift of global value chains, which certainly affects Vietnam's participation.

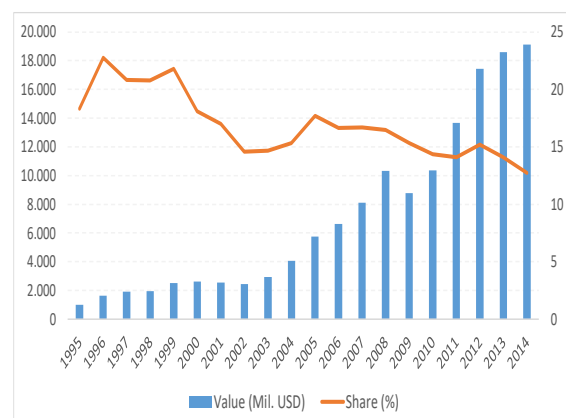
#### **IV. Impacts of international economic integration on trade and investment: Ex ante vs. Ex post observations**

In terms of trade performance, international economic integration appeared to have favorable impacts. Trade with almost all partners have expanded. In particular, Vietnam's trade with ASEAN has increased drastically, with average growth rate of 16.8 per cent p.a. for exports and 13.0 per cent p.a. for imports. The declining shares of ASEAN in Vietnam's trade just reflected the fact that Vietnam expanded trade with non-ASEAN partners (such as USA, EU, China, Japan, etc.) even more rapidly (Figure 4).

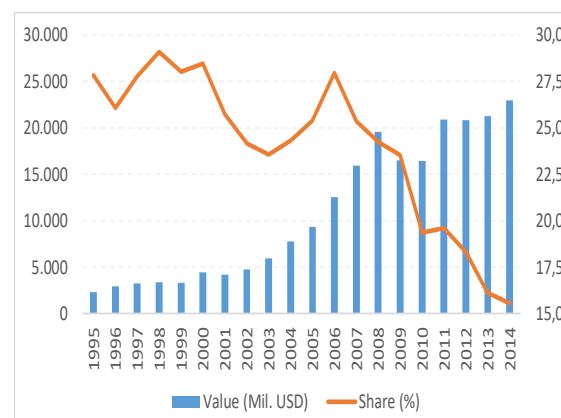


**Figure 4: Vietnam's trade with ASEAN, 1995-2014**

(a) Exports to ASEAN



(b) Imports from ASEAN



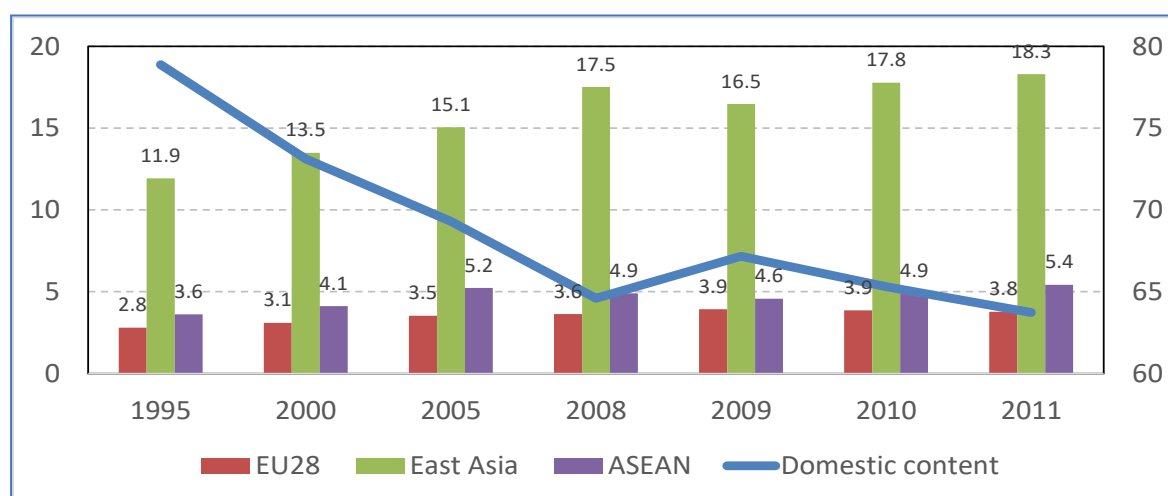
Source: General Statistics Office.

Note: Shares of trade with ASEAN are measured on the right-hand axis.

Together with expanded trade, Vietnamese enterprises have engaged themselves more deeply in the regional supply chain. The share of ASEAN in Vietnam's value added from exports was rather stable (Figure 5). East Asia's share tended to increase, reflecting the outcomes of integration efforts with East Asian countries, which induced more imports of intermediate products from East Asian countries. Amongst the East Asian countries, China stood out as the main source of intermediate goods imported into Viet Nam. The share of value added from China in Vietnam's exports is estimated to have increased from 1.5 per cent in 2000 to 6.1 per cent in 2008, then fell to 5.8 per cent in 2009 before recovering to 6.3 per cent in 2011. It should be noted that the expanded share of East Asia in Vietnam's exports has also been induced by the integration efforts under ASEAN framework with these partners (namely the FTAs with China, Korea and Japan).

**Figure 5: Share of Value Added Embodied in Vietnam's Gross Exports by Country, 1995–2011**

*Unit: %*



*Note:* Values for EU28, East Asia, and ASEAN are on the left-axis; Values for domestic content are on the right axis.

*Source:* OECD TiVA database (June 2015).

In another aspect, FDI attraction in Vietnam achieved remarkable improvements, and had important contribution to GDP, exports, job and income creation, etc. Total registered capital severely decreased during the period of 1997-2000 due to the Asian financial crisis, but gradually recovered in the 2001-2006 period. The main reason for the recovery was the adjustment of Vietnam's economic policy in preparation for the WTO accession as well as deepened economic integration of ASEAN. The pace of FDI expansion was, however, uneven throughout the period of 2007-2015.

