Am Cham Vietnam
Post-TPP Vietnam: Plan B?

May 15th
Ho Chi Minh City

Fred Burke
The Success of Vietnam’s Global Integration Strategy and the importance of TPP
Poster Child for Global Trade

- “Big Emerging Economy”
  - Economic Reforms, “Integration”
  - Strong GDP growth
  - 90,000,000 young population

- Keen to integrate:
  - ASEAN/AFTA Member 1990’s
  - US Bilateral Trade Agreement 2001
  - Japan, EU Bilateral Investment Agts., etc.
  - WTO Accession 2007, AEC 2015, TFA…

- Key Exports:
  - Garments / Footwear
  - Seaproducts (shrimp, lobster)
  - Agriculture (rice, coffee, spices)
  - Furniture
  - Crude Oil
  - Software & Electronics
Domestic Economic Lift Off

- 1,000,000+ new SMEs since 2007
- Macroeconomy stable
- Spending on Infrastructure Up
- FDI Doing Well
- World Bank: Historic Reduction in Poverty
- TPP was intended to continue this momentum
Trans-Pacific Partnership
Largest % income gains in TPP

<table>
<thead>
<tr>
<th></th>
<th>GDP 2025</th>
<th>Income gains ($bill)</th>
<th>% of baseline</th>
</tr>
</thead>
<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>
</tr>
<tr>
<td>WORLD</td>
<td>103,223</td>
<td>74.5</td>
<td>223.4</td>
</tr>
</tbody>
</table>

Source: Petri, Plummer, Zhai, based on scenario assumptions www.asiapacifictrade.org
Global Effects of the TPP

Large global benefits

- Income up $232 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)
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
What did US business lose with the TPP?
US-VN Trade : Significant Upside Lost

Preferential TPP tariffs would reduce the duties payable to the US Customs for Vietnam products. Vietnam currently bears a disproportionately high portion of the total US customs duties collected.

2014:

- Total US Duties Collected from TPP-11 countries - $5,537 billion
- Total US Duties Collected from Vietnam - $2,380 billion (increase 16.2% compared to 2013)
  - ranked 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
  - ranked first amongst 11 TPP partners (Japan ranks 2nd)
  - 74.1% of all TPP-10 Duties Collected - 45.4% of all TPP-11 Duties Collected
TPP Withdrawal – Impact on US

- Loss of market access for US agricultural products and machinery due to uncompetitive duty rates
- US Consumers pay higher prices for imported retail products
- Loss of IP Protection for new objects such as bilogics, online IP
- Bilateral Agreement – is it an effective alternative? (121 cross-agreements?) TPP-11?
TPP Withdrawal – Impact on US

Service Sector Opening in doubt for US Firms (e.g., retail and the “ENT”, legal services, and “all other” services not on the Negative List.)

Environmental Chapter would have put the first teeth into all of the current major environmental treaties by providing legal recourse where violations “impact trade”.

Freedom of Association Provisions in Labor Chapter may stall

Loss of Investor-State Dispute Settlement Mechanism, SOE reforms (level playing field, etc.)
Other Blows - Brexit

Impact of the United Kingdom’s withdrawal from the EU

- Currency realignment raises Vietnam’s borrowing costs
- E-V FTA needs to be revisited, likely renegotiated.
- Positive: East European garment and footwear may be less competitive in UK.
So What Now? Plan B?
Staying the Course: Ongoing Market Opening with Pivot to Asia?
Plan B

Carry on with WTO Implementation
Context: WTO Impact

2007 WTO Accession impact muted by GFC

No immediate duty reductions in export markets, just “MFN” (not even GSP)

Nevertheless, important reforms
- Service sector opening
- Exports boosted by confidence

- Macroeconomy has improved consistently since 2008 overheating, exports (Intel, Samsung, ….) and remittances still strong, domestic consumption and infrastructure spending strong.

