



VIETNAM'S FTA STRATEGY

BY

MISS TA SAO MAI

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF ARTS (ASIA PACIFIC STUDIES)

COLLEGE OF INTERDISCIPLINARY STUDIES

THAMMASAT UNIVERSITY

ACADEMIC YEAR 2017

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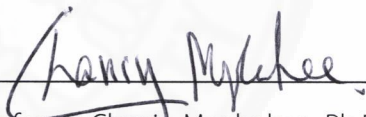
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VIETNAM'S FTA STRATEGY

was approved as partial fulfillment of the requirements for
the degree of Master of Arts (Asia Pacific Studies)

on **25 DEC 2017**

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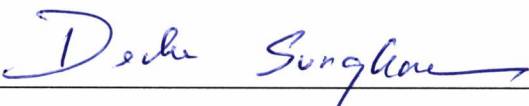
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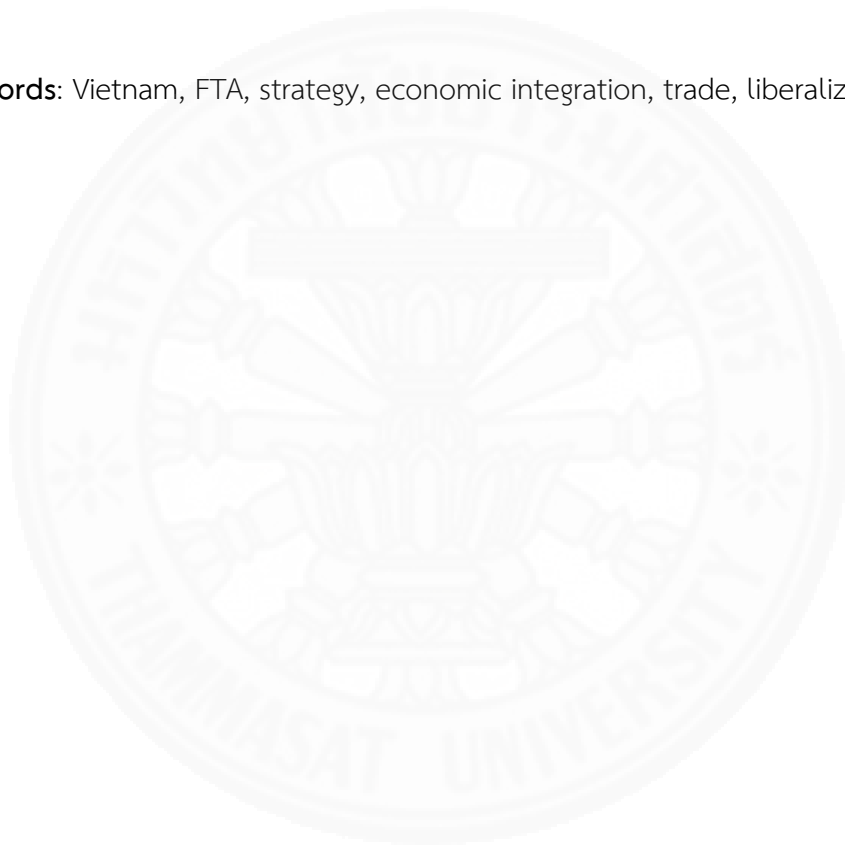
Thesis Title	VIETNAM'S FTA STRATEGY
Author	Miss Ta Sao Mai
Degree	Master of Arts (Asia-Pacific Studies)
Major Field/Faculty/University	Asia-Pacific Studies College of Interdisciplinary Studies Thammasat University
Thesis Advisor	Assistant Professor Suphat Suphachalasai, Ph.D
Academic Year	2017

ABSTRACT

Vietnam's trade performances after 1975 were primarily in Council for Mutual Economic Assistance (CMEA or COMECON) that was formed in 1949 under the leadership of Soviet Union to both counter to Marshall Plan of the US and facilitate the economic cooperation within the socialist bloc. After the Soviet Union collapsed in 1991, Vietnam lost the dominant aids and traditional markets. This urged Vietnam to push quickly the economic reform namely "Doi Moi" that was introduced since 1986. Hence Vietnam started to open the door and take part in the process of integration into the world economy. The process began with accession into Association of Southeast Asian Nations (ASEAN) in 1995 and ASEAN Free Trade Area (AFTA) in 1996; signing a bilateral trade agreement (BTA) with the United States in 2000 and free trade agreements (FTAs) under ASEAN framework in the 2000s and Vietnam has virtually engaged in international trade when Vietnam officially became a member of World Trade Organization (WTO) in 2007 and was more proactive and active in pursuing FTAs with a series of countries. This study attempts to have the profound investigation about Vietnam's FTA strategy in the process of integration. Based on the data was collected from past literature, WTO's reports, the official website of World Bank and Vietnam's government and an in-depth interview, the analysis indicates that Vietnam has strategy in participating in the integration process via FTAs since the dissolution of the Soviet Union. Vietnam signed FTAs with the

most important country first-the US in 2000 and promoting FTAs with other developed countries both neighbour countries as Japan, Korea and distant one as the EU as well as multiple countries such as Chile in the Latin America region, European Free Trade Association, Eurasian Economic Union and Israel. FTAs are considered a tool for Vietnam to expand and diversify export destinations, attract foreign investment and foster trade liberalization reform through strong commitments.

Keywords: Vietnam, FTA, strategy, economic integration, trade, liberalization



ACKNOWLEDGEMENTS

Finishing this thesis marks the completion of the learning process in Master of Arts in Asia Pacific Studies (MAPS), College of Interdisciplinary Studies. Throughout this process, I received support from a lot of people, which motivated me to complete this thesis thus my Master program.

First and foremost, I would like to offer my very greatest appreciation to my advisor Asst. Prof. Suphat Suphachalasai, Ph.D. for both his constant guidance to ensure I was always on the right track and for his endless encouragement to help me finish the study.

Secondly, I would like to thank my committee Assoc. Prof. Chanin Mephokee, Ph.D. and Dr. Panpree Phathithanukorn for their valuable suggestions to help me improve my thesis proposal.

Thirdly, I am particularly grateful to Vice President of the Central Institute of Economic Management (CIEM) of Vietnam – Dr. Vo Tri Thanh, who spared his tight schedule to spend some time to participate in my interview and gave valuable information for my research.

Last but not least, I would like to express my special thanks to Thailand International Cooperation Agency (TICA), MAPS program and Thammasat University for offering me precious opportunity to study and achieve Master Degree and I would also like to thank all the staffs in MAPS program for their help throughout our stay and study in Thailand.

Miss Ta Sao Mai

TABLE OF CONTENTS

	Page
ABSTRACT	(1)
ACKNOWLEDGEMENTS	(3)
LIST OF TABLES	(6)
LIST OF FIGURES	(7)
LIST OF ABBREVIATIONS	(8)
CHAPTER 1 INTRODUCTION	1
1.1 Introduction	1
1.2 Research Objectives	2
1.3 Research Methodology	2
CHAPTER 2 REVIEW OF LITERATURE	4
2.1 The rationale countries join free trade	4
2.1.1 Economic Approach	4
2.1.2 Political Economy Approach	7
2.2 Global Trade Liberalization under World Trade Organization (WTO).	9
2.3 Trade Liberalization under FTAs	11
2.3.1 The Concept of FTA	11
2.3.2 The International Trade Under FTA	12
2.4 Vietnam's Trade Policy	15

CHAPTER 3 THE IMPORTANCE OF INTERNATIONAL TRADE TO VIETNAM’S ECONOMY	20
3.1 The Importance of External Sector to Vietnam’s Economy	20
3.1.1 The Restructure of Economy and Exports	23
3.1.2 Foreign Exchange Reserves	26
3.2 Evolution of Vietnam’s Trade Policy	30
3.2.1 Trade Policy before “Doi Moi”	30
3.2.2 Trade policy after “Doi Moi”	33
CHAPTER 4 ANALYSIS OF VIETNAM’S FTA STRATEGY	40
4.1 History of Vietnam’s Participation in FTAs	40
4.2 Vietnam’s Strategy in FTAs	54
4.2.1 Vietnam’s Motivations in Joining FTAs	54
4.2.2 Managing domestic consensus in pursuing FTAs	65
CHAPTER 5 CONCLUSIONS	67
REFERENCES	68
APPENDIX	74
BIOGRAPHY	75

LIST OF TABLES

Tables	Page
2.1 Products under Qualitative Restriction	18
3.1 Export Value and GDP	21
3.2 Trade and Real GDP growth of Vietnam over years	22
3.3 Vietnam's FDI by sectors in the period 1988 – 2016	25
3.4 Vietnam's export products in 1976-1980	26
3.5 Vietnam's main exports in terms of value in 2016	27
3.6 Top 10 Main Export Destinations of Vietnam in 2016	28
3.7 Goods under import protection in Vietnam in 2013	36
4.1 Vietnam's FTAs with large economies	49
4.2 Vietnam's FTAs as a member ASEAN	51
4.3 Vietnam's FTA with Latin America and other countries	53
4.4 US's trade in goods with Vietnam	57
4.5 Export share to selected FTAs of Vietnam	61
4.6 The use of resources and the contribution for economy of SOEs and private sector	64

LIST OF FIGURES

Figures	Page
3.1 % share of implemented FDI in total social investment and GDP from 1991 to 2015	23
3.2 Share of GDP by sector in 1986 and 2015	24
3.3 Vietnam's FDI in the period 1988-2016	29
3.4 Vietnam's average applied MFN rates, by the Harmonized System chapters 1 to 24 in 2000 and 2013	37
3.5 MFN applied tariff averages by WTO non-agricultural product groups, 2007 and 2013 in Vietnam	37



LIST OF ABBREVIATIONS

Symbols/Abbreviations	Terms
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
CMEA/Comecon	Council for Mutual Economic Assistance
EPA	Economic Partnership Agreement”
EEU	Eurasian Economic Union
EFTA	European Free Trade Association
EVFTA	EU-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
MFN	Most Favored Nation
NTBs	Non-Tariff Barriers
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional Trade Agreement
TPP	Trans-Pacific Partnership Agreement
VJEPA	Vietnam-Japan Economic Partnership Agreement
VKFTA	Vietnam-Korean Free Trade Agreement
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

1.1 Introduction

The political and economic reform is well known as “Doi Moi” in 1986 marking a remarkable turning point in the transformation of the Vietnam’s economy from Soviet-type central planning subsidy economy into socialist-oriented market one, from the closed economy into the opened and integrated one. With such change of policy, Vietnam is becoming increasingly active in the integrated world economy by joining not only the multilateral trading system World Trade Organization (WTO) but also regional and bilateral free trade agreements (FTAs).

The participation of Vietnam in regional trade agreement began with accession to Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA) respectively in 1995 and 1996 that paved the way for Vietnam to participate the deeper integration with a series of FTAs.

As a member of ASEAN, Vietnam has joined many FTAs such as ASEAN-Japan, ASEAN-South Korea, ASEAN-China, ASEAN-India, ASEAN-Australia/New Zealand, ASEAN-Hong Kong, Regional Comprehensive Economic Partnership (RCEP). As an independent side, Vietnam has bilateral trade agreement with the United States and FTAs with a range of countries includes Japan; Korea; Chile; Vietnam-Customs Union of Russia, Belarus, and Kazakhstan FTA; Vietnam-EU FTA; Vietnam and EFTA includes Switzerland, Norway, Iceland and Liechtenstein as well as Vietnam and Israel FTA. Only Trans – Pacific Partnership Agreement (TPP) were signed but after US’s withdrawal, TPP fell into disarray even though it used to be expected so as to become one of the largest trade deals in the global economy.

In fact, the deadlock of WTO Doha round negotiations has induced a boom of FTAs to be veritably triggered. The regional or bilateral FTAs are gradually becoming the main tools in the foreign policy of each nation to gain much more benefits in the fierce competition of world economy today. In order not to be

outside the propensity, nations are active in negotiating and signing FTAs and there is no exception with Vietnam.

Becoming a member of WTO as well as negotiating a variety range of trade deals with other countries, on the one hand, has played a crucial role in declining tariffs and facilitated the export of products made in Vietnam; on the other hand, most of the partners Vietnam has signed FTAs are the most critical partners such as Korean, Japan, US and EU so it is evitable to be under competitive pressure. Not to mention that nowadays, Vietnam has been incrementally negotiating some high quality FTAs that incorporates new issues such as government procurement, competition policy, environment, labour, particularly diversity and complexity of rules of origin in FTAs.

Definitely, as for developing countries like Vietnam, this will pose a ton of difficulties and challenges Vietnam has to face but it seems always willing to join the trade race even with new international trade rules in the twenty-first century. An appropriate strategy is extremely vital for Vietnam in the current context. Therefore, the thesis focuses on doing research about tactics of Vietnam to answer the research question: “What is Vietnam’s FTA strategy?”.

1.2 Research Objectives

This study attempts to identify and analyse Vietnam’s strategy in engagement in FTAs

1.3 Research Methodology

The qualitative research will be chosen and used in the topic. First and foremost, the measure will help to find descriptive data about Vietnam’s trade policy. Vietnam has been opening market that promoted quickly since the accession WTO in 2007 and then the research will look at Vietnam’s the protective policy and the level of protection of Vietnam to domestic industries.

Secondly, this study will look at the process of participation in FTAs of Vietnam and examine Vietnam's strategy in the process.

Finally, as protective industries might induce any opposition in the process of negotiation FTAs of Vietnam; thereby, the thesis will look at political economy in Vietnam when Vietnam's government makes decision to join FTAs and investigate how government can deal with the opposition.

Source of data

The secondary data will be utilized in the study collected from reports of WTO, the official websites of Vietnam's government, Ministry of Industry and Trade, Ministry of Planning and Investment as well as Ministry of Finance, books, articles and journals. These sources will provide information about Vietnam's trade policy, what kind of products under the protective policies, the bands of tariff Vietnam imposed on foreign products, Vietnam's FTA performances. Besides, to make the study much more logical, concrete as well as convincing, the depth-interview method will also be utilized to offer the primary data. Interviews is helpful to fulfill the gap in the data the former method cannot meet and grasp the perception of the interviewee with the ultimate purpose of getting the most accurate information for the research. The interview will be conducted with the key person in charge of mainly researching and providing consultation on issues related to trade liberalization and integration for Vietnam. The data is collected from the interview being very useful and crucial to interpret the way Vietnam's government copes with any problems in the process of pursuing FTAs.

CHAPTER 2

REVIEW OF LITERATURE

2.1 The rationale countries join free trade

The formation of multilateral trade system World Trade Organization (WTO) in 1995 together with a boom of free trade agreements (FTAs) between countries has been veritably triggered recently owing to the gridlock of WTO Doha round negotiations are the results of all countries' awareness that if they engage in international trade, each country in particularly and the world as a whole will reap benefits. This was recognized since 18th and 19th century through trade theories.

In addition, the issue should also be examined and interpreted under the angle of political economy in order to provide key insights for understanding trade policy of countries than under the narrow lens of economic theories because political economy is the interaction between economic interests and political processes to formulate policies (Oatley, 2004). In the global liberalization, politics might be either the incentives or handicaps seeing that the final outcome of economic integration will be determined by political elements (Ezenwe, 1978).

2.1.1 Economic Approach

Explaining gains from free trade was first provided by classical economic theories of Adam Smith. Adam Smith provided idea about absolute advantage indicating that one country would have an absolute advantage if it can produce same amount of good with less resources than other countries. In his publication "Wealth of Nations" in 1776, he stated that all countries can gain benefit if they do free trade, the export of a country is the import of another one. The theory became foundation for interpreting the necessity of countries in specialization and engaging in the chain of global trade to raise their economic efficiency.