Still, by partner, ASEAN as a whole attained even greater importance than South Korea and Japan in terms of registered capital (Table 2). Similar to other foreign investors, those from ASEAN have been driven by incentives and preferences offered by Vietnam. FDI flows from ASEAN have experienced significant changes. The recorded high level of FDI from ASEAN nations was witnessed in 2008, stood at USD 27,934.8 million, which is 42.9 times higher than that of 2005 (USD 651.9 million), and attaining the historically highest growth rate of 250 percent per annum during the period of 2005-2008. FDI flows from ASEAN to Vietnam, nevertheless, dropped sharply in 2009 to only USD 1,302.1 million, decreasing by 95.3 per cent compared to the previous year. This is the largest

drop among major foreign investors in Vietnam<sup>3</sup>. In 2010, while the overall FDI to Vietnam followed the declining trend till 2011, FDI from ASEAN went to the opposite direction, increased by 3.1 times in relation to that in 2009, attaining USD 5,326.0 million. During the period of 2011-2012, FDI from ASEAN continued to decline, went down by 42.6 per cent and 19.7 per cent, respectively, attaining only USD 2,455.6 million in 2012, the second smallest since 2007. The situation only improved in 2013 as the FDI capital flows from ASEAN to Vietnam expanded by 110.2 per cent (USD 5,161.4 million) before deteriorated again in 2014 (decreased by 31.4 per cent to USD 3,542.1 million).

**Table 2: Inward FDI by country/territory, cumulative by 31 December 2015**

| No.          | Country/Territory      | Number of projects | Registered capital<br>(Mil. USD) |
|--------------|------------------------|--------------------|----------------------------------|
| 1            | ASEAN                  | 2.813              | 59.050                           |
| 2            | Korea                  | 4.970              | 45.191                           |
| 3            | Japan                  | 2.914              | 38.974                           |
| 4            | Taiwan                 | 2.478              | 30.997                           |
| 5            | British Virgin Islands | 623                | 19.275                           |
| 6            | Others                 | 6.271              | 88.395                           |
| <b>Total</b> |                        | <b>20.069</b>      | <b>281.882</b>                   |

Source: Ministry of Planning and Investment.

Table 3 suggested that in the pre- and post-ACIA implementation periods, FDI had a weak influence on domestic investment. Realized FDI experienced a reduction in 2012, the first year of ACIA implementation. In contrast, domestic investment (state and non-state), especially state one still increased. In 2013, FDI resumed growth, while the growth of state investment decelerated, and non-state investment growth was moderate. In 2014, non-state investment performed better, but FDI growth was slower.

**Table 3. Annual Growth Rate of Realized Investment by Ownership (percent)**

| <i>Year</i> | <i>Non-state</i> | <i>FDI</i> | <i>State</i> |
|-------------|------------------|------------|--------------|
| 2006        | 15.4             | 21.4       | 9.4          |

<sup>3</sup> Overall FDI dropped by 63.9 per cent, Japan - by 90.6 per cent, South Korea - by 81.6 per cent.

|      |      |       |      |
|------|------|-------|------|
| 2007 | 27.7 | 94.5  | 4.8  |
| 2008 | -4.0 | 35.3  | -3.1 |
| 2009 | 28.2 | -19.3 | 22.6 |
| 2010 | 20.1 | 10.0  | -0.7 |
| 2011 | -0.5 | -13.9 | -9.2 |
| 2012 | 3.8  | -3.9  | 13.5 |
| 2013 | 5.6  | 8.8   | 7.3  |
| 2014 | 9.5  | 6.4   | 6.0  |

*Source:* MUTRAP (2015).

Finally, one should also anticipate the positive impacts of connectivity enhancement under ASEAN framework. This is because better and more comprehensive connectivity under the Master Plan for ASEAN Connectivity (MPAC), if realized, can help facilitate flows of goods, services, and persons across the ASEAN sub-regions and States. This postulation is supported by some recent empirical attempts to quantify the net impacts to sub-regions and States in ASEAN. Based on findings from ERIA's Geographical Simulation Model, MPAC seems to promote ASEAN economic growth and narrow development gap. While the findings are restricted to economic impacts, they still incorporate important implication on enhancing member States' and stakeholders' confidence in MPAC implementation. By country, Vietnam ranks second with the simulated increase in economic benefits of 115%.

**Table 4: Geographical simulation model: An illustration**

| <i>Ranking by region</i>     |                |                         | <i>Ranking by country</i> |                         |
|------------------------------|----------------|-------------------------|---------------------------|-------------------------|
| <i>Region</i>                | <i>Country</i> | <i>Economic Effects</i> | <i>Country</i>            | <i>Economic Effects</i> |
| Kota Lhokseumawe             | Indonesia      | 533.7%                  | Myanmar                   | 145.8%                  |
| Asahan                       | Indonesia      | 485.8%                  | Vietnam                   | 114.6%                  |
| Mamuju Utara                 | Indonesia      | 480.8%                  | Laos                      | 99.3%                   |
| Kota Pematang Siantar        | Indonesia      | 463.4%                  | Thailand                  | 98.6%                   |
| Rokanhilir                   | Indonesia      | 432.8%                  | Cambodia                  | 97.9%                   |
| Indragiri Hilir              | Indonesia      | 419.2%                  | Indonesia                 | 85.0%                   |
| Kota Binjai                  | Indonesia      | 411.4%                  | Philippines               | 73.4%                   |
| Kota Kediri                  | Indonesia      | 410.3%                  | Malaysia                  | 64.4%                   |
| Kota Tanjungbalai            | Indonesia      | 408.1%                  | India                     | 45.6%                   |
| Soc Trang                    | Vietnam        | 404.4%                  | Singapore                 | 29.2%                   |
| <i>Number of region with</i> | 100% or more   | 254                     | China                     | 25.4%                   |
|                              | 50% to 100%    | 239                     | Bangladesh                | 23.0%                   |
|                              | 0% to 50%      | 446                     | Hong Kong                 | 8.2%                    |

*Source:* ERIA.

