The Trans-Pacific Partnership and its impact on Viet Nam's economy

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Main topics

1. Mega-negotiations (TPP, RCEP, US-EU) represent a new landscape in trade policy

2. For Viet Nam TPP is an especially promising option

3. Tough negotiations are still ahead

1. New landscape of world trade

The new landscape

- **Game change:** 3 mega-negotiations
  - Trans-Pacific Partnership (TPP, 12 countries)
  - Regional Comprehensive Economic Partnership (RCEP 16)
  - Trans-Atlantic Trade and Investment Partnership (TTIP, 28)

- **Huge potential:** the tracks are positive-sum games with multi-trillion-dollar gains

- **Positive dynamics:** the tracks stimulate competitive liberalization and perhaps consolidation

Mega-tracks =
77% world GDP

RCEP
26%

TPP
38%

TTIP
44%

4000 km (équateur)

2000 mi (equator)

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Status

- TPP
  - 16th rounds completed
  - Japan to join (90 days?)
  - Negotiators aim for 2013 finish

- RCEP
  - Announced in November at ASEAN summit
  - First round scheduled for May 2013
  - Uncertainty about directions

- TTIP
  - Announced in February
  - Negotiations to begin in 2013
  - Agree on many important issues, disagree on agriculture
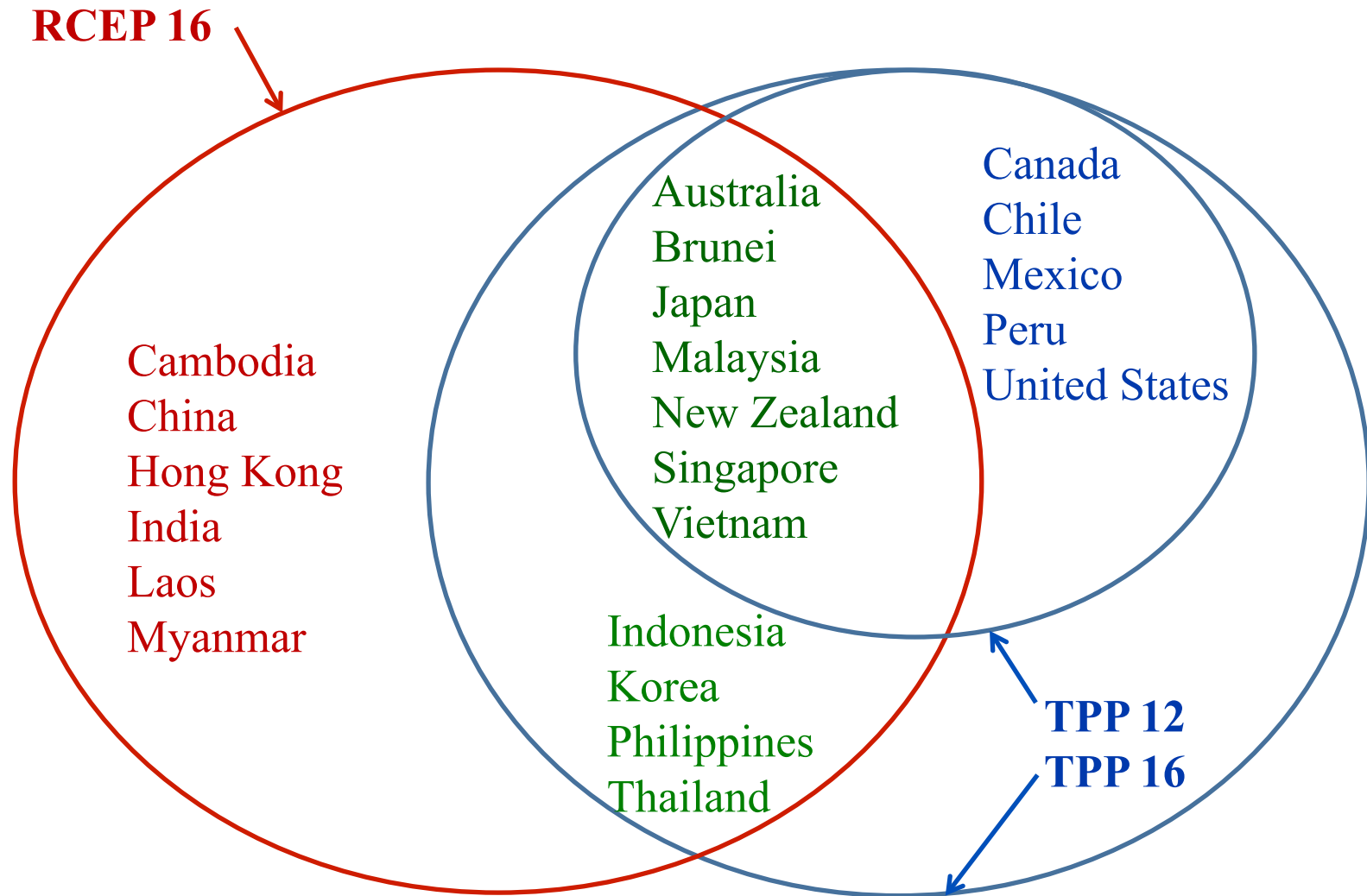
Goal: 21st century agreement