Other trade theory supporting Adam Smith lies in the theory of David Ricardo, who argued about comparative advantage. If each country exports

goods that are produced more efficiently and cheaply than other countries and import goods that are produced inefficiently. This creates specialization in the world so output will increase and countries also become better off. The concept about comparative advantage is regarded as the most important one in international trade until now.

Supporting for argument of David Ricardo is model of Heckscher-Ohlin (H-O model) pointed out that depending on what abundant factor of production (labour or capital) a country possess, it will tend to specialize in and export to other countries. A country's scarce factors are expensive; by contrast, its abundant factors are cheap.

In addition, production network is also regarded as a reason facilitates countries participate in economic integration. Production network is about the breakdown of a production chain into small proportions and then assigning each to the most cost-efficient location (Shen, 2011). Athukorala (2011) indicated that the development of technology in industries, cross-border production and service network owing to the improvement in communication and transportation together with the elimination of trade restrictions through WTO and FTA has transformed the multinational production network.

The internationalization of the supply chain is reflected through the production network that started between developed countries at first known as "second unbundling" (Baldwin, 2011) and then between developing and developed countries because of the evolution of international communications and technology as well as the enormous wage gap (Feenstra 1998; Ando and Kimura 2005). This is called outward processing trade or vertical specialization trade (Manger 2009, Hummels, Ishii and Yi 2001) that inputs are imported and utilized in the final products to export. The phenomenon appeared in Europe and North American in the 1980s but with the North – South vertical specialization has becoming increasingly, the extensive production unbundling in the Asia has brought the label factory Asia for the region (Ando and Kimura 2005, Athukorala 2005)

Athukorala and Menon (2010), Ando and Kimura (2005) showed that the networks of production are a salient phenomenon in the Asian region. Japan

was the first to participate in such networks, next are Korea, Taiwan, followed by middle income ASEAN countries, and later by the China and Viet Nam.

Kim (2013) argued some reasons to interpret why production network can boost the active integration of countries in Asia. Firstly, production networks create a “trade, investment, and services” nexus (Baldwin, 2011) seeing that trade intermediate products are driven by investment while it is supported by services that ease communications and activities of companies in different regions. To decrease the cost of manufacturing for foreign enterprises, strong commitments in the trade rules behind the border are vital that will erode differences in economic policies and regulations among different countries and more importantly, FTAs do play such a crucial role in granting commitments on domestic trade rules that benefits international firms

Secondly, one of the most important variables has effect on the integration is foreign direct investment (FDI), for instance, governments realized the importance of attracting FDI inflows to the region and to prevent the diversion of FDI, it is a key argument for the AFTA (Kim, 2013). So as to enjoy much more benefits, countries need to produce more of the value added in the production chain domestically. As for latecomer, they should begin from the simple to complicated production operations, from assembling imported parts and components to join in the activities that require more skills such as the engineering and design in the production (Thorbecke & Bhattacharyay, 2012). And FDI itself is the engine of production networks, through FDI, multinational enterprises and later local East Asian firms have created the chains of supply as well as production network in East Asia. This has fostered the division of labour inside region and led to the development of vertical specialization in intermediate products and finished ones (Kawai & Wignaraja 2008).

Kiruma and Obashi (2011) indicated that thanks to production networks’ development, the region has been experienced the high economic growth for 30 years. The momentum of economic growth has combined product fragmentation trade in the region that has been result of developing regional

networks and extra regional trade in final goods with developed countries like EU and US (Athukorala, 2011; Makishima, 2011; PECC, 2012).

Trade inside and outside region has played a core role in the connection of the growth of economy and production networks for East Asian countries, so it is necessary to eliminate trade barriers. Regional economic integration has many forms and FTA is recognised as a practicable tool in order to create trade (Molders & Volz, 2011). In addition, it is examined that regional economic integration with FTA can accelerate the vertical specialization meaning that the networks of production in East Asia can be improved by deeper regional economic integration (Harvie, 2009; Li, 2009).

Discussing about the least developed countries, Lim and Kimura (2009) claimed that they should be patient until they can attract FDI flows into their countries, global multinational corporations would form and to operate in sites of productions. Domestic enterprises can grasp chances for becoming a part of regional or global production networks, which will virtually facilitate technology transfers and spillovers. It also helps developing countries move up the value chain instead of remaining only the labour-intensive assembling activities (Thorbecke & Bhattacharyay, 2012)

2.1.2 Political Economy Approach

There is an intensive literature to interpret in detail for the effects of politics in the economic integration process. Heimenz and Langhammer (1990) shared raising bargaining power in international negotiations to get greater benefits, which promotes integration. In the same line with the perspective, Hoekman & Kostecki (2009) indicated the participation of a preferential trade agreement (PTA) helps small countries have more power in multilateral trade negotiations as accession to PTA means the countries is member of a larger trading bloc. The aim of developing transnational infrastructure to lower transaction costs, along with a common security policy is also the rationale of forming PTA.

In the other vein, Frye & Mansfield (2004) and Henisz & Mansfield (2006) argued about democratic countries tend to adopt more liberal trade policies than other states since they confer the right for their own citizens to punish

government officials who mismanage the economy. While undemocratic governments are not answerable to their peoples and a range of leaders of former colonies still think several remnants of international markets impede the development (Robertson, 2008). In the case of Vietnam, reform in 1996 came to a standstill since reformers came up with the idea of utilizing comparative advantage and engaging in the integration process. By contrast, conservatives believed that if Vietnam joins the international market, Vietnam might continue to be exploited as well as kept underdeveloped and poor by the First World (Sujian, 2004).

An apparent characteristic in most of developing countries including Vietnam is gradual liberalization. Interpreting for the gradual and partial reform in Vietnam started in 1986, Sujian (2004) claimed that the political factor plays an extremely important role. The leadership system in Vietnam split into two groups: the conservative and liberal members who are concerned about socialist orthodoxy and the efficient functioning of the system in respectively.

The choice and sequence of reform have determined and shaped by the agreement between conservatives and reformers. Even though they had debates and tension but one point these groups have agreed is the maintenance of political stability as the precondition of the economic reform and growth and the key question the leadership has been interested in is the way communist party can sustain its leadership and power in the reform process. This refers to the balance between politics and economics as well as stability and reform.

Moreover, trade agreements can be a tool, on the one hand, to sustain trade and on the other hand to boost other economic reforms that might be handicapped by political factor (Finger, 2008). Owing to the bind rules and commitments of trade agreements, this has entailed obviously a dilemma Vietnam has to face.

Arguing in the line of perception, McMillan & Naughton (1996) claimed that if the reformers just hold the weak political position, the gradual reform spread in the passage of time can be the approach to gain the high level of political support, that is accumulated by the initial success and then more difficult reforms

can be attempted. It is more sustainable than shock therapy (Olivié & Steinberg, 2014).

2.2 Global Trade Liberalization under World Trade Organization (WTO)

If all countries trade with one another, the world is in the first best position (Cheong and Wong, 2007). Hence in international trade liberalization nowadays, WTO is regarded as the best policy for all countries around the world followed by second best FTAs (Shujiro, 2009). WTO is a successor of General Agreement on Tariffs and Trade (GATT, 1947), was conceived in 1995 as a result of the Uruguay Round of multilateral trade liberalization negotiations

Once countries trade with one another, they would be better off but there is no guarantee that one side will renege. This is well known as the Prisoners' Dilemma. The risk of the prisoners' dilemma game induced countries end up with protection, even though they realized gains from free trade (Brander, 1986). However, the simplest measure to start the game is the creation of institution where can ensure no one will cheat via providing information about players' behaviour (Krueger, 2000). In the world economy today, WTO plays the role "institution" in trade between countries. The central function of WTO is to guarantee trade flows as freely, predictably and smoothly as possible based on its own principles and dispute settlement mechanism.

WTO inherits the centrepiece of GATT rules are non-discrimination and reciprocity. The non-discrimination rule comprises external non-discrimination that is called Most Favoured Nation (MFN) under GATT's Article I. MFN prescribes each members of WTO gives the same advantages, privilege, favour and immunity to all WTO members. The other is internal non-discrimination known as National Treatment under Article III of GATT. This is understood as the equal treatment between the imports and domestic goods, at least after the foreign products have entered the market of one country.

MFN clause's philosophy lies in minimizing distortion of market principle, particularly when a large number of trading partners participate. Otherwise, if parties

to a trade agreement were allowed to arbitrarily discriminate against each other, the whole idea of the agreement would be nullified. Similarly, if discrimination were allowed, political tensions and trade disputes would be easily surface (Nsour, 2011). Supporting for the idea, Snorrason (2014) claimed that the aim of MFN is to avoid the pattern of trade to distort and be less than optimal through impeding the bilateral trade agreement from developing.

All WTO's efforts are to ensure level playing fields because MFN refers to non-discrimination while national treatment ensures stability of policy, market access shields them from non-tariff barriers to trade. (Chen & Sapsford, 2005). WTO, accurately, is a rule-based trading regime to secure open, fair and undistorted competition.

WTO's the other principle is reciprocity. The concept of reciprocity can be understood in the two sides: the cooperative reciprocal trend is positive reciprocity while negative one is the retaliatory (Fehr & Gächter, 2000). This was called such a way "good is returned for good and bad is returned for bad" by Keohane (1986).

The greatest way to pursue the iterated Prisoner's Dilemma is tit for tat (Axelrod, 1981). Reciprocity allows countries to reward with one another for cooperation and vice versa, they can punish each other for cheating and violating rules. Unlike the bilateral agreements, the developed countries cannot breach easily the rule unless they face the punishments (Narlikar, 2005).

Emphasizing the importance of the rule in expanding the output to be traded and more importantly, the risk of a retaliation trade war is decreased by binding mechanism in international organization. WTO establishes rule of reciprocity on a generalized basis across many countries, it is multilateral reciprocity so by monitoring and enforces these rules, WTO guards against cheating and defection by member states (Narlikar, 2005).

To implement effectively reciprocity, WTO also collects and disseminates information on its members' trade policies, thereby providing a centralized and relatively impartial the vital information source. This helps governments update the process of complying with trade agreements. The international institution provides

information to member and it also regulates behaviours, reduces uncertainty, as a result it fosters cooperation (Krueger, 2000).

In addition, WTO also provides a dispute settlement mechanism that is the central pillar with the purpose of verifying breach of the agreement and informing third countries. The violation also induces the offending country face to loss of reputation in the trading community; thereby, it boosts multilateral enforcement efforts. Strengthening an efficient multilateral rule-making procedure is the other aim. In the bilateral trading ties, if the imbalance in power among parties exists, an multilateral approach to enforcement and rule-making will be extremely important (Maggi, 1999).

2.3 Trade Liberalization under FTAs

2.3.1 The Concept of FTA

The Regional Trade Agreement (RTA) is a term commonly used by the GATT/WTO framework to refer to the reciprocal trade agreements between two or more countries.

Nowadays, each country has been using various names to call RTA/FTA. Japan is utilizing “Economic Partnership Agreement” (EPA); China is calling FTA both “Free Trade Area” and “Closer Economic Partnership Agreement” (CEPA); as for India, the term to call FTA is “Comprehensive Economic Cooperation Agreement” (CECA), while ASEAN and South Korean are using both “Free Trade Agreement” (FTA) and “Framework Agreement on Comprehensive Economic Cooperation” (FACEC). Even though these agreements are under the different names, in terms of essence, they are all agreement that abolishes trade restrictions with the purpose of strengthening the economic development between countries.

Even though the core principle of WTO is non-discrimination, Article XXIV in GATT is considered a condition to pave the way for the development of regionalism through RTA (Hilpold, 2003). In the scope of the provisions of Articles XXIV/GATT; V/GATS Terms and Enabling Clause 1979, the perspective about RTA in GATT/WTO refers to the economic integration

In the book “The Theory of Economic Integration” in 1961, Hungarian economist Béla Balassa mentioned about the different level of economic integration that is divided according to the commitment’s degree to trade liberalization and economic linkage from shallow to deep. Starting from Free Trade Area, Customs Union, next is a Common Market (CM), and the last one is an Economic Union:

- i. Free Trade Area: Parties agree to eliminate the trade restrictions but still maintain their own tariff policies with non-members.
- ii. Custom Union (CU): The trade restrictions are removed and member countries adopt a general tariff policy towards non-members
- iii. Common Market (CM): The countries establish custom union allowing the free movement of production factors such as capital and labour
- iv. Economic Union (EU): Including all features of common market and having common economic policies by harmonizing national fiscal and monetary policies.

Under legal framework , according to Article 5 (c) in Chapter XXVI “Territorial Application - Frontier Traffic - Customs Unions and Free-trade Areas” in GATT : “any interim agreement shall include a plan and schedule for the formation of such a custom union or of such a free trade area within a reasonable length of time”. Zone for free trade is expanded from FTA’s success (Matsushita, 2010) and it is considered as an interim agreement that forms the legal basis for the formation only two levels of the economic integration: a Free Trade Area or a Custom Union.

2.3.2 The International Trade Under FTA

The world has witnessed a proliferation of FTA, according to WTO, there were 124 notifications of RTAs referring to trade on goods and since the creation of WTO in 1995, the figure increase approximately to 700 agreements including trade in goods or services and up to now, all WTO members now have an RTA in force. Bhagwati (1993, 2008) claimed that the large number of members in WTO together with the principle “consensus” has slowed down the process of multilateral trade liberalization, which induces countries to move to the second best policy.

FTAs, in the one hand, have positive effects on trade integration – trade creation that occurs when goods are produced in countries which achieves the highest efficiency. Trade creation influences, thus, allocation efficiency in each of the member countries and encourages specialization according to comparative advantage (Viner, 1950). FTAs also bring dynamic effects including market expansion, competition promotion, rapid spread of technology (Balassa, 1961). As for developing countries, preferential integration can be considered a way to boost industrialization by creating local production networks between members that do not trade so much and provide an opportunity to join regional trade (World Trade Report, World Bank 2011).

On the other hand, from the perspective of non-economic welfare interests, the formation of FTAs promotes regional stability and security, reduces political tensions, builds trust and resolves conflicts between nations in the international relations. Smaller countries will increase the power of bargain in the multilateral fora through South-South FTAs (Bui, 2010).

Nowadays, policymakers of nations also increasingly see FTA policy as a key trade policy tool being complementary to the multilateral trading system owing to its far-reaching scopes. Besides trade in goods, services, investment, intellectual property rights are provided by WTO, countries tend to negotiate “new generation” FTAs with the much more comprehensive scopes including environment, labour standard, movement of natural persons and e-commerce prompts. More importantly, countries also find it easier to negotiate PTAs due to its smaller number of members than those of the multilateral trading system.

Besides the FTA’s advantages, FTAs also bring some detrimental impacts on countries’ economy in particular and the global economy in general. Balassa (1961) argued that FTAs induce trade diversion that means countries divert trade away from a more effective non-member to a less effective member within FTA due to the lower tariff bands while the economists have believed that FTA is the option after WTO seeing that the nature of the FTA is to liberalize trade between two or more member states but each member has the right to maintain separate trade restrictions with non-members. This causes “discrimination” to non-members

(Bui 2010) and as a result, domino effect on FTAs becomes engine to promote the proliferation of FTAs when non-member of a FTA has an incentive to form its own FTA (Bhagwati, 1991; Solis et al., 2009). For example, the US and Mexico free trade area in 1990 brought about the negotiation FTAs of a range of countries due to demand of US's market access such as the North American Free Trade Agreement, Canada, Chile, Argentina and so on. In the line of domino theory in FTAs, Baldwin (1993) gave the idea about effects of the political economy on driving these domino effects when interest groups in excluded nations usually try to secure gains to address the new discrimination.