International economic integration also helped induce Vietnam's institutional reforms, particularly in the areas directly related to trade and investment. As an instance, trade facilitation received significant attention under ASEAN integration framework, and has been implemented relatively rapidly in Vietnam. The Viet Nam National Single Window (NSW) was developed in 2005 and has been widely implemented during 2013-2016. The initial achievement of the NSW's first piloting period was the technical connection between three core governmental agencies, namely the Ministry of Finance (General Department of Customs), the Ministry of Transport, and the Ministry of Industry and Trade on 26 February 2014. Three other core governmental agencies, namely the Ministry of Agriculture and Rural Development, the Ministry of Health, and the Ministry of Natural Resources and Environment, were also connected to the NSW in late 2011. In September 2015, Vietnam was the fifth country to get connected to ASW, after Singapore, Indonesia, Malaysia and Thailand.

The technical infrastructure of the NSW is being implemented, comprising the main functions such as front-end systems for traders, manifest submission, goods declaration, and the payment of duties, taxes and fees. Providing functionality for integrated risk management, electronic connectivity, and international data exchange is currently underway. According to a report by the General Department of Customs, more investment to expand the NSW Customs Portal has been made in order to unify administrative procedures, technical plans and working schedules with various stakeholders.

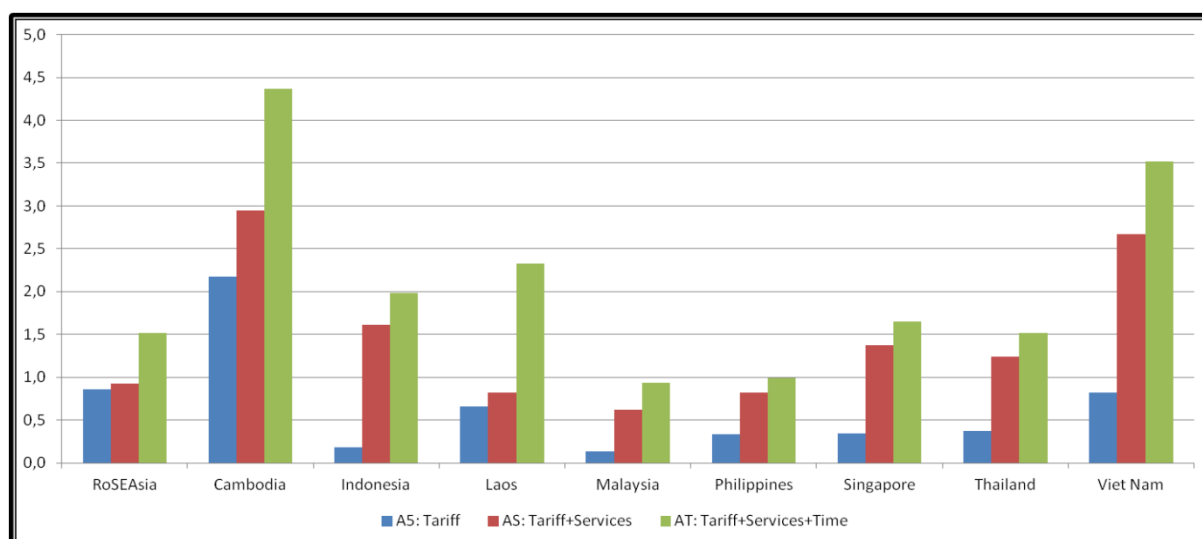
Customs modernization has become an essential activity of the General Department of Customs in recent years. The Government issued the first initiative on piloting e-customs at Hai Phong Customs Office under Decision 149/2005 on 20 June 2005. After gaining considerable experience, the piloting of e-customs was expanded to 19 other provinces in 2009. The past years till 2016 have witnessed rapid and significant reforms in customs modernization. On one hand, this shows stronger political willingness to foster economic integration and implementation of regional and international commitments. On the other hand, it reaffirms the support from the international donors (such as the Japanese Government, the World Bank, etc.).

Finally, Vietnam also aims at catching up with ASEAN (especially ASEAN-6) in terms of business environment. In particular, the various Resolutions 19 (first issued in 2014, renewed in 2015 and 2016) aim to make the domestic business environment more enabling and to strengthen national competitiveness. The new feature of the series of Resolution 19 is that they set out specific tasks related to business environment improvement, including: (i) To simplify procedures and reduce the time required to start a business to 6 days or shorter; to make necessary improvements to shorten the time from business registration to actual business activity by enterprises; (ii) To improve the routine, documents and procedures related to paying taxes, so that the time for enterprises to pay taxes is equivalent to or below the average level of ASEAN-6 (namely, Singapore, Malaysia, Thailand, Indonesia, Brunei Darussalam and Philippines), i.e. 171 hours per annum; (iii) To reduce the time for enterprises and investment projects to get electricity to 70 days or shorter (the average figure of ASEAN-6 is 50.3 days); (iv) To simplify the routines, documents and procedures for import and export activities, custom clearance; to reduce the time for custom clearance to the average level of ASEAN-6 (i.e. 14 days for export and 13 days for imports), etc. Along with these tasks are the array of measures that

are identified for each Ministry, together with a quarterly reporting mechanism specifically led by the Ministry of Planning and Investment. As these Resolutions set out various reference targets in line with the average level of advanced ASEAN member states, they may also imply bolder and more serious attempt of Vietnam to get itself closer to the standard of ASEAN.