- **New issues** electronic commerce, state owned enterprises, connectivity, transparency

- **Improved rules** for business behind the border

- **Balanced liberalization** to address comparative advantage of emerging and advanced markets—agriculture; manufactured goods, services, investment, IPR

- **Globally impossible** but mega-negotiations can help

2. Viet Nam could be the biggest winner in the TPP

The study

- **Team:** Peter Petri, Michael Plummer, Fan Zhai
- **Work in progress:** www.asiapacifictrade.org
- **Structure**
  - 18-sector, 24-region CGE model
  - Projects baseline growth 2010-25
  - Analyzes 47 existing and 10 new agreements
  - Analyzes changes in tariffs, non-tariff barriers, FDI
  - Uses new trade model

TPP and RCEP

RCEP 16

Cambodia
China
Hong Kong
India
Laos
Myanmar

Australia
Brunei
Japan
Malaysia
New Zealand
Singapore
Vietnam

Indonesia
Korea
Philippines
Thailand

Canada
Chile
Mexico
Peru
United States

TPP 12
TPP 16

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

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)
- **Small trade diversion effects**
  - $67 billion of $290 billion gains (23 percent)
- **Comparisons with other agreements**
  - Benefits bigger in RCEP (roughly 3x)
  - Benefits much bigger in FTAAP (roughly 9x)

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

Vietnam: income gains
(US$ bill.)

FTAAP

TPP & RCEP

TPP only

RCEP only
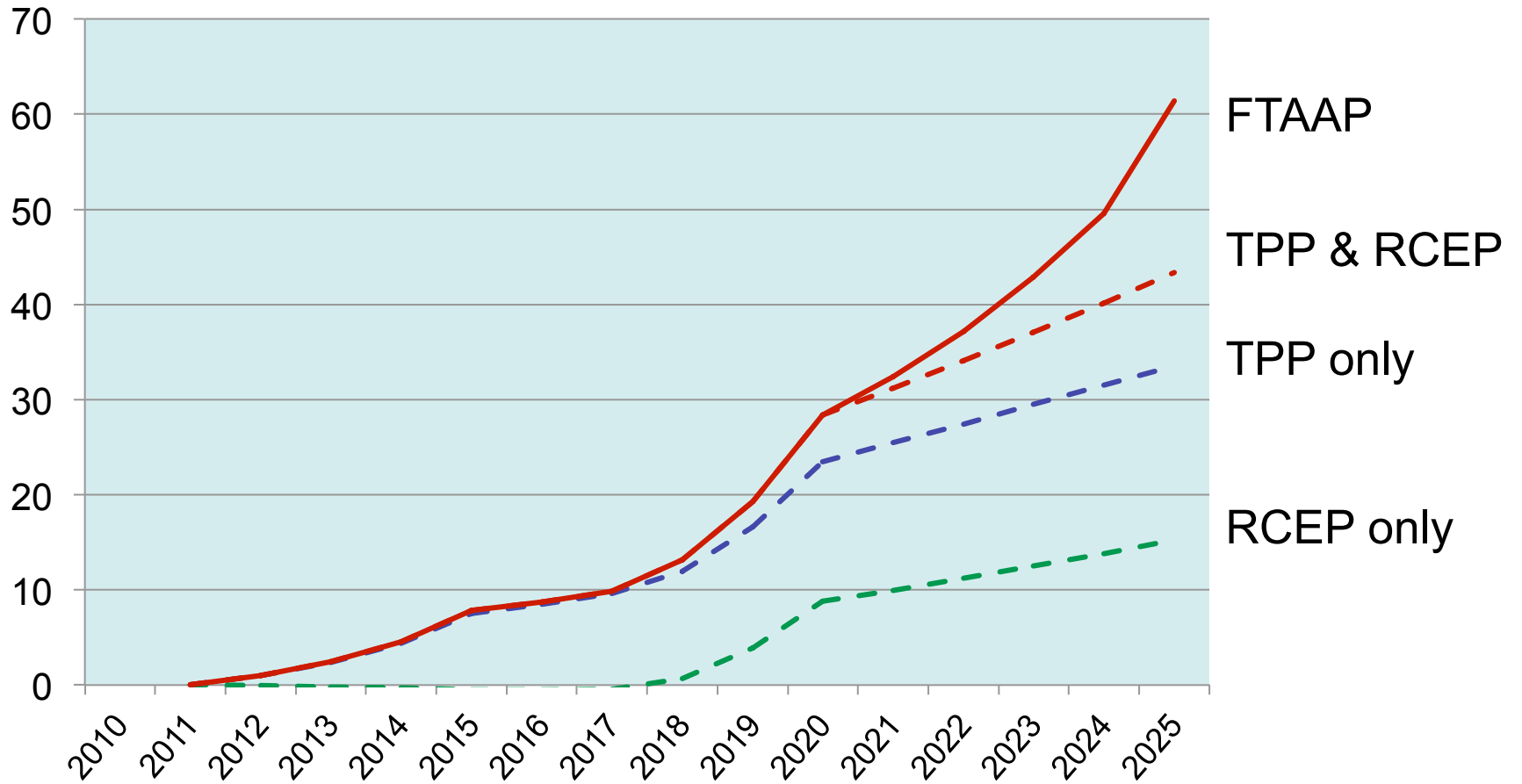
Why such large gains?