Finally, a range of bilateral and regional FTAs have created a complex network of FTA that now is known well as "Spaghetti bowl" phenomenon. Bhagwati (1995) is the first person who used the term "spaghetti bowl" to mention about rule of origin. He argued that FTA generates network of production between countries and half-finished products and parts go around the network to take advantage of tariff differentiation to provide finished products to customer with the lowest price. The complex of this system was compared with the tangling of spaghetti in a bowl.

Also visualizing about spaghetti in a bowl that is tangled but Baldwin (2006) used the term "Noodle Bowl". He warned about the remarkable rise of FTAs in Asia, particularly in East Asia seeing that FTAs of Asia have proliferated in the 21st century. AFTA is only FTA in the region formed in 1992 by ASEAN members. After FTA between Japan and Singapore, namely New Age Japan-Singapore Economic Partnership Agreement, JSEPA signed in 2002, countries in East Asia started to negotiate FTAs with other countries in the region as well as outside the region. Baldwin argued countries in East Asia has implemented FTA without arrangement since actually countries is free to determine the schedules of tariff, exclusion lists of trade liberalization and rules of origin.

The image of noodle bowl in the East Asian context implicitly suggests the chaotic disintegration of the global trading system (Dent, 2006; Petri, 2008). With many complex rules of origin and many regulatory frameworks that are inconsistent, cumbersome, arbitrary, the transaction costs and time consuming of

economic actors, especially the risk of breaking the natural production and service network in the region and once this natural structure is deformed by distortions from many levels of FTA commitments, it might not really bring the economic efficiency.

Nevertheless, there are also the opposite perceptions about the impact of the phenomenon. Baldwin (2006) argued that noddle bowls will be building blocks on the path to free trade and should be viewed as a matrix of connections among the key nodes of a regional or international economy that incrementally decline multiplying complexity. Once the trade agreements matrix is reasonably full, the establishment of a coherent global system become easier so far. Hence it has been creating from the bottom up instead of top down (Petri, 2008).

2.4 Vietnam's Trade Policy

Before 1986, the model of Vietnam's economy was a command economy in which foreign trade was monopoly of the state and trade policy was carried out under bureaucratic, centralistic and irrational state-subsidy mechanism so only the stated-owned enterprises (SOEs) were allowed to export and import. The state managed and controlled import-export activities through plans and norms (Nguyen, 1995) and the private firms was not recognised or was discriminated compared with the state and collective firms (Phan, 2007)

However the economic model showed some shortcomings. The stated-owned enterprises could not raise the sense of the initiative in economic activities and depended totally on the plans of state in terms of input factors and financial as well while the budget of state to subsidize for these firms was limited owing to cutting aid from other countries since Vietnamese wars ended.

For a long time, import-substituted goods and heavy industries that Vietnam had no advantages were also concentrated to development with ambition for industrialization and economic growth (Nguyen, Nguyen, Nguyen, Hoang , 2015 and Phan, 2007). According to Phan (2007) during 1976-1980 state spent nearly 40% of investment on heavy industries while state just used only a haft of the investment

for agriculture sector and smaller share for light industry, which was manufacturer of necessities for domestic consumption.

However, both agriculture and industry showed the poor performances. The efficiency of investment was so low, eight development projects were uncompleted and the rate of capacity use of others was less than 50% (Tran, 1994).

Besides, agricultural collectivization under the state control was applied where peasant households were forced to take part in agricultural cooperatives and production collectives. This lacked the economic incentives for farmers who preferred to produce privately for not only their own consumption but also the market. Hence, agricultural production was not enough to meet the demand of people at that time and Vietnam had to import thousands of tons of food annually. But the country relied on the foreign loans because Vietnam's income did not afford consumption. The quality of life was extremely poor and getting worse with the serious lack of food, goods, transport, and health and education (Bui, 2000).

Furthermore, there was usually a deficit in the trade balance, exports accounted for only US \$500 million while the value of imports was more than twice the value of exports around US \$1,221 million and the level of per capita trade was tiny (Arkadie & Mallon, 2004). Foreign investment was almost zero, the gap of technology development between Vietnam and other countries was great (Mallon 1999). Hence until 1986, Vietnam experienced a sharp socio - economic crisis.

Facing these difficulties, coming up with a policy reform was crucial and urgent for development of Vietnam and the leadership role of Communist Party, thereby the 6th Congress of the Party in 1986 Vietnam adopted a comprehensive renovation in order to Vietnam's economy away from the centrally planned economy and transform into market oriented with the aim of reallocating resources, generating vent for surplus by eliminating trade restrictions, creating market chances for idle resources and calling for private and foreign investment.

To actualizing the goals, Land Law in 1987 granted individual land-use rights and the Communist Party also issued a resolution in 1988, individual and private firms had more rights in agricultural area, farmers were permitted to sell their own goods in the market. Another notable point is the Foreign Investment Law was

also approved in 1987 and as an inevitable result, foreign direct investment flowed strongly into Vietnam in period 1986-1990, it increased by 18,6% compared with the period 1981-1985 and became the major source investment and replaced well the state capital (Nguyen, Nguyen, Nguyen & Hoang, 2015).

Even though Party launched the renovation but the quantitative control to protect domestic production has been introduced since 1994. Countries usually applied some trade policy tools such as quotas, non-tariff barriers, and high tariffs to protect a domestic industry that is regarded as infant status (Krugman & Obstfeld 2003). In the same line, Kenichi (2001) argued that latecomer countries in the international integration tend to justify intervention and protection to cope with the fierce competitive pressure from early comers. Similarly, within a country, the new industries well known as infants industries need to be protected by government while other one that have enough competitive capacity would like to support free trade.

In 1998, there were 9 goods under non-tariff barriers (NTBs) accounting for nearly 40% of imports (CIE 1999) and over 45% of total manufacturing production (Athukorala 2002a). In 1999, due to the Asian Financial crisis, the number of goods under NTBs increased to 17 products so as to avert balance of payments pressure. However, the number of such goods has been gradually declined year by year (Table 2.1) being considered part of the trade liberalization promotion. In 2003, only sugar and petroleum were under quotas. (Athukorala, 2006)

Table 2.1 Products under Qualitative Restriction

1998	1999	2000	2001	2002	2003
Petroleum	Petroleum	Petroleum	Petroleum	Petroleum	Petroleum
Sugar	Sugar	Sugar	Sugar	Sugar	Sugar
Fertilizer	Fertilizer	Steel	Steel	Cement	
Steel	Steel	Cement/Clinker	Cement/Clinker	Motorcycles	
Cement/Clinker	Cement/Clinker	Glass	Motorcycles		
Glass	Glass	Motorcycles	Cars		
Motorcycles	Motorcycles	Cars	Vegetable oil		
Cars	Cars	Paper			
Paper	Paper	Vegetable oil			
	Electric fans				
	Ceramic tiles				
	Porcelain				
	Caustic soda				
	Bicycles				
	Vegetable oil				
	Plastics				
	Plastic packaging				

Sugar: There is complete import prohibition on sugar. licensing, but licences are not issued
Source: Parker and Riedel (2002), and various World Bank and IMF secondary sources.

Now automobile still enjoys the high level of protection even after the accession to the WTO as the tariff reduction for this sector is scheduled until 2019.

In the period from 1996 to 1999, owing to the fear of competition and the negative impacts from outside, integration and reform process was recognised being slowed down, especially after the Asian crisis (Vo, 2005) perhaps even more due to complacency of the beginning of reform (Athukorala, 2006) and the ambivalence of reformers and conservatives in Party (Sujian, 2004). Nevertheless, the integration in Vietnam was turned into new stage in 2001 since Party generated a paradigm shift in thinking about development and integration of Vietnam and determined the active integration into international economy that was mentioned in the documents of the 9th Party Congress. Since becoming an official member of the World Trade Organization (WTO) in 2007, Vietnam's economy has fully integrated into the global economy. Vietnam's commitments with WTO are a common framework to promote domestic reforms, perfecting the socialist-oriented market economy (Communist magazine, 2017).

Thereby, the new commitments to reform continuation and some progresses were made, especially in the development of private sector and trade liberalization. As for entry Barriers to Import Trade, according to Decision 46/2001/QĐ-TTg, the trade right has granted for all domestic firms that was only available for SOEs before 1989 and was gradually relaxed since 1989.

With the promulgation of the Law of Investment in 2005 that is the combination of domestic investment and foreign investment law, the investment regimes of Vietnam have been further liberalized and facilitate equal playing field for all enterprises. Most of other sectors are now opened up for domestic and foreign investors, and they can do business in any sectors except for some sectors of conditional and prohibited investment such as service sectors, health and security. However with the accession WTO in 2007, services sectors such as trade, transports, telecommunication, banking and finance to tourism and consultancy service has been incrementally opening for foreign suppliers. In many areas, foreign investors are allowed to set up their own establishment without limits on the scope of activity and equity participation (Nguyen, 2011).

Since 2001, the aim of Vietnam's Socio-Economic Development Strategy is the transformation of Vietnam's economy into the modern oriented industrial one by 2020, and the latest Vietnam's Socio-Economic Development Strategy 2016 – 2020, in detail it includes Development of a socialist oriented market economy with institutional reforms towards freer markets and further privatization. Vietnam is expected to be coherent, transparent and effective legal system by 2020. Improving effectiveness of external relations, active international integration, peaceful environment and favourable conditions for the country's development and economic restructuring, increase in productivity and competitiveness are also the goal Vietnam desires to achieve in the near future (Le & Ha, 2016). Joining FTAs with large economies like US, and East Asian countries and the high quality FTA with the most important partner like EU would be engine in the development plan of Vietnam through strong commitments in many fields.

CHAPTER 3

THE IMPORTANCE OF INTERNATIONAL TRADE TO VIETNAM'S ECONOMY

3.1 The Importance of External Sector to Vietnam's Economy

Since Vietnamese government introduced market-oriented policies namely Doi Moi in 1986, international economic integration is always a consistent policy and a central theme in the country's renovation process. Nowadays, Vietnam is emerging as a bright spot for integration and active participation in the global playing field because it is widely recognized that external trade is lucrative to Vietnam's economy and is one of the key drivers of socio-economic developments. In fact, since 2001 when the country was deeply integrated into the world economy with the BTA with the US, accession to the WTO and participation in a series of FTAs, the significant changes in Vietnam's economy was witnessed in the period. Vietnam's economy has experienced the rapid economic growth rate in the range of 6% to 8% annually since 1986 and two factors of external sector are imports, exports and FDI have been playing increasingly role in the miraculous growth.

The trade to Vietnam's GDP ratio is the most apparent evidence by far (Table 3.1). In 1985, Vietnam's the total value of export was just 5% but when government started the far-reaching reforms to open itself and integrate to the region and the world, which has permitted the export sector to grow along the line of comparative advantages. As an inevitable result, contribution of exports to economic growth is greater and greater after 1986. In 1995, Vietnam became the officially member of ASEAN as well as US lifted the embargo towards the country, the export value increased by 27.81% in 1995 and reached 49.97% in 2000 when Vietnam had the bilateral trade agreement (BTA) with US. Over the years, along with the accession of WTO in 2007 and the promotion of integration via signing the series of FTAs, in 2016, the figure climbed to 93.62% being nearly 20 times higher than that in 1985.

Besides the increase of export value, owing to the need of importing materials to serve domestic production, the proportion of import value to GDP also rose sharply from 13.2% before renovation in 1985 to 41.91% in 1995 and the period from 1995 to 2016 has witnessed a gradual increased and the figures reached 91.06% in 2016.

It is inevitable that the dramatic increase in both export and import value has bought about the large trade openness of Vietnam's economy. Before "Doi Moi", Vietnam's economy was still centrally-planned model and a closed economy with the degree openness was only 18.2% in 1985 and according to World Bank data, Vietnam with Laos and Japan were the most protectionist compared with Indonesia, the Philippines, Thailand, Malaysia, Korea and so on in 1985.

Nevertheless, its openness to the outside world grew to 74.7% in the next 10 years and the stable increase illustrated that the economy is becoming increasingly integrated into the world economy and now the trade openness sharply jumped into 184.48% being far higher than the countries mentioned above and behind only Singapore and Hong Kong in the region. As a result, the higher these figures are, the more dependent on international trade Vietnam's economy is and international trade is more and more crucial to Vietnam's economic development.

Table 3.1 Export Value and GDP

Year	Export value/ GDP (%)	Import value/ GDP (%)	GDP (\$US Billion)	Degree of openness (%)
1985	5	13.2	14.09	18.2
1995	32.81	41.91	20.74	74.7
2000	49.97	53.28	33.64	103.3
2005	63.7	67.02	57.63	137
2010	72	80.22	115.93	152.2
2015	89.78	0.88.99	193.24	178.7
2016	93.62	91.06	202.62	184.7

Source: World Bank and OECD

Another figure also proves the correlation between trade and economy growth is the growth rate of export and real GDP. The successful of East Asian countries owing to the outward trade orientation in the past decades is the most typical and apparent evidence to proves the role of exports as an engine of their economic growth. In the case of Vietnam, trade value has showed a remarkable growth with its export and total trade growth rate of 8.23% and 12.39% in 1987 in respectively while real GDP was only 2.5% but it reached 5% in 1990 and peaked at 9.5% in 2000 along with the increase of export (Table 3.2). Moreover, export and import has grown faster than GDP, excepting 2009 when international trade was seriously affected by the regional and global financial crisis. The growth rate of export was also a lot greater than that of GDP and in general it has exceeded import and the sharp decrease of import growth rate in 2016 has been expected to promote further the role of export as the driving force of economic growth.

Table 3.2 Trade and Real GDP growth of Vietnam over years

Unit: %

Year	Export growth	Import growth	Total trade growth	Real GDP growth
1987	8.23	13.92	12.39	2.5
1990	24.17	7.24	14.27	5
1995	34.41	39.97	37.69	9.5
2000	25.42	34.52	30	6.8
2005	22.4	15.72	18.75	7.55
2010	26.51	21.28	23.63	6.42
2015	9.9	11.98	28.3	6.68
2016	10	5.15	7.06	6.21

Source: Researcher calculation and Knoema

Besides trade, the external resource - FDI is also a great contribution to the socio-economic development of Vietnam and has been really considered the growth engine of Vietnam's growth in the past 30 years. It can be seen that throughout

the integration period, the FDI sector also contributes significantly to the performance of the economy with the highest rate of economic performance and investment compared to all other sectors. The proportion of FDI sector in GDP next year is always higher than that of the previous year except to the economic crisis in 2008 and 2009. In 1991, this rate was 2%, but it increased by 16% in 2015 (Figure 3.1).

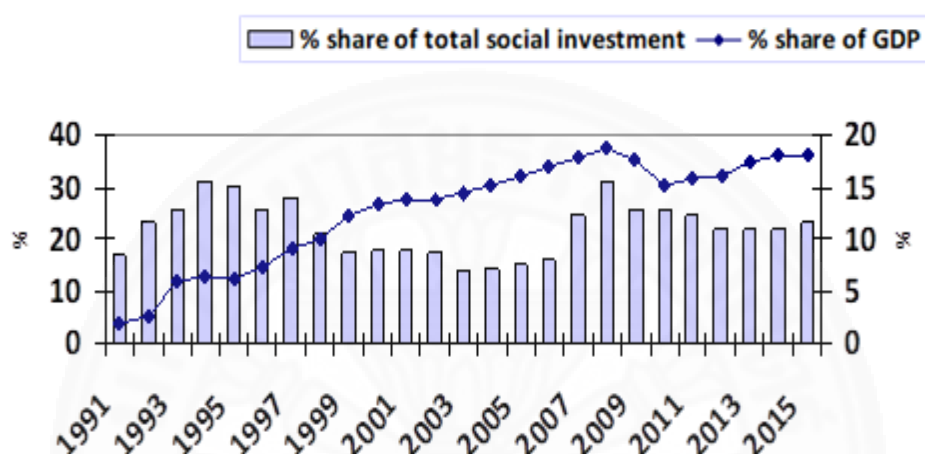


Figure 3.1 % share of implemented FDI in total social investment and GDP from 1991 to 2015

Source: General Statistics Office of Vietnam

In addition, it is imperative that the economy needs capital for a fast growth, while the country is not enough capital and FDI has been widely regarded as an supplementary source so it has a significant share of total social investment presenting around 22-25% of total social investment capital, which has contributed significantly to Vietnam's growth over years.