Looking forward, Vietnam is expected to benefit from the range of FTAs that it will sign and/or implement. Various studies have delved into the potential impacts of AEC measures on ASEAN member states. The most notable and comprehensive among them was the Mid-term Review Project by the Economic Research Institute for ASEAN and East Asia (ERIA 2012) and the study by Petri and Plummer (2013). Accordingly, the regional integration and community building process may turn out to be beneficial for all ASEAN countries. More importantly, deeper economic integration under AEC track will produce larger net benefits – in terms of cumulative percentage of GDP – for all members (Figure 1 and Table 2). If only tariff liberalization is in place, the benefits will be rather small for the ASEAN-5 (including Indonesia, Malaysia, Philippines, Singapore and Thailand), whilst being larger for less advanced countries (including Cambodia, Lao PDR and Vietnam). The benefits are, however, extended if services liberalization also takes place.

**Figure 6: Potential Impact of AEC Measures on GDP**  
(Cumulative percentage increase over baseline 2011-2015 in 2015)



*Notes:* No estimates for Myanmar because of serious data problems.

*Source:* Computed by Itakura for MTR project (2012).

**Table 5: Projected gains to East Asian countries under different scenarios**

|                    | Income gain |              |              |              |              | Percentage change from baseline |              |              |             |              |
|--------------------|-------------|--------------|--------------|--------------|--------------|---------------------------------|--------------|--------------|-------------|--------------|
|                    | <i>AFTA</i> | <i>AFTA+</i> | <i>AEC</i>   | <i>AEC+</i>  | <i>AEC++</i> | <i>AFTA</i>                     | <i>AFTA+</i> | <i>AEC</i>   | <i>AEC+</i> | <i>AEC++</i> |
| <b>ASEAN</b>       | <b>10.1</b> | <b>38.0</b>  | <b>69.4</b>  | <b>115.6</b> | <b>151.0</b> | <b>0.78</b>                     | <b>2.92</b>  | <b>5.34</b>  | <b>8.89</b> | <b>11.61</b> |
| <i>Brunei</i>      | 0.2         | 0.4          | 0.5          | 0.6          | 0.7          | 2.56                            | 5.38         | 7.00         | 9.29        | 10.62        |
| <i>Cambodia</i>    | 0.3         | 0.5          | 0.6          | 0.7          | 1.2          | 2.74                            | 5.42         | 6.26         | 7.23        | 12.34        |
| <i>Indonesia</i>   | 1.0         | 6.2          | 27.6         | 36.5         | 43.2         | 0.22                            | 1.40         | 6.21         | 8.21        | 9.71         |
| <i>Lao PDR</i>     | 0.0         | 0.1          | 0.2          | 0.2          | 0.2          | 0.63                            | 2.50         | 3.59         | 3.76        | 4.56         |
| <i>Myanmar</i>     | 0.0         | 0.2          | 0.6          | 0.7          | 1.4          | 0.33                            | 1.22         | 4.39         | 4.80        | 9.31         |
| <i>Malaysia</i>    | 2.7         | 2.9          | 5.7          | 21.1         | 27.9         | 1.41                            | 1.55         | 2.99         | 11.16       | 14.70        |
| <i>Philippines</i> | 0.9         | 2.2          | 4.5          | 4.4          | 5.9          | 0.61                            | 1.59         | 3.24         | 3.16        | 4.29         |
| <i>Singapore</i>   | 2.6         | 14.0         | 15.1         | 18.1         | 19.0         | 1.64                            | 9.00         | 9.68         | 11.59       | 12.16        |
| <i>Thailand</i>    | 1.6         | 9.8          | 12.2         | 19.5         | 25.8         | 0.65                            | 3.93         | 4.90         | 7.82        | 10.38        |
| <i>Vietnam</i>     | 0.9         | 1.6          | 2.4          | 13.8         | 25.7         | 1.10                            | 1.81         | 2.82         | 16.00       | 29.83        |
| <b>Partners</b>    | <b>0.9</b>  | <b>-17.4</b> | <b>-16.9</b> | <b>28.4</b>  | <b>17.9</b>  | <b>0.00</b>                     | <b>-0.04</b> | <b>-0.04</b> | <b>0.07</b> | <b>0.04</b>  |
| <i>China</i>       | 0.4         | -4.6         | -7.8         | -6.5         | -12.2        | 0.01                            | -0.10        | -0.16        | -0.14       | -0.26        |
| <i>Japan</i>       | 0.1         | -1.3         | -1.6         | 9.2          | 7.3          | 0.00                            | -0.02        | -0.03        | 0.17        | 0.14         |
| <i>Korea</i>       | -0.2        | -1.4         | -2.7         | 10.6         | 9.1          | -0.02                           | -0.15        | -0.27        | 1.07        | 0.92         |

Source: Petri and Plummer (2013)

*Notes:* (1) AFTA: completion of AFTA by reducing all remaining tariffs on intra-ASEAN trade; (2) AFTA+: intensification of AFTA by removing NTBs, including regulatory barriers such as diverging standards and testing requirements; (due to the lack of detailed information on these measures, the authors assume a horizontal reduction of trade costs equal to 5 percent of trade values); (3) AEC: further reforms that improve the investment climate, modeled via increasing FDI inflows to levels similar to those in the most open ASEAN countries; (4) AEC+: additional bilateral FTAs with other RCEP economies; and (5) AEC++: additional bilateral FTAs with the United States and the EU.

Table 6 compares the projected impacts of TPP, EVFTA and RCEP on Vietnam and other selected economies. As can be seen, the impacts of these agreements on Vietnam's real income and exports are relatively impressive in percentage terms. The impacts under TPP appear to be larger than EVFTA and RCEP. Nguyen et al (2017) provide a couple of explanation for this. First, TPP commitments have wider scope and larger depth compared to those under EVFTA and RCEP, which not only enhance access to foreign markets but also induce domestic policy reforms to meet TPP standards. Second, RCEP just builds on the ASEAN+1 FTAs with regional partners and some of the benefits from liberalizing with these partners were already realized in part under the ASEAN+1 FTAs.



