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

Negotiations

- Negotiations begin
- Negotiations conclude (no deadline)
- 90 day notification of intention to sign agreement
- 30 days after notification of intention to sign, submission of Advisory Committee Reports
- 60 days prior to signing, release of agreement text

Agreement signed
- 105 days after agreement is signed, USITC report due
- Mock markups (optional, no time schedule)
- 30 days prior to implementing legislation, final text submitted

Reporting and Mock Markup
- 60 days after agreement is signed, list of required changes in law due

Congressional Consideration and Implementation
- Implementing bill introduced in House and Senate (no deadline)
- House must vote on bill
- Senate must vote on bill
- President implements agreement by proclamation (no deadline)
- Bill signed into public law (no deadline)

* or bill is automatically discharged

Ongoing Executive Branch consultation with Congress
- Maximum of 90 days in session (House and Senate may act concurrently, expediting the process)

Calendar Days
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
<table>
<thead>
<tr>
<th><strong>RECP</strong></th>
<th><strong>TPP</strong></th>
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<tbody>
<tr>
<td>ASEAN + 6 and open accession</td>
<td>United States, Brunei, Chile, Singapore, New Zealand, Australia, Peru, Vietnam, Malaysia, Mexico and Canada</td>
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<tr>
<td>Negotiations expected to commence in 2013 and conclude in 2015</td>
<td>The 16th round of negotiations will be conducted in March 2013</td>
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<tr>
<td>• Trade in goods</td>
<td>• Competition</td>
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<tr>
<td>• Trade in services</td>
<td>• Cross-border services</td>
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<tr>
<td>• Investment</td>
<td>• Customs</td>
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<tr>
<td>• Economic and technical cooperation</td>
<td>• E-commerce</td>
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<tr>
<td>• Intellectual property</td>
<td>• Environment</td>
</tr>
<tr>
<td>• Competition</td>
<td>• Financial services</td>
</tr>
<tr>
<td>• Dispute Settlement</td>
<td>• Government procurement</td>
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<tr>
<td></td>
<td>• Intellectual property</td>
</tr>
<tr>
<td></td>
<td>• Investment</td>
</tr>
<tr>
<td></td>
<td>• Labour</td>
</tr>
<tr>
<td></td>
<td>• Market access for goods</td>
</tr>
<tr>
<td></td>
<td>• Rules of origin</td>
</tr>
<tr>
<td></td>
<td>• Sanitary and Phytosanitary standards</td>
</tr>
<tr>
<td></td>
<td>• Technical barriers to trade</td>
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<tr>
<td></td>
<td>• Telecommunications</td>
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<td></td>
<td>• Temporary entry</td>
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<td>• Textiles and apparel</td>
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<td>• Trade remedies</td>
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Quantitative Assessment
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

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Preference utilization rate</th>
<th>Final tariffs</th>
<th>Reduction Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>KORUS</td>
<td>0.50</td>
<td>0.94</td>
<td>0.54</td>
</tr>
<tr>
<td>TPP</td>
<td>0.58</td>
<td>0.96</td>
<td>0.53</td>
</tr>
<tr>
<td>RCEP</td>
<td>0.60</td>
<td>0.90</td>
<td>0.36</td>
</tr>
</tbody>
</table>

Source: Petri, Plummer, Zhai, www.asiapacifictrade.orgc
## Largest income gains in TPP

<table>
<thead>
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<th>GDP 2025</th>
<th>Income gains ($bill)</th>
<th>% of baseline</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>TPP11</td>
<td>TPP11 + Japan</td>
</tr>
<tr>
<td>United States</td>
<td>20,273</td>
<td>23.9</td>
<td>76.6</td>
</tr>
<tr>
<td>Japan</td>
<td>5,338</td>
<td>-1.2</td>
<td>104.6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>340</td>
<td>26.2</td>
<td>35.7</td>
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<tr>
<td>WORLD</td>
<td>103,223</td>
<td>74.5</td>
<td>223.4</td>
</tr>
</tbody>
</table>

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
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

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

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”

- ASEAN Political-Security Community
  - ASEAN Ministerial Meeting (AMM)
  - ASEAN Regional Forum (ARF)
  - Defence
  - Law
  - Transnational Crime

- ASEAN Economic Community
  - ASEAN Economic Ministers (AEM)
  - ASEAN Free Trade Area (AFTA)
  - Energy
  - Food, Agriculture & Forestry
  - Finance
  - Investment
  - Minerals
  - Mekong Basin Development Cooperation
  - Transport
  - Telecommunication & IT
  - Tourism
  - Sectoral Bodies under the Purview of ASEAN Economic Ministers

- ASEAN Socio-Cultural Community
  - Culture & Arts
  - Disaster Management
  - Education
  - Environment
  - Health
  - Information
  - Labour
  - Rural Development & Poverty Eradication
  - Science & Technology
  - Social Welfare & Development
  - Women
  - Youth

Community Outreach
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
Conclusions

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.