3.1.1 The Restructure of Economy and Exports

The process of arranging, restructuring the economy on a larger scale and faster pace to achieve the goal of improving the productivity, quality, efficiency and competitiveness of the economy is an objective requirement of the development process, in which the economy needs change to move to a better new

stage. As for Vietnam, the process of restructuring economy in the direction of industrialization and modernization has been identified by the Party and State as an indispensable way for Vietnam to move beyond its backwardness and slow development and external sector is extremely helpful for Vietnam to gain the goal. Over the years, through trade, Vietnam's economy was restructured from agriculture-based economy to industrial-based economy. The share of GDP in agriculture fell substantially from 49% in 1986 to 19% in 2015 while the contribution of industrial sector is just 22% in 1986 but in 2015, it is twice higher than that of in 1986, increasing to 46%. Service proportion of the domestic output has not changed much, slightly rises from 29% to 35% in 30 years (Figure 3.2).

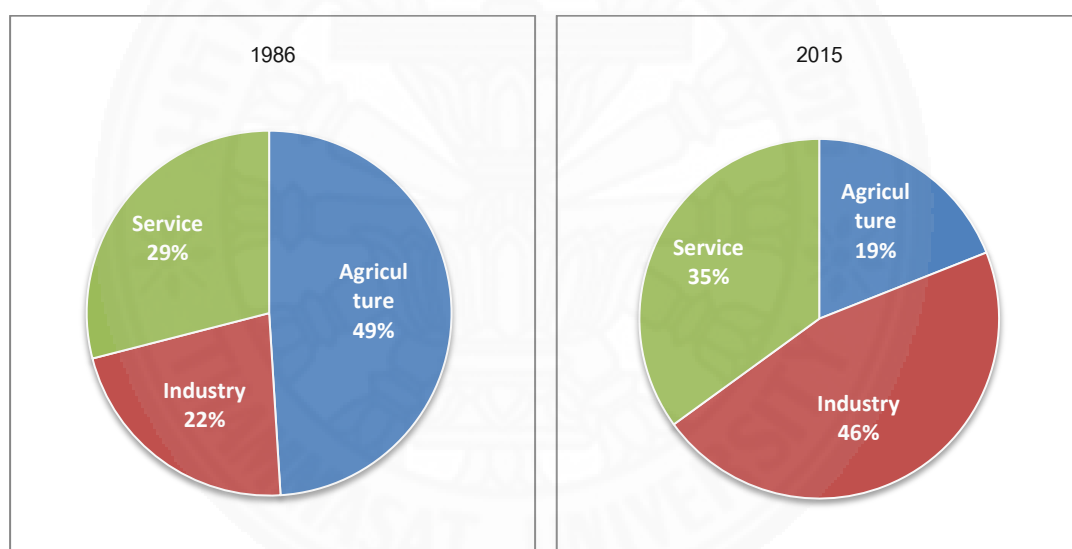


Figure 3.2 Share of GDP by sector in 1986 and 2015

Source: Vietnam Customs

In addition, the transformation in structure of exports from low value-added goods into high value added products, high industrial content based on strongly attracting foreign investment in oriented export industries has played role in boosting the shift in structure of the economy and FDI inflows from developed economies is playing the key role in the shift.

In the shift of exports structure, it is undeniable the core role of FDI inflows since FDI in Vietnam over 30 years, in general, has been appearing in all sectors but orientations for attracting foreign investment of government and FDI inflows have primarily been fell into some key sectors such as manufacturing, science and technology, IT and so on (Table 3.3). These are also highly potential projects in order to create high added value. It is also worth noting that the foreign investment in these sectors has also resulted in new industrial and service products contributing directly to the restructuring of the economic sector and the structure of exports, for instance electrical, electronic and component products. These are items that has been accounting for a quite huge proportion in exports of Vietnam.

Table 3.3 Vietnam's FDI by sectors in the period 1988 – 2016

Sectors	Number of projects	Registered capital (Billion USD)
Manufacturing	11,569	170.38
Real estate	562	52.07
Electricity, Gas, Water production and distribution	109	12.74
Hotel and Restaurant	508	11.16
Construction	1,359	10.96
Wholesale and Retail	2,171	5.239
IT	1,434	4.685
Logistics and Transport	589	4.256
Agriculture, Forestry and Fishery	517	3.544
Mining	103	3.489
Arts and Entertainment	138	3.118
Science and Technology	2,119	2.580
Health	121	1.543
Finance, Banking and Insurance	88	1.470
Water supply and drainage	54	1.390
Education and Training	297	0.743
Others	156	0.794

Source: Nguyen Mai from the Association of Foreign Invested Enterprises. (2017)

3.1.2 Foreign Exchange Reserves

The size of foreign exchange reserves is one of the most important indicators for economies, especially for developing countries like Vietnam. The positive signal of the increase in the size of Vietnam's foreign reserves has maintained confidence in the ability of paying foreign debt, supporting the value of Vietnam Dong (VND), ensuring financial security of the country. In Vietnam, according to statistics of the State Bank of Vietnam (SBV), the main source of foreign currency in Vietnam's reserves in 2016 is about \$US 40 billion, the bulk of which comes from commodity exports and FDI. In fact, before “Doi Moi”, Vietnam traded mainly with the socialist bloc due to the belief of a less exploitative form of international integration. At that time, goods Vietnam traded the most was in light industry and handicrafts accounting for \$748.9 million, followed by agricultural and processed with \$420.2 million and minerals and machinery with \$213.3 million. The rest included fishery and forestry being valued at \$83.1 million and \$62.7 million in respectively and these low value-added manufactures brought only \$1528.6 million (Table 3.4).

Table 3.4 Vietnam's export products in 1976-1980

Commodity group	Value (\$US Million)	% Share
Light industry and handicraft	748.9	49
Agricultural and processed	420.2	27.5
Minerals and machinery	213.3	14
Fishery	83.1	5.4
Forestry	62.7	4.1
Total value	1528.6	100

Source: Melanie and Dang Phong from Macquarie University, Sydney and Institute of Economics, Hanoi (2000)

However after implementation renovation, the structure of exports has become diversified in the period from 1990 to 2000. Crude oil and agricultural products always appeared in the list of the ten largest export commodities constituting almost a half of total exports throughout the period. Other labour-intensive products were textile, and footwear having also high ranks in the top

exports. Notably, besides these traditional products, there were the new high tech products such as electronics and computers; electronic components; transport vehicles and accessories becoming the main products to export in the period from 2001 to 2010. Since 2013, mobile phones and phone accessories has replaced textiles to be at the top of the list of exports being valued at \$34.32 billion in 2016. In addition, computers, electronic devices and accessories in third place clocked in at \$18.96 billion, followed by machinery and tools in the fifth place with \$10.14 billion, transport vehicle and accessories in the eighth rank with 6.05 billion USD. These manufactures with traditional ones such as textile, footwear and agricultural products contributed to Vietnam's economy \$126.86 billion (Table 3.5).

Overall, there has been evidence of export diversification with more emphasis on manufactured exports compared to the period before 1986 and even though agricultural products, as well as other low-value added ones still lay on the list of exports, Vietnam no longer heavily depended on these goods as the period before renovation, now Vietnam is boosting the export of other products that are able to bring much more foreign currency.

Table 3.5 Vietnam's main exports in terms of value in 2016

Commodities	Value (\$US Billion)	Share of Value (%)
Mobile phones and phone accessories	34.32	27.05
Textile	23.86	18.8
Computers, electronic devices and accessories	18.96	15
Footwear	13	10.2
Machinery and tools	10.14	8
Seafood	7.05	5.55
Wood and wooden products	6.97	5.49
Transport vehicles and accessories	6.05	4.76
Coffee	3.34	2.63
Handbags, purses, suitcases, headgear and umbrella	3.17	2.52
Total value	126.86	100

Source: Vietnam News

These commodities of Vietnam primarily export to Asia, US, Europe and ASEAN that is different from fully relying on the Eastern European and Soviet Union markets when Vietnam still was a closed economy. Since BTA between Vietnam and US was signed Vietnam's export turnover to this country increased continuously and dramatically became the largest market and till now US has still maintained its position as the biggest destination of Vietnamese goods bringing for Vietnam \$38.5 billion followed by China with 22 US\$ billion, Japan with 14.7 US\$ billion, Korean with 11.4 US\$ billion that are much lower than that of the first one. These 4 major markets accounted for nearly 49% of the total export turnover of the country at the same time. And in the four largest export markets of Vietnam, though US is the biggest one and the rest is all Asian countries so Asia is still the most important region for Vietnam's exports, The others made up the smaller proportion in the total of value including Hong Kong, Netherlands, Germany, United Arab Emirates, UK and Thailand is only one of ASEAN in the list but just contributed modestly with 3.6 US\$ billion.(Table 3.6).

Table 3.6 Top 10 Main Export Destinations of Vietnam in 2016

Main exporting destinations	Export Turnover (\$US Million)	Share of Export Turnover (%)
US	38.5	21.8
China	22.0	12.4
Japan	14.7	8.32
Korea	11.4	6.45
Hong Kong	6.1	3.45
Netherlands	6.0	3.39
Germany	6.0	3.39
United Arab Emirates	5.0	2.83
United Kingdom	4.9	2.77
Thailand	3.6	2.03
Others	58.43	33.1
All export destinations	176.63	100

Source: Vietnam Customs

FDI has also contributed the large portion to Vietnam's exchange reserves thanks to the rapid increase of capital inflows. Only one year after the inception of renovation, Vietnam government promulgated the Law on Foreign Investment and so as to generate the legal framework and the far more favourable investment for attracting foreign investments, the law and policy related to FDI has gradually changed and improved in 1990, 1992, 1996, 2000 and replaced by a new law on investment integrating both domestic and foreign investment in 2005 and amended in 2014 in accordance with Vietnam's integration process. These efforts led to some positive and promising results in attract FDI inflows.

Unit: \$US Million

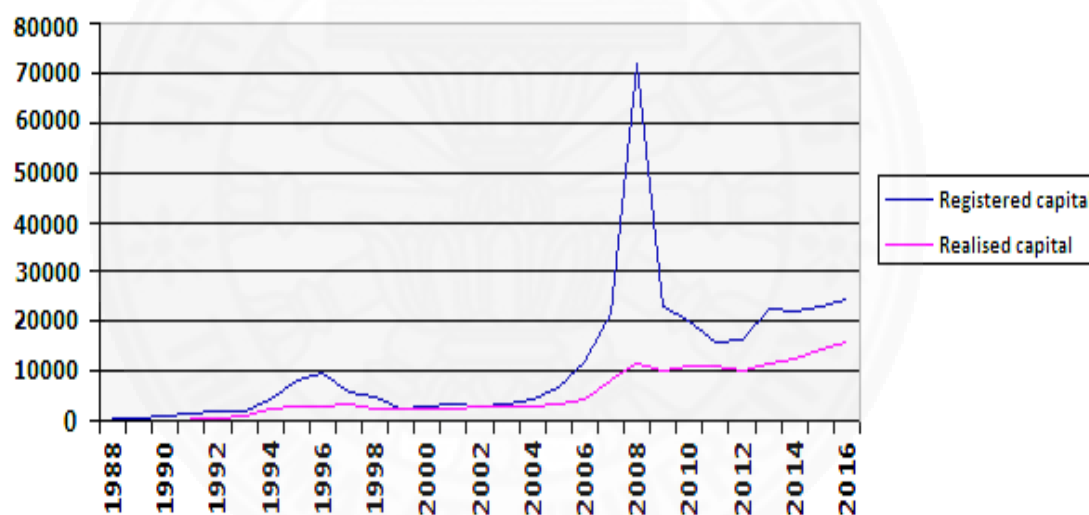


Figure 3.3 Vietnam's FDI in the period 1988-2016

Source: Compilation of researcher

Due to Vietnam's accession into WTO in 2007, there was the substantial increase in the country's FDI level and since 2007, the foreign investment inflow has been rose steadily. As Vietnam is becoming increasingly accessible to foreign investments, FDI inflows have seen a steady and strong increase over the previous years. In 2016, these climbed to US\$15.800 million, increasing 1.300 million compared to 2015 (Figure 3.3).

The main sources of FDI inflows in Vietnam have deriving primarily from Asia countries. More importantly, according to data from the Korea Trade and Investment Promotion Bureau, South Korea is the largest foreign investor in Vietnam in only two consecutive years 2015 and 2016, largely due to investments of companies such as Samsung and LG but the country become the biggest one in the whole period from 1988 to 2016. This illustrates that the country has been pouring the remarkable amount of capital into Vietnam and is becoming increasingly one of the most crucial partners of Vietnam. Following South Korea is other Asian countries encompassing Japan, Singapore.

3.2 Evolution of Vietnam's Trade Policy

3.2.1 Trade Policy before "Doi Moi"

From the very poor and underdeveloped country after war, it was necessary for Vietnam to rely on foreign aid to serve for industrial development, thereby external trade relations of Vietnam with other socialist countries were considered a supply of inputs or aid to Vietnam's command economy in which production and distribution was governed heavily by state during the 1960s and 1970s. Moreover, Vietnam also primarily concentrated on import-substituting strategy and the development of heavy industries with the emphasis on mature industrial status instead of export-oriented growth strategy so the role of exports was very negligible at that time. The average export growth rate was low only 3.2% per annum from 1960 to 1974 whilst the growth of imports averaged very fast with 13.6% per annum (Melanie & Dang Phong, 2000) as the domestic production even could not meet the need of people in terms of food as well as consumer goods.

However, after Vietnam gained its independence in 1975, the US ended the aid into Vietnam. China relinquished its economic and military support for Vietnam since 1973 seeing that China could no longer compete with Soviet's assistance for Vietnam in the Sino-Soviet strategic rivalry to achieve their influence in Southeast Asia after US decided to cut remarkably its aids in the region due to the conclusion of the Paris Peace Accords in 1973 and a political vacuum was generated

by US that further consolidated the tension between Sino and Soviet. With the pro-Sino of Vietnam, consequently, the Sino-Vietnamese armed border disputes over the Paracel Islands in the South China Sea broke out during the period 1973-1975. Until 1975, China stopped completely providing economic aids for North Vietnam after China failed to gain its influence in Vietnam in the Sino-Soviet strategic rivalry (Koga Kei, 2016). As a result, Soviet Union became the dominant source to provide aid for the country and in 1978, Vietnam officially become one of the member of in the Council for Mutual Economic Assistance (CMEA/Comecon). Even though the socialist bloc still committed to provide assistance for Vietnam but owing the full withdrawal of aid from US and China, definitely, Vietnam faced with difficulties in importing the vital goods in daily life of people and supplying resources in the central planned economy so to tackle with the problem, the requirement of export operations increased aiming at earning foreign currency to purchase imports.

Hence, Vietnam attempted to increase export performances and its major trading partners were socialist countries in the Council for Mutual Economic Assistance (CMEA) in the period before “Doi Moi” and trade mechanism was determined by intergovernmental agreements due to the requirement of command economy model. But the essence of Vietnam’s trade with socialist countries at that time was exchange available goods of parties and it was not based on the relationship between supply and demand but depended on the negotiation between countries. This induces the use of resources and economic performances were not insufficient. Moreover, trading in the socialist bloc was under the stop price system in effect in 1961, the price was regulated for the purposes of planning.