**Table 6: Impacts of TPP, EVFTA and RCEP**

|                    | <i>Projected<br/>2025 (\$b)</i> | <i>Change in 2025 (\$b)</i> |              |             | <i>Change in 2025 (%)</i> |              |             |
|--------------------|---------------------------------|-----------------------------|--------------|-------------|---------------------------|--------------|-------------|
|                    |                                 | <i>TPP</i>                  | <i>EVFTA</i> | <i>RCEP</i> | <i>TPP</i>                | <i>EVFTA</i> | <i>RCEP</i> |
| <b>Real income</b> |                                 |                             |              |             |                           |              |             |
| United States      | 20,273                          | 77                          | 0            | 0           | 0.4                       | 0.0          | 0.0         |
| Vietnam            | 340                             | 36                          | 19           | 17          | 10.5                      | 5.5          | 5.1         |
| World              | 103,223                         | 223                         | 26           | 644         | 0.2                       | 0.0          | 0.6         |
| <b>Exports</b>     |                                 |                             |              |             |                           |              |             |
| United States      | 2,813                           | 123                         | 0            | -4          | 4.4                       | 0.0          | -0.1        |
| Vietnam            | 239                             | 68                          | 37           | 30          | 28.4                      | 15.6         | 12.5        |
| World              | 28,415                          | 305                         | 44           | 1,383       | 1.1                       | 0.2          | 4.9         |

*Source:* Cited in Petri and Phuc (2015).

In light of the above development and contextual considerations arise several questions of concern about the TPP and RCEP processes. On the one hand, whether these agreements maintain consistency with FTAAP seems to be clear at this stage, but certain risks prevail. Convergence of TPP and RCEP to FTAAP can be justified by the commitments to open regionalism and further liberalization, while the gains are transparently perceived to be larger if the tracks proceed to Asia-Pacific-wide integration. Moreover, market forces and interactions are being strengthened thanks to new arrangements which prevent off-track evolutions of RCEP and TPP in a dynamic Asia Pacific region. Still, the TPP and RCEP processes fail to solidify an approach/method with sufficient consensus to deal with regional geo-political problems. This issue can be aggravated by unequal distributed benefits from further integration among economies in the region.

On the other hand, with a view to attain wide membership, RCEP again raises the need for strengthening institutions as the workhorse for the extended East Asian region (i.e. ASEAN with 6 regional development partners) with centrality of ASEAN (Petri and Vo 2012). The high heterogeneity within ASEAN in various socio-political, economic and cultural aspects remains unchanged, if not increased, which undermines enforcement of various institutional attempts by the Association to drive regional economic integration. As such, ASEAN has to work in a bold and well-coordinated manner to strengthen its institutions and to revisit the key principles (namely consultation, consensus, non-intervention, and incrementality) in the new context. For instance, restructuring and

reinvigorating the ASEAN Secretariat emerges as an important need, but the specific steps remain unidentified. Similarly, maintaining coherent interactions between ASEAN Secretariat and other bodies of ASEAN in developing the institutions for extended East Asian region – a possible one of which is the Commission for RCEP Implementation – is essential. For example, the ASEAN+3 Macroeconomic Research Office (AMRO) has been established and came into operations since April 2011, yet the experience so far indicates that the institution remains far from being instrumental as expected under the Chiang Mai Initiative.

Finally, both AEC and RCEP processes share an important deadline for conclusion, i.e. the year 2015. Nonetheless, this deadline presents no end for the regional economic integration process. At this stage, several ideas have been developed regarding the ASEAN integration till 2025. For instance, the Asian Development Bank Institute (2012) proposes an aspiration for a Rich, Inclusive, Competitive and Harmonious ASEAN (RICH) by 2030. ERIA has worked to elaborate the Jakarta Framework for Moving AEC Forward beyond 2015. As the single-undertaking approach is not strictly pursued, there are certainly doubts about whether AEC and RCEP will comply more fully with requirements for high standard arrangement of trade liberalization. That is, the risk of making minimal progress with “behind-the-border” regulations, standards and conformance, etc. may remain material, and it may take too long to develop regional institutions to deepen such progress. In another aspect, a sizeable workload is still unfinished with regard to trade facilitation and connectivity enhancement. Notwithstanding the availability of MPAC which has recently been replicated in the APEC multi-year framework on connectivity, the impediments to such connectivity persists and deter the evolution of more efficient supply chains as well as freer flows of goods and services in the region.

### ***Challenges for Vietnam***

Vietnam is among the few countries that hold memberships of both TPP and RCEP. These agreements are expected to produce ample positive impacts on Vietnam’s economy (Table 4 and Figure 2). GDP in 2025 may increase by up to USD 48.7 billion (or 14.3 percent) and USD 17.3 billion (or 5.1 percent), respectively, under different scenarios of TPP and RCEP (Table 4). Wider membership of TPP also increases the income gains for Vietnam. Notably, under various scenarios of TPP (with 12 members or 16 members),

Vietnam has the largest income gains in percentage terms (10.5 percent and 14.3 percent, respectively).

The above projected benefits of TPP and RCEP can be explained by several reasons. First, TPP and RCEP comprise of many important economic partners of Vietnam such as the United States, China, Japan, Australia, ASEAN, etc. These also represent the markets for major export commodities of Vietnam, and access to the markets may be enhanced thanks to further tariff reduction. Second, FDI inflows to Vietnam are to increase considerably so as to take advantage of the new opportunities and incentives induced by TPP and RCEP. In particular, the FDI projects from many advanced partners may bring about substantial positive spillover impacts, including transfer of technology and management know-how. Finally, the fulfilment of TPP and RCEP commitments will help build a transparent and competitive investment environment in Vietnam, thereby facilitating efficient allocation of capital resources.