- On whole, WTO has been good for Vietnam. Could improve by more reform, more investment in training…
WTO Phase-ins: Example - Import & Distribution

<table>
<thead>
<tr>
<th>Sub-Sector</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Wholesale</td>
<td>49% JV</td>
<td>51% JV</td>
<td>100%</td>
</tr>
<tr>
<td>Agency</td>
<td></td>
<td></td>
<td>“ENT” for Retail (Indefinite)</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td></td>
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<tr>
<td>Warehousing</td>
<td>51% JV</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Freight Agency</td>
<td>51% JV</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Advertising</td>
<td>51%</td>
<td>2009 on: any JV</td>
<td>100% NEVER</td>
</tr>
</tbody>
</table>

(1) Cigarettes and cigars, books, newspapers and magazines, video recordings, precious metals and stones, pharmaceutical products and drugs, explosives, processed oil and crude oil, rice, cane and beet sugar are excluded from these commitments.

Franchising: Success Story

- Restaurants and Catering Services opening for 100% foreign investment only this year.

- So, in the meantime, Franchising has flourished.

- Reasonable Legal Framework.

- Local investors take the capital risk, build the business, reap the profit and capital gains after fixed franchise fees.
Phase-ins: Banking

- 100% Foreign Owned Finance Companies allowed immediately.
  - US$10B requirement
- Credit cards: Immediate for CIs
- Quantitative Restrictions:
  - US$10B for Subsidiaries
  - US$20B for Branches (but new local “prudential” ratios limit lending)
- Full National Treatment for local deposit taking: 2011
Other Opportunities

- Banking, Insurance and Securities – 100% now
- Pharma Trading (not distribution) – delayed pending MOH rules
- Veterinary Services
- Urban planning and landscaping services
- R&D Services on Natural Sciences
- Management Consulting
- Technical Testing
- Sewerage, Waste Disposal
- Entertainment

- **BUT**: Most of these subject to some form of condition
## Limits on Services Opened

<table>
<thead>
<tr>
<th>Licensed Partner Only</th>
<th>Any Local Partner</th>
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<tbody>
<tr>
<td>– Advertising</td>
<td>– Securities Services</td>
</tr>
<tr>
<td>– Facilities based and non-facilities based telecoms services</td>
<td>– Courier Services</td>
</tr>
<tr>
<td>– Electronic Games</td>
<td>– Tourism Services</td>
</tr>
<tr>
<td>– Motion Picture Production</td>
<td>– Distribution Services</td>
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<tr>
<td></td>
<td>– Franchising</td>
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<tr>
<td></td>
<td>– Education</td>
</tr>
<tr>
<td></td>
<td>– Environmental Impact Assessment Services</td>
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Opportunities for a Bi-lateral Agreement? More “Fair Trade”?
Plan B.1
The Trade Facilitation Agreement
Plan B.1: The Trade Facilitation Agreement

- TFA : the WTO Bali Package

- Mitigates impact of TPP loss by improving supply chain efficiencies

- Entered into Force Feb. 22, 2017

- Vietnam still has a lot to do to reap the benefits of streamlined trade.
Plan B.2
ASEAN: AEC 2020
10 Nations of ASEAN

**ASEAN 6**
- Indonesia
- Malaysia
- Philippines
- Singapore
- Thailand
- Brunei Darussalam

**CLMV**
- Cambodia
- Lao PDR
- Myanmar
- Vietnam
KEY FACTS AND FIGURES
WHY ASEAN MATTERS TO US

ASEAN policy to form an Economic Community with free movement of goods, services, labour and capital by 2015

- ASEAN FDI inflows *overtook* China in 2013
- Asean’s economy could exceed US$4 TRILLION by 2020 and nearly 4 times larger by 2030
- Home to nearly 10% of the world’s population
- Will ranks as 5th LARGEST ECONOMY by 2018
- Will be the world’s 3rd LARGEST EXPORTER by 2018
- ASEAN consumerism is set to grow EXPONENTIALLY

Annual average growth of 5.6% for the NEXT 5 YEARS
More than double the USA, triple that of the EU

Demographics are positive and hugely advantageous to growth – young labour force.

Between 2014 and 2018, the region’s labour force will expand by 1.7% (adding 28m new workers).

Productivity is creating a giant middle class.

Middle class households will more than double by 2018 to 80m

Significant opportunities for retailers, luxury market, manufacturers, auto industry, IT industry, healthcare, financial services and more.
Why is ASEAN Important?

