

Vietnam's economic relations with CPTPP countries: Current status and policy implications

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Introduction

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a free trade agreement (FTA) between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, and Vietnam, aiming at enhancing trade and economic integration. The CPTPP was signed in Santiago, Chile, on March 8, 2018. The CPTPP came into force for Australia, Canada, Japan, Mexico, New Zealand, and Singapore on December 30, 2018, and Vietnam on January 14, 2019. The CPTPP promised many opportunities for Vietnam, including increasing export value and direct foreign investment (FDI) attraction, speeding up economic growth, forming a more comprehensive economic structure, and completing institutions toward the market economy. Indeed, statistics show that trade and investment between Vietnam and CPTPP countries have significantly expanded in recent years, showing the positive effect of this agreement on the Vietnamese economy. This study aims to illuminate Vietnam's economic relations with CPTPP member countries, focusing on trade and investment areas. The paper begins with an overview of the CPTPP and then analyzes Vietnam's trade and investment relations with the CPTPP countries. Next, it analyzes the prospect of economic ties in Vietnam-South Korea (hereafter Korea) if Korea joins the CPTPP. The final section provides the policy implications.

Overview of the CPTPP

Even without the United States (US)' participation¹, the CPTPP remained a significant global FTA, encompassing approximately 13.3% of the worldwide gross domestic product (GDP)². The CPTPP aims to set a new benchmark for international commerce and tackle emerging challenges such as technological progress, the disruption of the supply chain, and technical barriers through the following key features. First, it offers broad market access by removing tariffs and other trade obstacles to goods, services, and investments. Second, it aspires to create a regional accord by promoting the growth of production and supply chains among the participating nations. Third, it employs a multifaceted approach to trade matters, building on work done in the Asia-Pacific Economic Cooperation (APEC) and other forums. It also incorporates four new areas: regulatory coherence, competitiveness and business facilitation, small- and

¹ Former President Donald J. Trump argued that the agreement would "undermine" the U.S. economy and its independence. See Miller, S.A. (2016), Donald Trump vows to cancel Trans-Pacific Partnership as president, puts NAFTA on notice, *The Washington Times*, June 28, 2016, <https://www.washingtontimes.com/news/2016/jun/28/donald-trump-vows-to-cancel-trans-pacific-partners/>

² See Ministry of Foreign Affairs and Trade of New Zealand, The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/cptpp-overview/>, accessed on 25 September 2024.

medium-sized enterprises, and development. Fourth, it confronts new trade challenges, particularly those that stem from technological progress. Finally, it operates as a dynamic agreement, allowing modifications to address future trade issues and accommodate additional member countries³.

It is worth noting that the United Kingdom (UK) has secured the sixth and final ratification required to trigger its accession to the CPTPP before the end of 2024⁴. With the UK's participation, the trade bloc will account for approximately 15% of global GDP.

The CPTPP members' commitment to the reduction and elimination of import duties are divided into three groups: immediate elimination (import duties will be immediately eliminated while the Agreement enters into force); elimination after some time (import duties will be eliminated after a specific period); and tariff quotas (import duties of such tariff lines will be reduced or eliminated within a specific quantity of imports). The CPTPP provides three methods to determine the origin of a good, (i) wholly obtained; (ii) goods manufactured from raw materials in the CPTPP areas; and (iii) product-specific rules of origin (PSR).

Vietnam's trade relations with the CPTPP countries

The CPTPP member states will eliminate import duties of 97%-100% tariff lines for goods originating from Vietnam. Most Vietnamese goods imported into CPTPP member countries will be subject to import duties of 0% immediately when the agreement enters into force. Vietnam is permitted to request, consider, apply, or exercise any form of domestic preference during any phase of the contractor selection process within 10 years from the date of entry into force of the agreement⁵.

Table 1 show that commodity trade between Vietnam and CPTPP countries has substantially extended. In 2010, Vietnam's trade exchange with the bloc was US\$35.3 billion. This value significantly grew to US\$57.1 billion and US\$76.2 billion in 2015 and 2020, respectively. Despite the negative effects of the COVID-19 pandemic, Vietnam's trade with the CPTPP countries has expanded remarkably, reaching US\$95.5 billion in 2023.