Compared with other members of TPP and RCEP, the percentage increase in Vietnam's GDP can be potentially significantly larger. Several factors can explain for this projected outcome. First, TPP and RCEP induce higher standards of liberalization in a wide range of areas, including trade facilitation, reduction of non-tariff measures, etc. This in turn leads to smaller distortion in relative prices and allocation of resources, which are of pivotal importance for a low-base economy like Vietnam. Second, TPP and RCEP exhibit important links and consistencies with the ASEAN+1 FTAs of which Vietnam is a members. Accordingly, the risk of trade diversion can be minimized. Finally, TPP and RCEP may promote further development of the existing regional production network. Provided that relevant reforms are in place to timely upgrade production capacity, Vietnam can take significant advantages of the ample room for improvement, given the current low position in the network.

Still, the above figures and arguments are only presented on an *ex ante* basis. As the lesson for Vietnam after 10 years of WTO membership, opportunities may instead become challenges in the absence of appropriate macroeconomic policy responses and necessary domestic reforms. That is, the realization of TPP- and RCEP-induced opportunities depends very crucially upon whether Vietnam can overcome the challenges in implementing its commitments. Unlike the context in early 1990s, economic reforms in the country – still at low development stage – now interact very closely with the economic integration process. The gap between requirement of new-generation FTAs

(such as TPP and RCEP, not to mention EU-Vietnam FTA, etc.) and actual capacity of Vietnam remains material. As such, the country needs to extend further efforts to improve economic institutions, especially its legal framework and enforcement structure, so as to internalize the commitments under those FTAs.

Another natural question arises as to why the reforms so far attain modest progress, notwithstanding the above potential benefits of major FTAs such as TPP, RCEP. The context for reforms exhibited major differences with that prior to the Doi Moi. People's income and interest have been improved but also diversified, which challenges the attempt to ensure consensus and inclusiveness of reforms. Underlying this difficulty involves more aspects than pure economic consideration. A number of crosscutting issues are inherent in the domestic economy, such as bad debts, poor efficiency of SOEs and public investment, fragility of the banking system, etc. The resource constraint necessitates prioritization of reforms, but a concrete sequence has not been identified. The promotion of reforms is also impeded by some technical issues, such as cross-ownership, sequence of SOE equitization, etc.

At the same time, Vietnam also has to harmonize commitments under various integration tracks. As discussed previously, memberships in many FTAs show the commitment to establish a more favorable investment environment in the country. Yet the benefits of such agreements may be reversed if the commitments under those FTAs are inconsistent or developed without sequential consideration. Should this happen, businesses will encounter difficulties in developing appropriate investment strategy since the adjustment cost may turn out to be costly.

In the meantime, Vietnam needs to restore and further consolidate market confidence. This again depends importantly on the political will as well as consistency in macroeconomic stabilization and long-term economic restructuring process. TPP and RCEP may produce significant net benefits, yet the pattern of impact may vary across sectors and enterprises. The previously protected and/or weak ones may experience contraction or even bankruptcy, with associated social consequences. Minimizing adjustment costs and social risks in the economic integration process in general and the TPP and RCEP in particular should be the main priority in Vietnam's agenda.

## **V. Major substances of new sustainable socio-economic development strategy in Vietnam**

Since the global financial crisis, the global economy is undergoing a process of slow recovery. The pattern of growth has been less predictable, and uneven across different groups of economies. Even the Asia Pacific, arguably the most dynamic region, witnessed sluggish growth. Accelerating the pace of growth recovery in the Asia Pacific region is then a major concern, since it helps shape prosperity and induce efforts to liberalize regional trade and investment.

Vietnam is also at a decisive point of time for transforming the paradigm/pattern of development by establishing foundations for overcoming middle-income trap. It is becoming more apparent that manipulating macroeconomic policies to achieve growth is hardly viable in the country. Fiscal space becomes narrower after prolonged period of stimulus to combat economic downturn. In addition, excessive use of stimulus measures, including monetary policy instruments, may trigger counter measures by other trade partners in the region.

In this context emerges the need for efforts to identify more innovation- and broad-based sources of growth in Vietnam. Such efforts should target not only high and sustainable economic growth, but also wide participation of various groups, including women, young people, the elderly, ethnic minorities. More importantly, such efforts should incorporate collaboration with regional economies to facilitate shared experiences, to ensure greater consensus and harmonized actions.

### ***To Enhance Propaganda and Involvement of the Society in International Economic Integration***

Vietnam should further improve understandings and knowledge of international economic integration commitments, associated opportunities and challenges upon implementing these commitments, especially for SMEs in rural areas. To ensure effective sharing of information between line ministries, authorities, localities and enterprises. To mobilize wide participation of private sector, sectoral associations, socio-political organizations and the people in implementing international economic integration policies.

### ***To Accelerate Business Environment Reforms and Enhance Competitiveness***

Vietnam should further deepen administrative reforms for a more favorable business environment. To enhance transparency of the legal system, policies, plans, development strategies at sectoral, subsectoral, product and local levels.

In another aspect, Vietnam needs to fundamentally address trade deficit in order to achieve sustainable trade balance by 2020, based on comprehensive resolutions of the relationship between savings, consumption and investment alongside a competitive and flexible exchange rate policy, strengthening production capacity and export of domestic enterprises, promoting development of supporting industries and improving product quality.