Trading the goods based on negotiations induced the agricultural sector which contributed largely surplus and was the area in which most of population of Vietnam worked for lack necessary inputs. This made “fence-breaking” when provinces in both North and South Vietnam began to direct deliveries of material to manufacturers and produce goods that was not in state’s plan (Adam Fforde & Stefan de Vylder, 1996). Facing with the political pressure from the agricultural sector and the change in thinking of leaders helped foreign trade reform be come up with since 1979. Thus the most important policies were put in place

improving export activities during 1979 and 1981. In 1980, Vietnam's government enacted Decision No.40-CP on "Promulgation of Regulations Concerning Policies and Measures with the aim of Developing Production of Export Goods" in 1980. The purpose of Decision was to accelerate the growth of export since state found it difficult to always supply materials for export producers to meet their plan requirements in production of goods so the Decision granted incentives for firms to produce with non-state supplied inputs and permitted the legal scope of non-plan production and investment activities with the aim at expanding trade at world market prices. Furthermore, state no longer held monopoly in trading with foreign countries and localities could directly participate in foreign trade. This change resulted in the establishment of local trading enterprises, primarily in the South Vietnam. The local and central authorities were all able to use their power to produce exportable goods to expand exports. This brought about the positive signals in the development of exports when the average export growth jump from 1.6% in the period from 1977 to 1980 into 15.6% in the period from 1980 to 1981. After 1981, the growth slowed (Adam Fforde & Stefan de Vylder, 1996).

Granting the rights for local authorities in production and trading created a reduction in power of state trading monopolies, consequently, this brought about pressures to defend the monopoly of government but the incremental change as the Decision, on the one hand, became engine for domestic production and export growth as well as were signs of Vietnam to move gradually towards export-oriented strategy that was neglected during the previous decades due to the emphasis on heavy industries and import-substituting strategy. On the other hand, it also broke the monopoly of state in international trade that was inherently insufficient during many years and generated huge opportunities for the direct trade relations with foreign countries at the market prices that could create the foundation for domestic far-reaching reforms. As a result, trade diverted into positive way with annual export growth rate at 19.6% in the period from 1981 to 1986 while imports grew at 10.4% (Melanie & Dang Phong, 2000) which helped remarkably in narrowing trade deficit.

Overall, Vietnam was heavily dependent on the aid Soviet Union in particular and the socialist bloc in general in the period before “Doi Moi” to recover its own economy after war. Vietnam also primarily concentrated on the model of Soviet Union and made the efforts in developing the heavy industry. It was not pay much attention to trade and foreign trade was monopolized by state via negotiation and agreements with the socialist countries in CMEA. Nonetheless, due to the ineffective trading performances in CMEA, from the late of 1970s to 1985 has witnessed a gradual relaxation in granting rights for non-state sectors to trade with foreign countries and disadvantages of economic model were well recognized, which brought into some important economic reforms in favor of outward trade orientation.

3.2.2 Trade policy after “Doi Moi”

Economic globalization has emerged as the dominant and inevitable trend from this time and is important factor to the economic development of the countries. In parallel, the third revolution in science and technology took place at an ever-increasing pace changing all aspects of economic - political and social life of mankind. The changing world economy has affected and changed the economic relations and economic management. The wave of economic reform was broadened in the world. The developing countries (East and Southeast Asia) carried on reform to improve their competitiveness and development, open up their market to integrate into the world economy, and encourage exports and attract foreign capital. That was considered a driving force for economic development whereas the former socialist countries also implemented economic reforms to transform the command economy into market economy such as China’s reform in 1978.

In the domestic context, from the reunification of the country to before 1986, the model of Soviet-Type Economic Planning with the subsidy of state applied throughout the country. Nevertheless, external aids from US and China was cut in 1975 and Soviet Union and other countries in socialist bloc were the sole source to provide assistance for Vietnam. It is probably worth noting here that even though Vietnam joined trading system of the socialist bloc CMEA, this was not able to help Vietnam promote economic development since trade was regarded as aid of CMEA for Vietnam. As noted in the above part, the producers were not able to be

provided vital inputs so the demand to supply inputs by themselves increased. This fostered some economic reforms in 1979 and the early of 1980s but these reforms still could not deal with the economic crisis at that time, the annual rate of inflation even was running over 700%. Total exports at about US\$500 million were less than half the total value of imports (US\$1,221 million) and per capita trade levels were very low by East Asian standards. (Arkadie & Mallon, 2004). State revenue was low since Vietnam remained trade deficit with CMEA countries and virtually no foreign investment. Only several foreigners from market economies worked in Viet Nam (Mallon, 1999). Facing with such an economic situation, the requirement of comprehensive renovation has become an urgent requirement and the renovation of the country has officially taken place since the VI Congress in 1986.

After Vietnam announced its “Doi Moi” policy in 1986, the trade policy regime in Vietnam has dramatically changed. With a slow and hesitant start in the late 1980s, significant reforms were strengthened in the first half of the 1990s with the view of reshaping the previously closed economy into a market-oriented economy after the dissolution of Soviet Union. Vietnam finds it extremely important and necessary to normalize ties with the US and establish with other countries in the region as well as in the world. Hence thinking of international integration has shaped and is further reinforced by the Seventh Party Congress (1991) with the diversified and multilateral foreign relations policy.

More importantly, in the Eighth Party Congress (1996), the concept of integration was officially mentioned when the Party defined the task and solution for the new period to “reform the mechanism of foreign economic integration with the region and the world” and for the first time, Vietnam determined that international economic integration has to be accelerated to serve the development of country. Communist party also emphasized “building a new economy that integrates into the region and the world with export orientation”, based on “promotion of internal resources to implement a consistent and long-term policy of attracting resources outside as well as actively penetrate and expand market in the world”. During the next congresses, Vietnam still considered the active integration as a consistent policy throughout the development process, notably, Vietnam

emphasized on “proactive and active integration into the international economy”, “deeper and more fully integration with regional and global economic institutions” and “great preparation of conditions for signing bilateral and multilateral free trade agreements” in 2006 (Dung Le, 2013).

Therefore, Vietnam has been playing an active role in regional, bilateral and multilateral trade liberalization. In July 1995, Vietnam became a member of the Association of Southeast Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA) in 1996.

In 2000, after prolonged trade negotiations between the Vietnamese and US governments signed BTA. BTA is considered one of the most comprehensive bilateral trade agreements the United States has ever signed with a developing country, which entered into force in 2001.

Vietnam also applied for WTO membership in 1995. The Vietnamese government considers the accession into WTO an important step in helping Vietnam's economy integrate and access world markets based on the rules. So after 12 year of negotiations, Vietnam became officially member of the organization in 2007. Notably, in line with the trend of establishing free trade areas in the world, Viet Nam has signed a series of FTAs inducing Vietnam become increasingly involved in international economic integration activities by committing itself these FTAs.

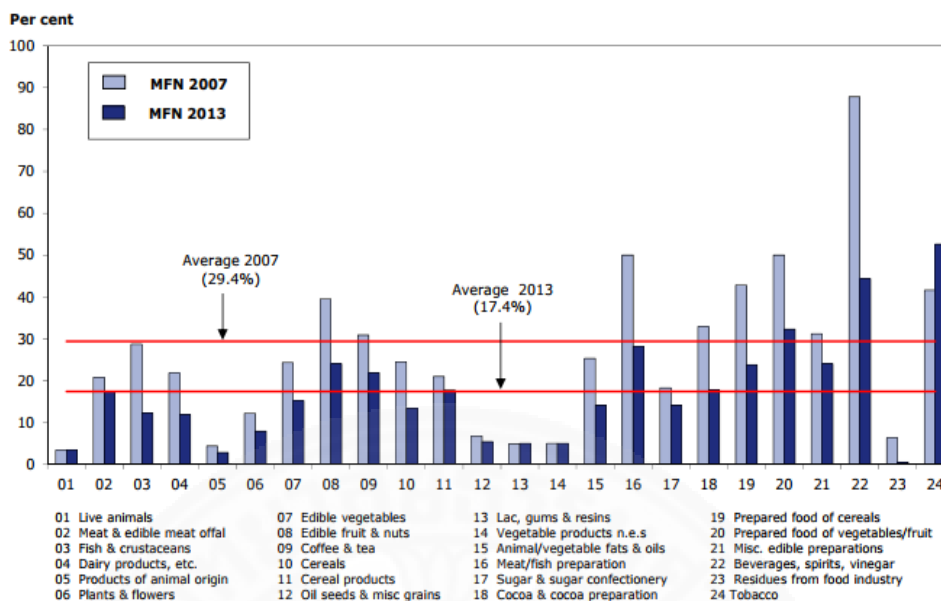
Nevertheless, so as to develop some infant industries such as automobile that the government has regarded as important ones or sectors are dominated by state-owned enterprises, Vietnam has also applied several measures such as import tariff or non-tariff barriers to protect them. Hence, efforts have been made in recent years to promote export-oriented industries in parallel with the protection policy, resulting in a double-sided mechanism (Table 3.7).

Table 3.7 Goods under import protection in Vietnam in 2013

Instruments of Import Protection		Goods
Import tariff		Agricultural products such as coffee, tea, spices, grain, sugar, cocoa, beverages, tobacco and so on with MFN applied at 17.4% Industrial products: Footwear, textile; Ceramics, glass, aluminium, steel, vehicles and so on with MFN applied at 9%
Non-tariff barriers	Import quota	Eggs, sugar, and tobacco; Rice and tobacco from Cambodia and Lao PDR
	Tariff rate quota	Eggs, sugar, unmanufactured tobacco and tobacco refuse, and salt
	Import licenses	Liquor
Imports as subject to state trading		Cigars and cigarettes; crude oil and petroleum products; newspapers, journals and periodicals; recorded media for sound or pictures; and aircraft and spacecraft

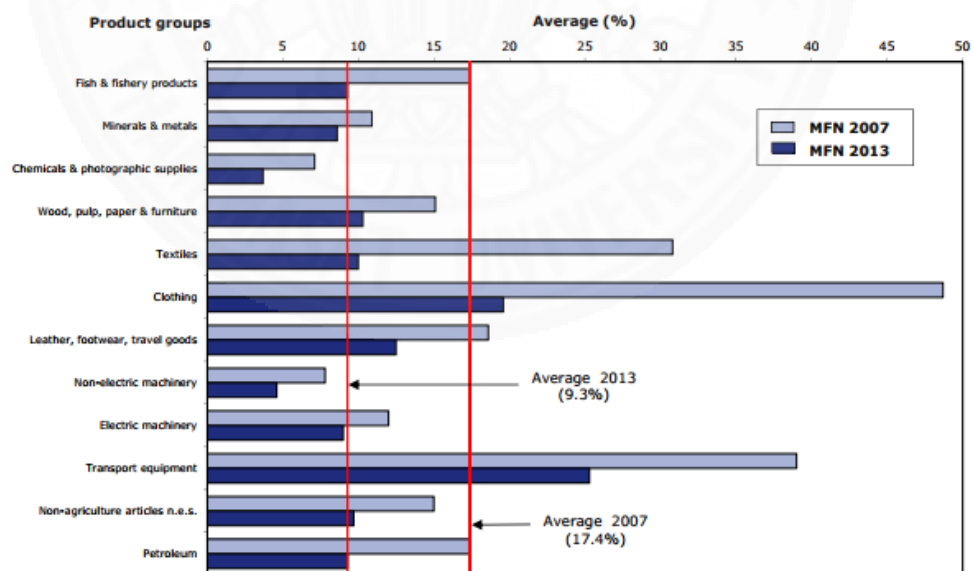
Source: Researcher's compilation

In 2013, Vietnam has followed the ASEAN Harmonized Tariff Nomenclature, based on the 2012 version of the Harmonized System. According WTO, the Customs Tariff contains 9,558 tariff lines at the eight-digit level. All goods have been applied MFN rate with 10.4%, 17.4% for agricultural goods that decreased 10% compared to the year Vietnam joined WTO (Figure 3.4). The highest MFN rates of import duty has been imposing on several agricultural products are alcoholic beverages and tobacco, coffee and tea, fruit and nuts, and cereals and preparations. There was a significantly decrease in non-agricultural products, it declined from 17.4% in 2007 to 9.3% in 2013. Despite of reductions tariff, some industrial goods are still under MFN tariff protection including transport equipment, clothing, fish and fishery products, and footwear with the tariff rates above 10% (Figure 3.5).



Source: WTO Secretariat calculations, based on data provided by the authorities of Viet Nam, and Ministry of Finance, Circular No. 193/2012/TT-BTC.

Figure 3.4 Vietnam’s average applied MFN rates, by the Harmonized System chapters 1 to 24 in 2000 and 2013



Source: WTO Secretariat calculations, based on data provided by the authorities of Viet Nam, and Ministry of Finance, Circular No. 193/2012/TT-BTC.

Figure 3.5 MFN applied tariff averages by WTO non-agricultural product groups, 2007 and 2013 in Vietnam

As for motor vehicles particularly car, it must be noted that automobile industry is an important industry in the most modern economies. The Vietnamese government itself identifies this industry as a key industry in its overall industrial development strategy and one of the areas set to lead the country's quest for a more value-added industrialization. Even though the automobile industry appeared since 1991 with the operations of Mekong Auto and Vietnam Motors Corporation and the industry is always expected to be the lead industry of Vietnam, until now it is still the small and underdeveloped industry. Automotive industry in Vietnam is still only in the manual assembly line and no modern automated assembly lines. Products of the assembled enterprises come mainly from foreign brands and the supporting industries in Vietnam is not yet developed so most assembled parts are also imported from other countries. This has induced the production costs increase; thereby, if Vietnam opens market for foreign firms to enter, domestic manufacturers cannot compete with foreign companies so it is necessary for domestic producer to be protected by government's policy. Hence government has applied an average MFN tariff more than three times the average for all industrial products to protect the local manufacturers. According to the data from WTO, in 2013 tariff protection for the motorcycle industry remains particularly high with rates ranging from 55% (motorcycles with cylinder capacity exceeding 800cc) to 75% (most items regardless cylinder capacity, including CKD kits). It was expected that the figure could reduce to 40% by 2015.

Besides, as a result of Vietnam's accession into WTO in 2007, services market of the country has also been liberalized, generating chances for rapid expansion across a series of areas. Take express delivery services as a typical example, the foreign investor has allowed 100% foreign ownership or Vietnam also permits foreign firms to operate in the legal services.

Some others sectors, such as telecommunication, the broadcasting and film industry have been protecting strictly. Even though foreign enterprise can participate but they are under the various limitations depending on the sub-sector. For instance, foreign ownership in services supplying closed-user networks (e.g.,

corporate data networks) is permitted up to 70 percent, while foreign ownership in facility-based basic services (e.g., public voice service where the supplier owns its transmission facilities) is generally capped at 49 percent. Vietnam also allows foreign equity of up to 65 percent for non-facilities-based public telecommunications services (i.e., services provided by a supplier that does not own its own transmission capacity, but contracts for such capacity, including submarine cable capacity, from a facilities-based supplier) (US trade government, 2013). Moreover, it is extremely strict and difficult for foreign investors to form joint-ventures in the facilities-based sector, the country also limit the pool and control over market entry.

In audiovisual services, foreigners may invest in cinema construction and operation only through joint ventures with local Vietnamese partners, subject to government approval. Films are subject to censorship before public viewing while foreign pay television providers in broadcasting sector have to utilize a local agent to translate all movies, programs and news and provide a summary of the content in Vietnamese in advance of airing. The measure also requires foreign content providers to secure the services of a local editing company for post-production work (including translation, content review, and payment of a placement fee) in order for advertisements to be approved for placement in a Vietnamese broadcast.