- More exports of manufactures (34%)
- More imports of consumer and production goods (27%)
- More inward FDI (2%)
- Stronger links to international production chains
- Big productivity gains
- Momentum for reforms

Apparel and shoes: US imports 2012
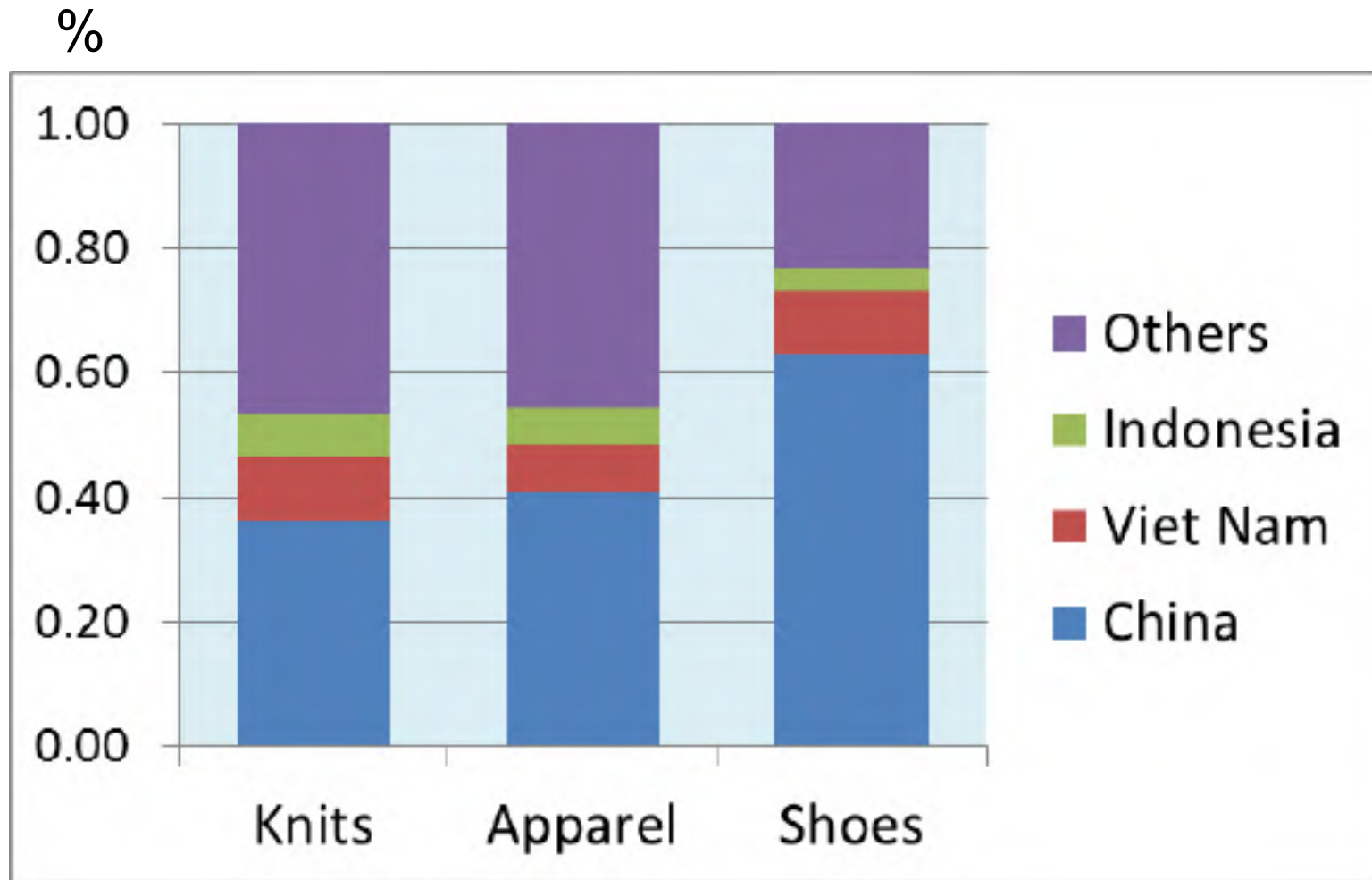
Vietnam: export changes