AEC Roadmap and Impact

– Myanmar’s re-entry into the global community enabled engagement with ASEAN as a block
– ASEAN is the World’s 3rd Largest Exporter, Vietnam has become ASEAN’s largest exporter to the US.
– Significant trade integration well underway:
  – Create a competitive economic region
  – Be a single market and manufacturing base
  – Be a region of equitable economic development
  – Be fully integrated into the global economy
– Companies are reacting to this development, ASEAN Brands are emerging.
– ASEAN – China FTA’s Impact on Supply Chain Significant
ASEAN’s Global Interface

- ASEAN-Russia
- ASEAN-EU FTA
- ASEAN-Pakistan
- ASEAN-India FTA
- ASEAN-China FTA
- ASEAN-Korea FTA
- ASEAN-Japan CEP
- ASEAN-Australia- New Zealand FTA
- RCEP

ASEAN’s Global Interface

- ASEAN-Canada
- ASEAN-US TIFA

ASEAN’s Global Interface

- ASEAN's Interface

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- ASEAN’s Interface

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- ASEAN’s Interface

ASEAN’s Global Interface

- ASEAN’s Interface

ASEAN’s Global Interface

- ASEAN’s Interface
Plan B.3
Other Pending Trade & Investment Deals
New Orientation post-TPP

– TPP-11

– Regional Comprehensive Economic Partnership (RCEP)

– EU-Vietnam FTA (Pending Ratification)

– Existing FTAs: Korea-Vietnam FTA, AEC 2020

– US-Vietnam Tax Treaty (delayed) and BIT (scrapped)?
Impact of TPP Loss – Rise of Alternatives: 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
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<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>
</tr>
<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>
</tr>
<tr>
<td>• Trade in goods</td>
<td>• Competition</td>
</tr>
<tr>
<td>• Trade in services</td>
<td>• Cross-border services</td>
</tr>
<tr>
<td>• Investment</td>
<td>• Customs</td>
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<tr>
<td>• Economic and technical cooperation</td>
<td>• E-commerce</td>
</tr>
<tr>
<td>• Intellectual property</td>
<td>• Environment</td>
</tr>
<tr>
<td>• Competition</td>
<td>• Financial services</td>
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<tr>
<td>• Dispute Settlement</td>
<td>• Government procurement</td>
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<tr>
<td></td>
<td>• Intellectual property</td>
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<td>• Investment</td>
</tr>
<tr>
<td></td>
<td>• Labour</td>
</tr>
<tr>
<td></td>
<td>• Market access for goods</td>
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<td>• Rules of origin</td>
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<tr>
<td></td>
<td>• Sanitary and Phytosanitary standards</td>
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<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>
</tr>
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<td></td>
<td>• Trade remedies</td>
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</tbody>
</table>
Vietnam: income gains
(US$ bill.)

Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org
Plan B.4
Other Domestic Reforms
Domestic Administrative Reform

Am Cham is working in the Advisory Council on Administrative Procedure Reform

4,700+ Administrative Procedures subject to Abolition or Revision in first three years.

Mundane but important reforms: 2% Freight Tax Exemption.

New PM re-committed. Am Cham focused on trade facilitation issues.
Staying the Course: Vietnam Business Forum

– 2x Per Annum, held close to Consultative Group Meeting

– Working Group Meetings year-round
  – Investment & Trade, Banking, Capital Markets, Infrastructure, Energy, Land, Tax, possibly Insurance, etc.

– Has evolved into a self-sustaining federation of business associations and main channel for B2G dialogue.
Other Low Hanging Fruit:
Privitization, Energy and Infrastructure
– SOE Reform
– Infrastructure
– Environmental concerns & role of alternative energy
Conclusions

Notwithstanding the TPP Shock:
- Growth and reform continue
- Orientation may change, not to the advantage of the US

Beyond TPP:
- Vietnam is Staying the Course
- US-VN Bilateral?
- AEC 2015 – for regional supply chain integration and creation of an economic block of substance.
- EU-FTA, Korea FTA, RCEP, etc. multiplier effects.
- TFA is another boost.
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