In general, in spite of Vietnam's thrust toward liberalization, Vietnam's government has been utilizing the relatively high tariff protection policy to support some selected industries, typically motor vehicles, beverages and services such as telecommunication activities and the broadcasting and film industry.

CHAPTER 4

ANALYSIS OF VIETNAM'S FTA STRATEGY

4.1 History of Vietnam's Participation in FTAs

Since the “Doi Moi” initiative in 1986, Vietnam has gradually promoted the international economic integration with the rest of the world and is becoming increasingly involved in the international trade over the past three decades. This Chapter explains evolution of the trade liberalization progress of Vietnam being divided into two main periods. The first period is years prior “Doi Moi”. At that time, Vietnam’s trade operations was under Soviet Union influences so trade agreements Vietnam had primarily with only the socialist bloc. The second one is from renovation in 1986 and the dissolution of Soviet Union to now. Open-door policy has boosted strongly by participating in ASEAN, normalizing ties as well as starting to negotiate BTA with US, applying for WTO membership in 1995, officially partaking AFTA in 1996 and becoming one of the members of the Asia-Pacific Economic Cooperation (APEC) in 1998, signing BTA with US in 2000. After Vietnam successfully approved to become the 150th member of the global trade club WTO in 2007, the country’s integration process has been deeper and more fruitful through its own FTAs such as FTAs with Japan; Korea; Chile; Customs Union of Russia, Belarus, and Kazakhstan; EFTA; EU; Israel; other Asia-Pacific countries in TPP.

The period after war and under the Soviet Union influence

After the liberation in 1975, US withdrew all aid to the South and China also terminated its aid at the same time, which decreased sharply external resources. This pushed Vietnam on the edge of famine and some crises of supply for industrial activities in the South also emerged since the country lacked foreign currency to purchase inputs whilst the North’s supply could able to meet for only its own economic performances.

Facing with the situation, together with the need of post-war economic rehabilitation, closer cooperation with the Soviet bloc was fostered strongly to

compensate for the loss of China and US's aids. Some commentators also believed that it was the reason of Vietnam government's decision to take part in CMEA or Comecon that was formed in 1949 under the leadership of Soviet Union to both counter to Marshall Plan of US and facilitate the economic cooperation within the Soviet bloc.

Comecon's members were encouraged to be largely self-sufficiency, not necessarily full economic integration. Trade was insignificant because it was believed that trade was insufficient mechanism that was only used to purchase was not an efficiency mechanism; rather, trade was only used to cover essential purchases of goods that the domestic economy was unable to supply to subsistence levels and as noted in the previous chapter, the composition of imports depended largely on what partner countries were willing and able to supply. Comecon also lacked a reliable price mechanism. Trading prices was well known as "stop price" was formed for each five year plan period based on average world market prices in the previous five years. In principle, the prices were based on world market prices but fixed for the purposes of planning. In the case of Vietnam, in terms of essence, trade with Comecon was the form of goods exchange at preferential prices that was subsidized by Soviet Union for Vietnam. For instance, Soviet sold oil for Vietnam at R/\$39 a tonne but actually, Soviet could sell easily at market price \$300 a tonne (Melanie & Dang Phong, 2000). This induced the much greater reliance on Comecon's aids.

The period of "Doi Moi", the fall of Soviet Union and the far-reaching integration

The change in the international context of the late 1970s, the Soviet Union and other CMEA countries were in severe difficulties and were not willing to supply imports on highly concession terms, they began to cut aids at the start of 1981. Consequently, the planned sector of the economy could scarcely have survived. Indeed, the acute shortages induced by the reduced aid supply had already begun seriously to erode the effectiveness of central planning which relied heavily on central control over major resource (Melanie & Dang Phong, 2000). In addition, the shortcomings of Soviet economic type forced Vietnam move toward reforms since 1980 and "Doi Moi" was officially launched in 1986. The priorities of leaderships

during the period were heavily tilted toward industrial plant and equipment whilst the sector contributed the largest proportion to national income through exporting namely agriculture. The sector was not provided enough inputs. The irrelevant distribution of inputs raised the debate about reform in the late 1970s; thereby, the Vietnamese authorities embarked on a series of limited reforms in foreign trade, industry, agriculture and prices during 1980-1981. These reforms were not clearly aimed at abolishing the central planning mechanism. They simply aimed to improve the supply of goods available to consumers and production units in the face of diminished availability from the center. Their impact, however, was to increase the scope of unplanned activities and further reduce the power of the central planning mechanism. As local authorities (legally) and even individual (mostly illegally) became increasingly involved in foreign trade during the 1980s, an ever greater proportion of resources was allocated according to local rather than central decisions and at market rather than official prices.

Trading patterns from 1978 through 1986 reflected the growing importance of Vietnam's relationship with Comecon and its weakening ties with major Western economies and non-communist regional trading partners. Even though, until 1989, the bulk of Vietnam's foreign trade was carried on within Comecon, composed Soviet Union and other socialist countries (Melanie & Dang Phong, 2000). However, trade relations with the Soviet bloc had some important disadvantages. Most obviously, it linked Vietnam with a region geographically distant and inconvenient rather than with Vietnam's natural trading partners in the region. Delays and long delivery times resulted. Secondly, it tied a number of Vietnamese industries to Eastern Europe's low standards of quality and service. But the most profound and ultimately damaging consequences of the Soviet relationship stem from the biases and structural distortions inherent in Soviet style economies. Biases favored heavy industry and import substitution over products that could be exported for foreign currency.

However, as the impact of reform, Vietnamese trades in the first half of the 1980s, the shift to regional integration was already occurring. Among non-CMEA trading partners, imports from Western Europe and Japan has fallen while those from

Singapore and Hong Kong has risen. At the same time, export to Western Europe and Japan grew slowly, but those to Singapore and Hong Kong expanded much faster (Melanie & Dang Phong, 2000).

Thus, the reform that took place before dissolution of the Soviet Union drove Vietnam to be closer with the countries in the region thanks to commercial relations. These economic ties with the countries continued to strengthen after the Soviet Union collapsed, the central planning mechanism ended in 1991 with the complete termination of Soviet “trade as aid”. Bilateral trade agreements with the Eastern European countries were in many cases cancelled or became inactive. So Vietnam was not able to rely on Soviet Union and had to accelerate the reform effort as well as adopt a new outlook on foreign policy in 1991. According to this “new outlook”, Vietnam desires to be a friend to all and to diversify its relations with all countries in the world regardless of their political and economic system. The ideological approach to foreign policy should be replaced by one based on national interest; priority has therefore since been given to relationships with neighboring countries. With such changes in Vietnam’s policy, Vietnam also expressed its desire to be an integral part of Southeast Asia and vice versa, ASEAN has welcomed Vietnam's “new outlook” on foreign policy, with priority devoted to relationships with its neighbors. They have also encouraged Vietnam to become further integrated into the region.

Vietnam began to develop all-sided relations with the Association of Southeast Asian Nations (ASEAN). In fact, since 1989 the ASEAN countries has contributed significantly to Vietnam's economic operations through their trade and investment in Vietnam and this, in turn, has created greater interdependence between them. The process of Vietnam-ASEAN rapprochement was marked by Vietnam signing the Treaty of Amity and Co-operation in 1991 and Singapore also lifted its investment embargo against Vietnam. In the same year Singapore surpassed Japan as Vietnam's largest trading partner with bilateral trade exceeding \$930 million. Among the ASEAN countries, Singapore and Malaysia were the biggest foreign investors in Vietnam with US\$186 million and \$163 million respectively in 1993 (Hoang, 1993) so it was not surprising when Vietnam expressed interest in joining the

regional integration-ASEAN that is Vietnam's bridge to the wider world as early as 1992, or when it did in fact join in July 1995.

Vietnamese history shows that one-sided relations have led to political isolation and economic difficulties; thereby, Vietnam's renewed efforts to improve its relations with the ASEAN countries should be seen in the context of its efforts to diversify relations with all countries in the world, with priority given to neighboring countries. After one year Vietnam become ASEAN's member, it was the first time Vietnam participated in regional economic cooperation and free trade through ASEAN Free Trade Area (AFTA) that was formed in 1992 with the purpose of eliminating tariff barriers among ASEAN member and thus integrating the ASEAN economies into a single production bases and regional market.

It is worth noting here that since 1990s, the efforts of Vietnam to integrate were much more apparent. In the same year of Vietnam's accession to ASEAN, Vietnam also attempted to integrate deeply into the world economy through application for WTO membership. After the ineffective trading progress under Comecon with socialist countries, Vietnam finds it very crucial to expand trade the rest of the world as well as carry out reforms for further development in the future and joining WTO can serve for these purposes because several rationales. Firstly, when Vietnam joins the WTO, Vietnam has accessed to markets for goods and services in all member countries with reduced tariffs and services, without discrimination. Secondly, with the completion of the economic law system in accordance with the socialist-oriented market mechanism and the transparent implementation of management institutions in accordance with WTO regulations, as a result, the business environment of Vietnam, definitely, has been improved. Thirdly, Viet Nam can enjoy equal status as other members in shaping global trade policy, having the opportunity to take part in the establishment of a more equitable economic order, and to protect the interests of the country, of the business. Finally, WTO accession and integration into the world economy, also promotes the domestic reform process, ensuring the progress of Vietnam's reform more synchronously and effectively.

Other efforts is that even though US used to be one of enemies in Vietnam's wars and US ended virtually all economic interchange with unified Vietnam as well as imposed an embargo on bilateral trade after 1975, but due to realization of the US's influence in international stage and the importance together with benefits from trading with large economy like US, Vietnam gradually began to reestablish relations with US through carrying out negotiation in 1990 and conducting a road map for normalization ties in 1991. The relationships between two countries tended to be warm again so US eased trade embargo towards Vietnam in 1992 and officially removes it in 1994. Two countries normalized formal diplomatic ties in 1995 and move towards a bilateral trade agreement in 2001. Vietnam picked up US as the first country to conclude FTA so Vietnam started negotiations on the trade pact with US in 1995 and after nearly five years of bargaining, US and Vietnam announced they had signed a bilateral trade agreement (BTA). There are several following reasons being able to interpret for this choice.

Firstly, negotiation BTA with US served as a stepping stone to Vietnam's accession to WTO in 2007 since as a part of BTA, US extended to Vietnam conditional most favoured nation (MFN) trade status, now known as normal trade relations (NTR). Economic and trade relations further improved when the United States granted Vietnam permanent normal trade relations (PNTR) status on December 29, 2006, as part of Vietnam's accession to the World Trade Organization (WTO). It can be said that the negotiation with the United States was the most difficult in the WTO members, but fortunately, the BTA was implemented, so the negotiation was much smoother.

Secondly, choosing US as the first one, demonstrates the role of US's market to Vietnam economy. Before 1990, trade relations between the two countries are one-way, only US exported goods to Vietnam; by contrast, on the Vietnamese side, almost no Vietnamese products were exported to US (Nguyen, 2016). But it is necessary for Vietnam to form economic ties with US seeing that US had the tremendous national strength in terms of economy and also are the most powerful country in the world after the dissolution of Soviet Union.

Hence signing the trade agreement with US is beneficial a lot for Vietnam. On the one hand, it has been able to generate a great market access for Vietnamese exports. The difficulties in the early stage of “Doi Moi” to divert economy from centrally planned economy into to a market-oriented economy as well as other internal issues such as poverty alleviation, employments so it is extremely necessary to seek new markets for its exports, particularly labor-intensive products, which Vietnam has comparative advantages and previously was imposed high tariffs around 40% by US.

However, BTA granted MFN, Normal Trade Regulation (NTR) for Vietnam, as a result, the tariff rate fell sharply to 4% (Parker, Phan, & Nguyen, 2002). This opened the way for the growth of two countries’ trade in general and Vietnam’s trade in particular and indeed in just two years after BTA implementation, the United States has moved from one of the smallest export market to Vietnam’s largest one, accounting for approximately 20% of its total exports (Vietnam’s Ministry of Planning and Investment’s Central Institute of Economic Management and Foreign Investment Agency and the U.S. Agency for International Development-Funded Support for Trade Acceleration (STAR) Project, 2007) and it is still the largest destination of Vietnamese products until now.

On the other hand, US also is the world's leading source of technology, importing machinery from US definitely helps Vietnam acquire advanced and modern equipment for the process of industrialization and modernization.

Thirdly, opportunities to attract direct investment from one of the most developed countries for the socio-economic development of Vietnam was also crucial at that time. While US’s FDI from 1988 to 1993 (when trade embargo was not lifted), only reached \$ 3.3 million, only after the first year (1994) lifted the ban, this figure increased to more than \$ 266 million. Thus, US jumped from 11th in 1994 to 8th in the top investors of Vietnam in 1995 (Nguyen, 2004).

Finally, relationship between migrant networks of Vietnamese in US and trade ties between US and Vietnam also is regarded as one of the reason for negotiating BTA between two countries. Between 1975 and 1994, around 1.4 million Vietnamese refugees were resettled in the US (Parsons and Vézina, 2016). The

exodus of the Vietnamese to the US consisted of three distinct waves; the initial wave following the Fall of Saigon, the second that occurred at the time of the December 1978 Sino-Vietnamese war - which precipitated the persecution of the ethnic-Chinese population in Vietnam - and the third that coincided with the 1988 Amerasian Home Coming Act and the 1989 Humanitarian Operation Program.

Gould (1994) argued that immigrants are fundamentally differentiated from native populations in terms of their ties with their home nations. These ties, maintained by a common language and regular flows of information, bring nations closer together and represent an important channel through which immigrants nurture long-run development.

The positive long-term economic benefits of immigration, namely export creation, thus emphasizing a strong channel through which migration may foster development. In the case of Vietnam, the immigration shock might also have led to 'nostalgia' imports from Vietnam in addition to the opening of many restaurants and other businesses that rely on Vietnamese-specific skills and imports. These potentially translate into gains from variety for US consumers (Chen and Jacks, 2012) and export-led poverty reduction in Vietnam (McCaig, 2011).

It is worth noting that, key markets such as the EU and the US were suffering the economic difficulties, purchasing power also reduced at that time. The excessive concentration of exports in these countries makes Vietnam vulnerable to external shocks. Unexpected developments in these countries could cause a drastic fall in exports, which in turn could slow down the national economy. Vietnam's own internal demand such as its high dependence on foreign trade, the need for securing of export markets and restructuring of the economy induce FTAs become useful tools in order to ensure overseas markets and the continuation of economic growth. Thus, it is necessary to actively promote FTA negotiations with those countries with huge markets. As a result, besides FTAs Vietnam has in the framework of ASEAN, Vietnam pursued FTA negotiations with Japan, EFTA, Korea, EU as primary targets to conclude FTA.

Vietnam reached a FTA agreement with Japan in December 2008. Under Vietnam-Japan Economic Partnership Agreement (VJEPA), Vietnam agreed to liberalize

87.66% of trade whilst Japan committed to liberalize 94.53% of trade within 10 years. In fact, Vietnam's commitment to Japan is relatively low compared to ASEAN countries that have signed bilateral agreements with Japan (such as the Philippines and Thailand committed to liberalize up to 99% of trade). In addition, VJEPA has strongly impacted on the economy of Vietnam - Japan in a positive way seeing that a salient feature in the import and export products of Japan and Vietnam is that they will complement with one another. Japan is a big importer of agricultural products such as textiles and garments, leather shoes, processed foods and so on while Vietnam has comparative advantage for these products. In contrast, Vietnam imported from Japan machinery, technology. Especially in bilateral relations, Vietnam has the opportunity to strongly develop seafood exports as Japan committed to reduce tariffs on these products, equivalent to about 83.8% of Vietnam's agricultural exports (the highest rate among ASEAN countries in all EPA Japan signed with other ASEAN countries).