	Baseline	Change in exports $bill.		
	2025	TPP-12	RCEP	FTAAP
Primary products	**22.9**	**-2.8**	**0.5**	**-3.7**
Rice	2.4	-0.2	0.1	-0.2
Wheat	0.0	0.0	0.0	0.0
Other agriculture	6.5	-1.3	0.4	-1.4
Mining	14.0	-1.3	0.1	-2.1
Manufactures	**207.4**	**71.5**	**28.8**	**142.8**
Food, beverages	5.9	-0.9	-0.3	-1.6
Textiles	26.0	12.9	5.0	30.1
Apparel, footwear	113.0	51.9	19.5	106.4
Chemicals	8.8	0.0	1.3	2.0
Metals	5.2	-0.1	0.0	-0.6
Electrical equipment	6.6	1.1	1.0	1.3
Machinery	14.4	2.0	1.7	3.0
Transport equipment	3.2	0.2	0.5	0.5
Other manufactures	24.2	4.3	0.2	1.7
Services	**8.6**	**-0.8**	**0.5**	**-1.5**
Utilities	0.0	0.0	0.0	0.0
Construction	1.2	0.0	0.7	0.4
Trade, transport, comm.	2.3	-0.3	0.1	-0.4
Private services	5.1	-0.5	-0.2	-1.4
Public services	0.1	0.0	0.0	0.0
Total	**239.0**	**67.9**	**29.9**	**137.7**

Three largest

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Vietnam: import changes

	Baseline	Change in imports in 2025, $bill.		
	2025	TPP-12	RCEP	FTAAP
Primary products	**9.5**	**2.7**	**0.8**	**4.3**
Rice	0.0	0.0	0.0	0.0
Wheat	0.5	0.0	0.0	-0.1
Other agriculture	7.8	2.5	0.8	4.1
Mining	1.2	0.2	0.0	0.3
Manufactures	**210.9**	**49.8**	**25.1**	**103.6**
Food, beverages	13.1	2.6	1.3	5.1
Textiles	41.7	18.4	8.0	40.6
Apparel, footwear	3.5	2.8	1.3	7.4
Chemicals	49.6	9.3	4.7	18.4
Metals	36.9	6.2	3.8	12.0
Electrical equipment	9.5	1.3	0.9	2.3
Machinery	34.5	3.9	1.9	6.5
Transport equipment	13.9	2.3	1.7	4.6
Other manufactures	8.2	3.1	1.6	6.7
Services	**19.3**	**12.9**	**3.8**	**27.0**
Utilities	0.0	0.0	0.0	0.0
Construction	0.5	0.3	0.0	0.5
Trade, transport, comm.	7.7	5.6	1.6	12.3
Private services	7.1	5.9	1.8	12.2
Public services	4.0	1.1	0.4	2.0
Total	**239.7**	**65.4**	**29.7**	**134.9**

Three largest

3. Tough negotiations still ahead

Hard chapters to be written

- Services
- Investment (investor-state dispute resolution)
- Intellectual property
- Electronic commerce
- Government procurement
- Competitive neutrality of SOEs
- Rules of origin (esp. textiles for Viet Nam)
- Labor
- Environment
- Agriculture (various products)

Some false worries

Will the TPP:

- prevent capital flow restrictions?

- change national health insurance?

- set unreasonable rules for labor and environment?

- make no exceptions for sensitive products?

TPP or RCEP?
(in 2025, $2007 bill)

	Baseline	Change from baseline	
	2025	TPP16	RCEP
Japan	5,338	129	96
Korea	2,117	50	82
Viet Nam	340	49	17
ASEAN	3,635	218	78
World	103,223	451	644

.. but why not both?

What about China?

- Short run: US and China will compete

- Other countries can join both TPP and RCEP

- Long run: US and China will have strong incentive to consolidate agreements (FTAAP)

- "Third track" of US-China discussions are needed now to build confidence for long-term cooperation

Conclusions

The TPP will:

- set standards for future trade
- strengthen regional production networks
- converge with RCEP (hopefully!)

Viet Nam has tough negotiations ahead:

- on rules of origin
- on social issues (labor, environment)
- but has largest potential gains of any country

More information:
www.asiapacifictrade.org