Another stream of policy efforts involves simultaneous improvement of competitiveness at national, enterprise and product levels. To develop and implement programs to enhance competitiveness of potential industries and programs to transform uncompetitive industries. To promote higher value added contents in all sectors via upgrading human resources, technology, access to better source technologies and long-term cooperation with strong partners in respective sectors. To encourage enterprises to develop and applying science - technology in production. To implement supporting policies for enhanced competitiveness, with particular focus on:

- + Restructuring the financial and banking sector, minimizing risks of financial instability; proposing measures to attract FDI inflows, whilst managing sudden changes of capital flows, especially short-term ones.
- + Developing synchronous infrastructures to reduce costs of production and doing businesses, to attract investment, to narrow development gap and to improve competitive capacity. Enhancing connectivity of domestic infrastructures with those in regional linkages.
- + Implementing measures to promote and attract investment in business supporting services such as finance, credit, science, technology, processing agricultural products in accordance with international economic integration commitments. Liberalizing sensitive markets (such as services) with reasonable and carefully considered roadmaps together with necessary supporting measures, particularly comprehensive social security measures.
- + Reducing behind-the-border barriers to trade and accelerating trade and investment facilitation for enhanced domestic and international connectivity.

### *Sectoral policies*

Vietnam needs to take advantage of current special and differential treatments and reserved restraining measures in international economic integration commitments for related sectors; to provide policy support to domestic enterprises and to channel investment in the sectors of necessity for Vietnam. To monitor and evaluate the uses of those treatments and supports so as to identify and address related impediments.

At the same time, Vietnam needs to encourage and facilitate access to advanced technologies, improve value added content and quality of products. To deepen linkages with FDI enterprises, aiming to further participation in the regional production network. To induce reduction of service link costs, such as those related to transportation, warehouses, ports, post, telecommunication, finance, banking. To diversify product structure, with more products of higher value added and improved food safety and sanitation.

Vietnam should focus on formulating and implementing market development strategies in key markets alongside establishing and promoting national brands. To gradually develop an overseas distribution network for key export products, targeting major markets. To establish business cooperation and linkages with major distributors and retailers to develop products in close line with market needs, thereby increasing sales.

In a related aspect, Vietnam's trade promotion authorities need to adopt new organizational and marketing methods with professionalism. To diversify and expand forms of trade promotion. To strengthen marketing through overseas exhibitions, e-marketing and establishment of representative offices. To focus trade promotion activities in major markets, new and potential markets.

The Government of Vietnam needs also to enhance market information and pro-active support to enterprises related to market access; To build and develop capacity for forecasting world market demand and changes in order to update information for enterprises and producers regarding: prices, supply-demand balance, sale trends, market changes and new requirements of import markets. To ensure thorough understandings of importers' regulations related to import and business activities.

In addition, Vietnam should improve the legal framework on activities of professional organizations via creating mechanism and supporting the legitimate establishment and development. To promote the supporting role of associations in trade promotion, market

search, product strategy analysis, development policy, access to investment capital, cooperation and linkages in production/business activities, whilst bridging enterprises, Government and related organizations. To establish business associations of export products to each market so as to coordinate export activities, avoiding domestic exporters' competition leading to price reduction and associated losses for enterprises.

Vietnam should also train and encourage businesses to better realize the opportunities from FTAs to penetrate and exploit overseas markets, and to shift from processing to direct export.

Finally, Vietnam needs to actively negotiate with partners to reduce tariff and non-tariff barriers, especially SPS regulations for the purpose of protecting domestic producers rather than for sole epidemic prevention and/or sanitary and phytosanitary quarantine.

### ***Substance of sustainable development in agriculture and rural areas***

*First*, Vietnam should further promote trade in agriculture-forestry-fishery products. On the one hand, this requires the establishment of a more relevant incentive structure to avoid unnecessary (and/or costly) distortion in such trade. On the other hand, it is of even greater importance to enhance the competitiveness of those products in terms of both price and quality. This will help bring the products to market and ultimately improve income for farmers.

*Second*, Vietnam should facilitate the establishment and development of rural value chains. This will further commercialize agricultural products and promote rural transformation. To do so, studies should first be undertaken to identify potential areas for setting up value chains and measures to raise the value-added content of final agricultural products. Moreover, existing value chains should also be strengthened. In either case, the value chains should be inclusive of rural households, particularly the poor ones. Only with such inclusiveness can rural inequality be reduced, thereby enhancing the sustainability of rural diversification. This should, however, be accompanied by the improved competence and even nonfarm entrepreneurship of rural households.

In addition, the development of rural value chains should rest to a large extent on building and/or strengthening the linkages between the agricultural and the nonagricultural sectors in the rural areas. Of special importance are measures to employ more modern technology (in processing, preserving, packaging, etc.) in the value chains, thereby increasing the commercial competitiveness (and value-added content) of agricultural products.



Nevertheless, the development of rural value chains should also incorporate measures to address the prevailing issue of middlemen, so that producers of agricultural-forestry-fishery products can reap a more reasonable share of their final market value. Again, the presence of foreign enterprises in the rice market, while threatening local middlemen and rice-trading companies, may also benefit rice producers.

*Third*, Vietnam should coordinate the improvement of human resources in rural areas to support agricultural and rural diversification. Rural farmers should be trained to adopt new technologies in agricultural and aquacultural production. Such technologies should also be adaptive to climate changes that affect agricultural and aquacultural production. With the current contraction in agricultural cultivation areas, this is the key direction for promoting higher agricultural productivity. Along with this process, the Government and concerned agencies should disseminate information on market development and technologies related to processing, preserving, packaging agricultural products and equip farmers with the necessary skills to use that information. Together with developing rural value chains, measures should also be undertaken to improve farmers' capacity to participate in the different stages of the chains. As previously suggested, rural households should also be equipped with the necessary entrepreneurial skills, which may be crucial for more rapid and sustainable diversification of agriculture and the rural economy.

Next, Vietnam should continue to develop agriculture and rural areas, and improve farmers' participation in the economic process. The key contents of this strategy must cover: measures to change the way of thinking and production at a small scale of farmers; establishment of policies to encourage development of agriculture, rural areas, and farmers; policy measures to support industrialization of agriculture and rural areas, and to develop infrastructure system; policies to promote land accumulation, change in system of crop plants, development of eco-agriculture, and craft villages. Effective implementation of this policy not only ensures creation of local jobs and associated improvement of income for labors, but also enhances socio-economic stability even in the event of unfavorable internal and external shocks. In this regard emerges the need for effectively incorporating social protection in rural development policies.