The same with the case of VJEPA, Vietnam-Korean Free Trade Agreement (VKFTA) signed in 2015 with the aim at exporting products such as agricultural and aquatic products, the processing industry will have a high growth rate in the coming time. On the contrary, Vietnam needs imports from Korea to serve the electronics industry, manufacturing and need raw materials for the textile and leather and footwear industries. South Korea is now an important strategic partner of Vietnam and at the top of foreign investors in Vietnam for many years.

In the same year with VKFTA, Vietnam also signed a high quality with EU. The strong market access commitments are expected to boost Vietnam-EU trade relations. Vietnam and the EU will eliminate import tariffs on more than 99% of tariff lines. For the very few remaining tariff lines, the two sides will give each other tariff quotas or tariff reductions. This can be considered as the highest level of commitment Vietnam has achieved in FTAs that have been signed so far. In addition, commitments related to investment, services liberalization, government procurement, intellectual property protection, environment, labour and so on will also require Vietnam to regulate certain domestic regulations. However, according to the Ministry of Industry and Trade, basically, this adjustment is proposed in the policy of

reforming administrative procedures and renovation of Vietnam's growth model, so in the long run, it will bring about positive impacts on the economy.

Other high quality Vietnam joins is TPP that is a new generation FTA including a range of more developed economies than Vietnam but Vietnam's membership in TPP will yield economic benefits, especially to the country's manufacturing sector. Vietnam's textiles and apparel industry will enjoy expanded access to the US and Japan markets through reduced tariff duties as a result of TPP. Furthermore, TPP signatory countries account for around 40% of Vietnam's total exports, the TPP's passage will not only accelerate Vietnam's exports to TPP member countries, but also is expected to increase the country's total export by an additional USD 68 billion by 2025 (Sieburg, 2016). As an advantage of this expanded market access, TPP will attract additional Foreign Direct Investment (FDI) to Vietnam and drive further investments in an increasingly competitive business environment. Moreover, rising FDI will fuel the development of upstream suppliers and manufacturers in supporting industries following TPP's implementation.

Table 4.1 Vietnam's FTAs with large economies

Country	Year	Status	Type of FTA
US	July 2000	Signed and in effect since 10 December 2001	Comprehensive
Japan	December 2008	Signed and in effect since 1 October 2009	Comprehensive
Korea	May 2015	Signed and in effect since 20 December 2015	Comprehensive
EU	December 2015	Concluded and pending signature and ratification, expected to enter into force in early 2018	Comprehensive
TPP	February 2016	Signed but not yet ratified by member countries	Comprehensive

In the overall picture of ASEAN in the past 50 years, ASEAN economic cooperation has been the most vibrant area with concrete and practical results. Nowadays, ASEAN has become a strong economic link with high levels of liberalization in the areas of trade in goods, services and investment as well as it is the sixth largest economy in the world and third one in Asia with GDP of \$ 2,550 billion in 2016 (Tran, 2017). From 2001 to 2006, Viet Nam relied on the Association of Southeast Asian Nations (ASEAN) for progress on regional integration so Vietnam has participated extensively and comprehensively in economic cooperation as well as in the developmental orientation process and seriously fulfilled the commitments and obligations of a member country under the motto of “proactive, active and responsible”. In the progress of development, ASEAN has entered into a number of free trade agreements with other nations in the endeavours to build an integrated ASEAN in the global economy through FTAs with six partners including China, Japan, South Korea, India, Australia and New Zealand; negotiation FTA with Hong Kong and particularly, RCEP that will strengthen ASEAN's central role in the emerging regional economic structure and seek to harmonize the differences between the ASEAN FTAs. The agreement will seek to promote stronger regional economic integration, gradually remove tariffs and non-tariff barriers, and ensure consistency with WTO rules. Thus, as a member of ASEAN, engaging in collectively FTA discussions under the ASEAN bloc is inevitable. Until now, Vietnam had 8 FTAs as a member of ASEAN (Table 4.2).

Table 4.2 Vietnam's FTAs as a member ASEAN

Country	Year	Status	Type of FTAs
All ASEAN members	1996	Signed	
China	November 2002	Signed and Trade in Goods Agreement, Trade in Services Agreement, Investment Agreement entered into force in 2005, 2007, 2010 in respectively	Comprehensive
India	October 2003	Signed and Trade in Goods Agreement, Trade in Services Agreement, Investment Agreement entered into force in 2010, 2015, 2010 in respectively	Comprehensive
Korea	December 2005	Signed and Trade in Goods Agreement, Trade in Services Agreement, Investment Agreement entered into force in 2007, 2009, 2009 in respectively	Comprehensive
Japan	April 2008	Signed and in effect since 1 December 2008	Comprehensive
Australia and New Zealand	February 2009	Signed and in effect since 1 July 2010	Comprehensive
All ASEAN members and China, Japan, South Korea, India, Australia and New Zealand	May 2013	Still under negotiation	Comprehensive
Hong Kong	September 2017	Concluded and will be signed in November 2017	Comprehensive

Besides, Vietnam also promoted to conclude negotiations with Chile, EFTA, Eurasia Economic Union and Israel, EU, US through TPP with the main goal to diversify the market and avoid too much dependence on a large market because most of Vietnam's imports have come from East Asia.

Besides signing FTAs with huge markets, Vietnam also emphasizes on new and potential market such as Chile. After nearly three years of negotiations, on November 11, 2011 in Hawaii (USA), FTA Vietnam - Chile have been signed. Vietnam determined Chile as crucial partner due to potential trading ties between two countries. Prior FTA, Chile imposed an average of 6% on Vietnamese imports and Chile's exports also faced high tariffs but the two-way export turnover between the two countries has continued to grow, even during the global economic crisis, it still increased from \$US 157 million in 2007 to \$US 473 million in 2011 (Nguyen, 2012). In addition, Chile is the first country in Latin America Vietnam negotiated to sign a free trade agreement with. This is considered a gateway for Vietnamese goods to penetrate into large markets in Latin America such as Brazil, Argentina, etc. In addition, if the VCFTA bring about high efficiency for the two countries, it will also facilitate new FTA of Vietnam to other countries in this region.

According to Vietnam Logistics Review, Chile, along with Mexico, Peru and Colombia, established the Pacific Alliance. Chile also has trade agreements with other countries in the region. Therefore, if the goods of Vietnam are able to enter the Chilean market, it can also penetrate into other markets in the Pacific Union and Latin American markets.

Meanwhile, Vietnam actively engaged in FTA talks with the European Free Trade Association (EFTA) consisting of Iceland, Liechtenstein, Norway and Switzerland. The two sides signed the final free trade agreement in 2012 and still under the negotiation process. The signing of the FTA with the EFTA will create opportunities for the development of Vietnam's textile and apparel exports as EFTA links with the EU and the EU has been the main market for Vietnamese textiles and garments.

In 2015, Vietnam also became the first nation to sign a free trade agreement (FTA) with the Russian-led Eurasian Economic Union (EEU) – which also

includes Armenia, Belarus, Kazakhstan and Kyrgyzstan. At its core, the Vietnam – EEU FTA will reduce tariffs on 90% of goods, with the tariff on 56 % of goods already having been removed completely as soon as the agreement came into effect.

As for Israel, after 23 years of diplomatic ties, Vietnam and Israel have become important partners. In terms of commerce, according to Embassy of Israel, Israel is one of Vietnam's major partners with bilateral trade volume swelling from US\$ 375 million in 2011 to nearly US\$ 1.7 billion in 2015. Prospects for co-operations have been seen in other fields such as investment, finance, services, science, technology and labour.

Table 4.3 Vietnam's FTA with Latin America and other countries

Country	Year	Status	Type of FTA
Chile	November 2011	Signed and in effect since 1 January 2014	Standard
European Free Trade Association (Switzerland, Norway, Iceland and Liechtenstein)	April 2012	Still under negotiation	Comprehensive
Eurasian Economic Union (Russian, Armenia, Belarus, Kazakhstan and Kyrgyzstan)	May 2015	After the final member ratifies FTA, it will go into force 60 days	Comprehensive
Israel	December 2015	Still under negotiation	Comprehensive

These new markets are expected to help Vietnam balance the market while some markets like EU and US where most of Vietnamese products have been

exported to these destinations, on the one hand, Vietnam attempts to foster exports; on the other hand, more importantly, the Party now identifies three strategic breakthroughs, supporting the process of reforming the growth model as well as restructure the economy. Since then, the agreements will help Vietnam continue to improve the investment environment, business environment in the direction of environment that is more open, transparent and predictable for businesses. Hence, new generations of free trade agreements such as the TPP or the FTA with the EU will also give Vietnam the opportunity to further improve its institutions based on the market economy mechanism.

4.2 Vietnam's Strategy in FTAs

4.2.1 Vietnam's Motivations in Joining FTAs

The external factors such as the collapse of Soviet Union and the blockades of US and other countries together with domestic economic crisis due to insufficient command economy has urged Vietnam to carry out reforms since the 1980s and the progress of economic integration virtually began since renovation and open-door policy in 1986. Over the past 20 years, Vietnam has deeply integrated into the economy of the world by joining the multilateral trading system WTO and FTAs with other countries. The objective of this part is to capture the potential connections between Vietnam's accession to the WTO as well as its participation in FTAs and the economic development in Vietnam. Viet Nam might consider developing a strategy in its trade liberalization process to diversify its export markets, attracting FDI as well as serving the process of industrialization from more developed partners.

In 1995, the country officially applied for accession to WTO and became one of WTO's members in 2007. Vietnam determined to participate in the organization since the early stage of "Doi Moi" due to realization of following great opportunities. Firstly, accession to WTO is supposed to speed up trade liberalization and secure Vietnam's to markets of member countries without discrimination. Countries reduce tariffs and open service sector under their accession protocols,

which should result in increased trade. According to the Heckscher-Ohlin model of comparative advantages, this should benefit unskilled labour in developing countries (their comparative advantage) like Vietnam while increasing national income.

Secondly, joining WTO means that Vietnam has to not only open its own market but also regulate its legal system to be in accordance with international practice. This is a very important premise not only to foster domestic reforms as well as generated favourable conditions for foreign investors to invest in Vietnam in the long term; thereby Vietnam is able to receive capital and technology transfer and carried out the process of industrialization and modernization of the country to ensure the growth rate and shorten the development gap with other countries.

Vietnam committed to open 11/12 service sectors, including 110 sub-sectors in accordance with WTO regulations, including some important sectors such as telecommunications, distribution, insurance, banking, transport, intellectual property protection. Furthermore, WTO accession also requires Vietnam to continue to build a more complete and transparent legal environment. Vietnam has committed itself to full compliance with the WTO's major agreements relating to fiscal and monetary policy, state-owned enterprises, business rights, subsidies, (TRIMs), comply with the WTO non-discrimination principle by giving foreign businesses the same treatment as its national businesses (national treatment principle) (with the exception of some exceptions), remove quota on imports and abolish the application of compulsory export rates for foreign-invested enterprises. This (as reflected in the new Investment Law and the new Enterprise Law and its guiding documents) will promote the opening up of economic sectors and increase the attractiveness of Vietnam to foreign investment.

A new business law was therefore passed in 2005 to unify the regulatory framework for domestic and foreign enterprises and to harmonize rules on trading rights, together with the prospect of accession, have already bolstered the investment climate in Vietnam. Thus, before fully joining WTO in 2007, approvals of foreign direct investment reached a record-high \$10 billion in 2006 (Tumbarello, 2007) and it has also played an important role in Vietnam's economy. In 2006,

foreign investment accounted for 37 % of industrial production value, nearly 56% of export turnover and 15.5% of GDP (Nguyen, 2006).

An increase in foreign direct investment can already be observed after Vietnam's accession to WTO. In 2007, the total of foreign direct investment (FDI) was \$ 20.3 billion, increasing nearly 70% compared to 2006. The figure was also nearly equal to the total foreign investment in the past 20 years since Vietnam enacted the Law on Foreign Investment in 1987 (Phan, 2008). It is due to Vietnam's greater appeal to foreign multinationals following its entry into the WTO (easing of restrictions imposed on FDI, improved market access for exporting firms, etc.). More importantly, highlights in attracting foreign investment in 2007 were investment projects focused on areas related to the country's industrialization and modernization such as hi-tech projects, new and modern urban areas and so on, which Vietnam has prioritized.

Vietnam's economy in recent years has been an export-oriented economy with high openness. Exports are always the engine of economic growth. Therefore, theoretically, after accession to the WTO, access to markets of WTO member countries at the MFN (preferential import tax rate), the transition to the next developmental stage through FTAs that grants much more preferential-access provisions than MFN is inevitable. Hence, besides WTOs, Vietnam also signed some FTAs with large economies such as US Japan, Korea, EU, ASEAN.

Vietnam-US BTA

The first FTA Vietnam signed unilaterally is BTA with US in 2000, Vietnam exports to the market have soared in 17 years. In 1996 Vietnam and US just started to negotiation BTA and Vietnam's exports to the United States amounted only \$ US 0.319 billion in 1996. Until 2000, the figure increased slightly to \$ US0.733 billion and jumped into \$ US 5.927 billion and \$ US 14.23 billion in 2005 and 2010 in respectively. It is worth nothing here that the Vietnam exports valued \$ US 33.48 billion in 2015 and still increased to \$ US 38.46 billion in 2016 accounting for a fifth (21.78%) of the country's total exports. This is far higher than that in 1996 (4.69%) (Table 4.6).

Notably, before 1996, commercial relations between two countries was not developed and since 1994, Vietnam started to export to US but it was insignificant, primarily US exported to Vietnamese market so US remained trade surplus until 1996. Nonetheless, the period from 1997 to now has witnessed a reserve in economic relations of Vietnam with US when Vietnam has pocketed continuously the trade surplus with US with only \$ US 0.1 billion in 1997 but it rose gradually to \$ US 0.28 billion, \$ US 0.31 billion and \$ US 0.45 billion in 1998, 1999 and 2000 in respectively (Table 4.4). It is undeniable that US economy is the world's leading economy so any countries in the world want to export goods to the United States, not mention to US is a very choosy market but the good thing is that Vietnam can export products to the US. Hence BTA is an opportunity for Vietnam to take advantage of US markets. Vietnam's export to US climbed substantially to \$ US 5.43 billion after 5 years BTA of two countries came into effect and hit \$ US 31.9 billion in 2016 (Table 4.5). In total 40 items, Vietnam has exported to the US, textiles and garments posted the highest export turnover followed by footwear, wood and wood products, seafood. US remained Vietnam's largest export market among 200 countries and territories that it had established trade partnerships with.

Table 4.4 US's trade in goods with Vietnam

Unit: \$ US billion

Year	Export Value of Vietnam	Import Value of Vietnam	Trade balance
1992	0.0	0.0046	-0.0046
1993	0.0	0.007	-0.007
1994	0.05	0.17	-0.12
1995	0.199	0.25	-0.05
1996	0.33	0.61	-0.28
1997	0.38	0.28	0.1
1998	0.55	0.27	0.28
1999	0.6	0.29	0.31

Table 4.4 US's trade in goods with Vietnam (Cont.)

Unit: \$ US billion

Year	Export Value of Vietnam	Import Value of Vietnam	Trade balance
2000	0.82	0.36	0.45
2005	6.63	1.19	5.43
2010	14.86	3.7	11.1
2015	38.01	7.1	30.9
2016	42.09	10.1	31.9

Source: United States Census Bureau

According to the Statistics Portal, US spent nearly \$US 2000 billion annually to import products from other countries showing the size of the largest import market in the world and demand of US' importers are extremely large. Even though the total export turnover of Vietnam to US rocketed over 20 years but it also accounted for a relatively modest proportion of total imports of this country at approximately 1.15% in 2016. When many Vietnamese businesses were interviewed, they responded that their anxiety was not in the size market or competition in price. It is ability of Vietnam enterprises that is still limited and are able to meet the orders in large numbers of partners (Nguyen, 2004)

Vietnam-Japan EPA

EPA with Japan is the first bilateral free trade agreement Vietnam has signed since the World Trade Organization's accession as the previous FTAs were concluded within the ASEAN framework. In fact since 1996, Japan has been one of the most crucial and potential of Vietnam seeing that the export turnover reached \$ US 1.546 billion and presented 21.3% in total value of Vietnam's exports (Table 4.5). So it is understandable that Vietnam desired to continue to export more products in the market, particularly, Japan has been one of the largest importer of many of the products in which Vietnam holds an absolute advantage in producing, such as agricultural products, consumer textiles, footwear, processed food products and so on. Then, it is inevitable for Vietnam to enjoy much more benefits from EPA with

Japan. Under the established commitments, Japan has pledged to liberalize 94.53% of trade revenue within ten years. Therefore, the VJEPA will improve the growth of Vietnam's exports while also insulating said exports from the downturns and fluctuations currently seen in the American and European markets (Nguyen & Shira, 2013). Thus, the export turnover of Vietnam in 2010 (\$7.728 billion) was nearly twice as high as that in 2005 (\$ US 4.340 billion) and it also soared to \$14.14 billion and \$14.68 billion in 2015 and 2016 in respectively, as a result of signing EPA with Japan (Table 4.5).

Vietnam-Korea FTA

Korea is second developed economy in Asia Vietnam attempted to negotiate FTA. The trade relations between Vietnam and Korea began in 1983 and were strongly developed after 1992 when the two countries formally established diplomatic relations. The goal Vietnam towards to sign FTA with Korea is not different from US and Japan because one of the most salient characteristics of Vietnam-Korea bilateral trade relation is the export-import structure is highly complementary and basically not competing directly against each other. The trade structure between Vietnam and Korea reflects the overall trade structure of Vietnam and its competitive advantages in terms of natural and human resources as well as cheap labour cost. Vietnam exports mainly fuel in the post-1992 and agricultural products to Korea and import mostly machinery, capital goods and production materials.

The structure of Vietnam's exports has witnessed positive changes, with a gradual decrease in the volume of raw materials and fuels and increase in manufactured goods. Whereas in 1993, the fuels and raw materials category accounted for the largest proportion at about 35% total export turnover, by 1997 this figure was reduced to only 13.3% and in 2000 it was about 6.85% (Nguyen, 2014). Currently, Korea is an important consumption market for Vietnam's major exports such as aquatic products, textiles, footwear.

Exchange turnover has been continuously increasing from \$ US 0.353 billion in 2000 to \$ US 3.092 billion in 2010 and \$ US 8.93 billion in 2015. There

was a remarkable increase in 2016 after Vietnam and Korea signed FTA at \$ US 11.41 billion, accounting for 6.46% in total Vietnam's exports (Table 4.5)

Vietnam-EU FTA

Since the establishment of diplomatic relations between Vietnam and the European Community (EC) on 28 November 1990, economic relations between the two sides have grown steadily. But in general, for five years from 1990 until the signing of the Cooperation Agreement (17 July 1995), the economic cooperation has been modest (Dinh, 2011). Economic activity was the developmental assistance of EU for Vietnam. However, the market always presents a large proportion in Vietnam's market share. In 1996, Vietnam's exports to EU amounted at \$0.9 billion, accounting for 12.4 %. There is an increase in exports Vietnamese goods to EU in the following years. In 2010, it reached \$11.4 billion and recorded \$ 30.94 billion in 2015 and peaked at \$33.97 billion in 2016 (Table 4.5)

With 500 million consumers, the signing of EVFTA will be an important impetus for Vietnam to access potential market and continue promoting economic and trade relations with the EU. As the FTA framework allows the elimination of tariffs on more than 90 types of tariffs, Vietnam is able to access easily to the EU market. This has resulted in sustained benefits for Vietnam. The reduction of tariffs alone will facilitate for Vietnamese exports increase to 30% -40% compared to the absence of an agreement. The sectors most likely to benefit from EVFTA are electronic products, footwear, textiles and clothing, coffee, rice, seafood, and furniture and so on. The average tariff of Vietnamese goods is about 4% when Vietnam exports to the market, but in fact, this level rises to 7% since most of Vietnam's exports are subject to the list of goods that are imposed high tariffs by EU. Thus, when EVFTA comes into force, Vietnamese goods will benefit greatly in terms of tax rates, contributing to the competitiveness of Vietnamese goods in the EU.

It can be seen that the reduction of tariff barriers thanks to EVFTA will bring many benefits to Vietnam because on the one hand, EU is a diversified and huge market; on the other hand, main exports of Vietnam and EU are complementary with one another other.

Table 4.5 Export share to selected FTAs of Vietnam

Unit: \$US billion and %

Year	US		Japan		Korea		EU		ASEAN	
	Export Value	Share of Export Value	Export Value	Share of Export Value	Export Value	Share of Export Value	Export Value	Share of Export Value	Export Value	Share of Export Value
1996	0.319	4.69	1.546	21.3	n.a	n.a	0.9	12.4	2.58	22.8
2000	0.733	5.11	2.575	17.78	0.353	2.43	2.9	20	2.60	17.95
2005	5.927	18.27	4.340	13.38	0.664	2.04	5.5	17	5.56	17.13
2010	14.23	19.73	7.728	10.70	3.092	4.28	11.4	15.78	10.40	14.39
2015	33.48	20.66	14.14	8.7	8.93	5.5	30.94	19.09	18.25	11.26
2016	38.46	21.78	14.68	8.31	11.41	6.46	33.97	19.2	17.45	9.88

Source: Vietnam Customs and World Integrated Trade Solution, JETRO

* n.a: not available

Furthermore, since 1986, Vietnam determined to transform the central planning model into a mixed-market economy. In the shift, domestic reform and proactive economic integration are two main pillars as well as are reciprocal with one another. Vietnam's commitment to bold and comprehensive reform is a core factor that facilitate for Vietnam to achieve outstanding socio-economic achievements such as the steady increase of economic growth and exports, the sharp fall of poverty rate, becoming a middle-income country in 2008. Recognizing such extremely important role of internal reforms, Vietnam is utilizing FTAs as a crucial instrument or a catalyst for the far-reaching reforms through strict and strong commitments particularly "new generation FTAs" as EVFTA.

EVFTA is not a trade agreement with the only purpose of declining tariff between two economies. EVFTA is not a trade agreement with the only purpose of declining tariff between two economies. It is regarded as a comprehensive agreement covering non-commercial contents that WTO has not yet covered such as labour, environment, commitment to sustainable development and good

governance. Furthermore, the areas Vietnam has not committed in WTO such as government procurement, state-owned enterprises, investment, sustainable development and renewable energy have been covered by FTA with EU

Other point is that EU is one of the top sources of intellectual property exports in the world, thus the standards of protection and the implementation IPR of EU are far higher than the WTO

In addition, EVFTA also establishes a mechanism for settling disputes that may arise between Vietnam and the EU in the interpretation and implementation of the commitments of the Agreement. This mechanism applies to most of the Chapters of the agreement and is evaluated that is faster and more efficient than dispute resolution of WTO. For example: The government can choose and approve the list of members for the system, the investor has no right to choose the arbitrator in the specific cases; Government's the choice and payment for members of the arbitration panel will ensure the objectivity of the members in making the decisions; the appellate mechanism would also correct errors of the first instance, this is mechanism which Vietnam and many countries have struggled to build in the TPP but have not yet reached.

Nonetheless, the dispute settlement mechanism between Vietnam's government and EU investors in EVFTA are not compatible with Vietnam's institution.

Vietnam's economy is the socialist-oriented market economy. It means that Vietnam has implemented consistently the policy of a multi-sectoral economy and followed the rule of market economy but it have to ensure the socialist orientation and maintain as well as enhance the leadership of the Communist Party. To get the goals, state-owned enterprises (SOEs) are the crucial and essential tools that provide the economic power for government to hold the regulation role and orient the economy following to objectives of socialist.

Although the industrialization and modernization is the task of the whole country, not only SOEs but also private enterprises but in the Vietnam's economic conditions in the early years of the reform, the private enterprises is not strong enough to take responsibility for the task. Hence, it is considered that SOEs are the core factor to ensure the implementation of the objectives of industrialization

and modernization of the country, improve economic efficiency, maintain the stability and create a strong position on the competitiveness of the economy in the process of integration.

As a result, Vietnam's government has engaged too heavily on economic activities, SOEs are dominating almost all sectors of economy from shipping, transport, telecoms, manufacturing, banking, textile and garment, mobile. It is the reason why in the domestic law, enterprises never have chance to access dispute settlement between investors and state.

However signing EVFTA, it is the first time Vietnam has committed in order to implement a dispute resolution mechanism between investors and the state. An enterprise can sue decisions of state agencies - a strong development of the investment environment in Vietnam. This will promote the freer business environment, create an environment of fair competition for business investors as well as motivation for all economic sectors to develop. Through the business environment is improved, the inflows of FDI from not only EU member countries but also others will increase.

To ensure EVFTA to be implemented effectively, Vietnam and the EU agreed to build a chapter about cooperation programs and capacity building in areas of mutual concern to boost the sustainable development in all aspects. With exchanging of information, experience and best practices, as well as policy cooperation, this framework will help Vietnam reform and build a stronger legal system, enhance the role of private sector in the economy that is extremely vital for Vietnam's economy when in Vietnam, SOEs enjoys subsidies, monopolies, special access to capital and resources – privileges that are not available to the private sector but the contribution of SOEs to the economy is much lower than private ones, even it is on track to go down (Table 4.6)

Table 4.6 The use of resources and the contribution for economy of SOEs and private sector

Unit: %

	SOEs		Private sector	
	2001-2005	2006-2010	2001-2005	2006-2010
The use of resources				
Capital	56,6	44,6	26,4	27,7
Credit	36,6	30,9	-	-
The contribution for economy				
GDP	30	27,8	46,7	46,1
GDP growth	32,9	19	44,6	54,2

Source: Vu Thanh Tu Anh from Fulbright Economics Teaching Program (2012)

EVFTA brings not only a lot of benefits for Vietnam but also drawbacks, challenges because Vietnam is still developing countries while it has joined FTA with one of the biggest economic and political zone in the world. The development gap is quite large so it is understandable, challenges Vietnam will have to face is not only one, but a lot. However, all things considered, benefits from EVFTA outweigh challenges and Vietnam considers all of these strong commitments its own opportunity to change.

EVFTA is a way to promote trade, especially exports. In addition, this is also a catalyst for investment, especially institutional reform of Vietnam through the high and strict commitments. Exactly, they are challenges for a developing country like Vietnam but the most important thing is that these challenges forces Vietnam to adjust and reform to meet commitments to get benefits form the FTA. This adjustment is in line with the policy of reforming administrative procedures and Vietnam's economy. In some area such as IPR and environment that EU have many experiences, Vietnam, on the one hand, can learn from its partner, on the other

hand, can improve the domestic law in the area and gradually follow the international standards.

Moreover, in my opinion, one of the handicaps for Vietnam's development nowadays is the misallocation resources related to the heavy intervention of government due to objective about the socialist oriented economy and legacies of the Soviet-type central planning before the reform policy in 1986 making the national resources only flow into SOEs. It is extremely difficult for Vietnam to reform because Vietnam has only one party and communist party has joined the economic operations through SOEs for many years so Vietnam needs outside factors as EVFTA in particular and FTAs in general to be impacted and changed. In the long run, if Vietnam does overcome these challenges, EVFTA and FTAs will bring dramatic change in the process of institutional reform, policies and regulations of Vietnam and at that time, Vietnam's international status will be much different.

4.2.2 Managing domestic consensus in pursuing FTAs

In any FTAs Vietnam negotiates, opening up the market has negative effect on several sectors that are under protection policy so Vietnam has made its efforts to consult stakeholders about various integration roadmaps and other related issues. In 2012, the government enacted a resolution on the establishment of a consultation mechanism between the negotiating body and enterprises. But the consultation is still limited. The stakeholders in the consultation are traditional ones such as government agencies, researcher and the business community. Non-governmental organizations have raised concerns on behalf of various social groups only with respect to the important FTAs such as TPP or EVFTA. Details of FTAs negotiations are often regarded as confidential and the public as well as enterprises can hardly get information to raise the concern. (Vo, 2015). According to Vice President of Ho Chi Minh City Handicraft and Wood Industry Association-Huynh Van Hanh, although the agreements directly affect the business but when they asked, the negotiators said that the content of negotiations need to be kept confidential. (N.Binh, 2015)

For example, with the negotiation of TPP, while the business was invited by the American Business Association (AmCham) to talk and provide information on TPP, the Vietnamese agencies said that they can not reveal anything. Until now, many of the FTAs that Vietnam has signed, only FTA with EEU (signed in May 2015) have consulted enterprises. They just know other FTAs when negotiations finish. The negotiations are under government's hand, the Political Bureau decides to open up Vietnam's market and join FTAs and FTAs, definitely, is ratified more easily by Vietnam's National Assembly.

Thus, it can be said that Vietnam's integration via FTAs has followed a top-down approach and the government strongly recognized the benefits FTAs will bring to Vietnam's economy, even Vietnam has to carry out reforms related to SOEs. Hence, once the government determines which partner Vietnam should negotiate FTA, it is easy to pursue the trade deal. According to Vice President of the Central Institute of Economic Management (CIEM) of Vietnam – Dr. Vo Tri Thanh, with the sole and strong party, it is also regarded as an advantage for Vietnam.

CHAPTER 5

CONCLUSIONS

After the fall of the Soviet Union in 1991, Vietnam has responded quickly to the international diplomatic isolation together with the loss of dominant source of economic aid and markets by the greater emphasis on comprehensive reform namely “Doi Moi” or renovation that was introduced in the Sixth Party Congress in 1986. Vietnam started its own integration with neighbouring countries through participating in AFTA in 1996 and with the world through WTO in 2007. Nowadays, Vietnam is in the far-reaching integration due to a range of negotiations in FTAs with many countries.

This process indicates that Vietnam has strategy in engagement in the process of trade liberalization via FTAs. Vietnam has determined in signing FTAs with the core advanced and major economy first as the US in 2000 and promoting FTAs with others both neighbour countries as Japan, Korea and the EU and then with multiple countries such as Chile in the Latin America region, European Free Trade Association, Eurasian Economic Union and Israel. Signing these FTAs, Vietnam desires to expand and diversify export destinations, particularly nowadays, Vietnam has an advantage over other ASEAN countries because Vietnam has FTAs with both the US and EU - two of the world's largest trading partners. The pace of liberalization induces Vietnam take part in a wide range of FTAs even high quality and furthermore, according to the interview with the key person in charge of consulting on issues related to trade liberalization and integration for Vietnam’s government – Dr Vo Tri Thanh, attracting investment inflows is also strategy in engagement in FTAs. Notably, owing to a strong and sole government, perspectives of enterprises are not paid much more attention and the top-down approach has been applying in pursuing FTAs, which facilitates conclusion and ratification of FTAs become far easier.

Besides what have been gained of the study, a limitation still has not been tackled. Even though FTAs brings about the flows of foreign investment into Vietnam, but there is no measure to examine whether investment pour into Vietnam because of FTAs or not. Thereby, it generates the gap for other studies in the future to research about the connection between FTA and foreign investment by other methodologies.

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APPENDIX

Questionnaires

1. If Vietnam has to choose market opening or not, so who will make final decision on opening market/ joining a FTA?
2. When Vietnam joins a FTA, why Vietnam's government is not concerned on sectors that are under protection policy and are impacted negatively by FTAs?
3. Does Vietnam have compensation for sectors that are impacted negatively by FTAs?
4. Who takes responsibility for making sure that FTAs will be implemented?



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