Another important direction is to facilitate CSO-government cooperation on agriculture and rural development. This may be deepened by the efforts for on-ground project cooperation. Besides, the CSOs and government agencies may engage themselves in direct and frank policy dialogues on contemporary issues with agriculture and rural

development. Of most importance is to strengthen mutual trust between CSOs and government agencies in the broader cooperation agenda for a people-centred society.

**Box 1: 10 lessons for effective engagement of CSOs**

1. Clarity of goal and strategy of engagement (define strategic value of engagement);
2. Know the terrain;
  - Familiarity with ASEAN Structure, processes, and "dynamics";
3. Find good entry points;
  - Maximize Accreditation (existing legal frameworks and spaces for participation);
4. Primacy of national/ local engagement;
5. Access to timely and quality information;
6. Seize key moments of decision/policy making;
7. Be clear, concrete, brief & concise on position papers/ Offer sound alternatives;
8. Mobilize resources / Participation is costly;
9. Build solidarity with other CSOs / expand constituency for reform;
10. Invest in relationship and nurture positive attitude.

Source: AFA -AsiaDHRRA engagement in ASEAN.

*Finally*, Vietnam should continue to learn from experiences and best practices, not just of ASEAN member countries but also dialogue partners. Still, the room for increasing payoff of such efforts remains ample. One perhaps should think about more collaboration in actual rural development and/or rural employment creation projects following the sharing of such experiences and best practices. Follow-up collaboration will provide a practical opportunity for the learners to adapt to new approach/practices.

Special considerations should also be given to promote rural development as part of inclusive growth. *First*, Vietnam should change its approach by identifying and formulating rural development plans that target the poor and near-poor households more directly. At this stage, the range of poverty reduction programs and activities still target socio-economic development, hoping to produce positive spillover impacts to the poor and near-poor people. While these programs serve the purpose of enhancing access to

economic assets and opportunities to the people, they fail to incorporate sufficient flexibility. That is, they by designation seek to achieve certain goal related to poverty reduction and food security within the broader framework of socio-economic development, and are too rigid to be adjusted when a major shock occurs. Moreover, as poverty reduction and food security are indirect targets, the extent of necessary adjustment can not be identified at any level of accuracy should a shock occur.

By attaching greater importance to reducing poverty at household level, thus, Vietnam should put the poor (and, if possible, the near-poor) people at the centre of rural development plan, in combination with the food security and/or social safety programs. While this involves more efforts of the government and civil societies, the outcomes would certainly be more fruitful. The successful experience of Vietnam in providing cash transfer during Tet holiday to the poor people should be multiplied, though the focus may be narrowed down to those in rural areas under budget constraint. This poor-people-centred approach, when enacted, would also better convince donors and therefore help raise additional resources.

*Second*, with the above proposed approach, Vietnam should amalgamate and develop a consistent framework at the national level to ensure diversification and commercialization of the rural economy. Given that food security also entails importance in ASEAN cooperation, this should be taken into consideration upon designing rural and agricultural development plan. While Vietnam have certainly progressed in consolidating food sufficiency, they should dedicate further efforts to address malnutrition. The complicated net impacts from food price hikes, as Vietnam are net exporters of food products while a significant portion of the population still suffers from food insecurity, require broader consideration to smoothen transfers from net beneficiaries to those worse-off following such hikes.

At the same time, the framework for social safety nets in rural areas should attain wider scope with better consistency. Specifically, it should set out the roles for different agencies, civil society organizations and donors in contributing to better social security, and in enhancing rural people's capacity to cope with shocks. The geographical areas and sectors with existing and/or potential concerns should also be identified with clarity, thereby aligning development programs and projects. The connection between social safety nets and socio-economic development in rural areas should be further enhanced. In

this regard, mobilizing donors' support for infrastructure development and better connectivity of the poor rural areas should play an important role.

*Third*, community-based monitoring mechanism should be strengthened in Vietnam to ensure more timely identification of the poor household/people in rural areas. This should fit in a decentralization framework that permits greater voice of the local community. The mechanism has been implemented in Vietnam, which helps generate household- and individual-level data on the different dimensions of poverty. Yet the connection between the mechanism and the relevant government agencies, civil society organizations and donors should be reinforced to avoid double monitoring and related waste of resources. With the help of community-based monitoring, government's social safety programs may become more effective as they can target the relevant households in rural areas without leakages or exclusion (Reyes and Mandap 2011).

*Finally*, Vietnam should work more closely with development partners to engage the latter in rural development plan. In doing so, efforts may be needed to harmonize the plan with food security and/or social safety programs. On the one hand, in consultation with the local governments, the donors and related agencies/organizations may develop and implement relevant programs to build capacity in areas related to empowering local people, access to R&D, adaptation to new standards in agricultural production, mitigation of adverse shocks, etc. Technical assistance may also be needed to identify different dimensions of poverty at the household- or individual level, maintaining sufficiency of nutrients in daily food intakes, coping with various types of natural calamities, etc. On the other hand, by working with different donors and development partners, Vietnam should better harmonize their activities and contribution to rural development programs, thereby avoiding the fragmentation and miscoordination of donors' activities.

Together with other ASEAN countries, Vietnam may cooperate with relevant partners to call for coordinated support towards rural development plans, in harmonization with food security and social safety at the regional level. To complement efforts at both national and sub-national levels, the line of actions at the regional level should focus more on provision of public goods. Specifically, infrastructures, service links and access to basic utilities for the rural poor and vulnerable groups should remain the core substances of donor-supported development programs, even though this only addresses poverty indirectly.

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