³ See Hoang, N. H., & Truong, H. Q. (2019), Vietnam and the CPTPP: Achievements and Challenges, *ISEAS Perspective*, ISEAS Yusof Ishak Institute, No. 41, pp. 1-8.

⁴ Thanh Van (2024), UK to join CPTPP in December, September 04, 2024, <https://vir.com.vn/uk-to-join-cptpp-in-december-114123.html>

⁵ See Ministry of Industry and Trade of Vietnam, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), <https://vntr.moit.gov.vn/fta/29/2>, accessed on 25 September 2024.

Table 1: Vietnam's commodity trade with CPTPP countries (US\$ billion)

Countries	2010			2015			2020			2023		
	Total trade	Export	Import	Total trade	Export	Import	Total trade	Export	Import	Total trade	Export	Import
Australia	4.15	2.70	1.44	4.83	2.83	2.00	8.30	3.62	4.68	13.83	5.27	8.56
Brunei	0.02	0.01	0.01	0.07	0.03	0.05	0.29	0.02	0.28	0.25	0.08	0.18
Canada	1.15	0.80	0.35	2.86	2.41	0.45	5.08	4.36	0.73	6.24	5.61	0.63
Chile	0.39	0.09	0.29	0.94	0.65	0.29	1.28	1.02	0.27	1.57	1.20	0.37
Japan	16.74	7.73	9.02	28.50	14.14	14.35	39.55	19.27	20.28	44.93	23.31	21.61
Malaysia	5.51	2.09	3.41	7.77	3.57	4.20	9.96	3.39	6.58	12.67	4.86	7.81
Mexico	0.58	0.49	0.09	2.02	1.55	0.48	3.67	3.16	0.52	5.26	4.43	0.83
New Zealand	0.48	0.12	0.35	0.70	0.33	0.38	1.06	0.50	0.56	1.33	0.65	0.68
Peru	0.11	0.04	0.07	0.30	0.24	0.06	0.39	0.30	0.09	0.49	0.44	0.05
Singapore	6.22	2.12	4.10	9.18	3.12	6.06	6.67	3.01	3.66	9.00	4.29	4.72
Total CPTPP	35.34	16.21	19.14	57.18	28.87	28.31	76.26	38.64	37.62	95.57	50.14	45.43

Source: Author's compilation and calculation based on data from ASEANstats.

Table 2: CPTPP share in Vietnam's trade with the world (%)

Year	2010			2015			2020			2023		
	Total trade	Export	Import	Total trade	Export	Import	Total trade	Export	Import	Total trade	Export	Import
Share	22.5	22.44	22.56	17.45	17.82	17.08	14.05	13.73	14.4	14.09	14.2	13.96

Source: Author's calculation based on data from ASEANstats.

Table 2 shows that, in 2010, CPTPP countries shared 22.5% of Vietnam's trade with the world. This share declined, reaching 17.45% in 2015 and 14.05% in 2020. In 2023, the share of CPTPP countries in Vietnam's trade remained almost the same. This shows that although trade between Vietnam and the CPTPP bloc has expanded considerably over the past decade, its growth rate is lower than that between Vietnam and non-CPTPP member countries, such as Korea, the US, and China.

Trade between Vietnam and the CPTPP bloc largely focuses on Japan, accounting for nearly 50% of the period 2010-2023. Other important CPTPP trade partners in Vietnam in 2023 were Australia, Malaysia, and Singapore, sharing 14.47%, 13.26%, and 9.42%, respectively⁶. Within the CPTPP bloc, there has been an improvement in Vietnam's trade with Canada and Mexico during the study period.

Table 3 indicates that Vietnam's trade balance with the CPTPP bloc turned from negative to positive. In 2023, Vietnam's trade surplus with the CPTPP countries reached US\$ 4.71 billion which was much higher than that in 2015. Among the CPTPP countries, Vietnam's trade surplus in goods has the largest value in the Canadian market, followed by Mexico. On the other hand, Vietnam's trade deficit in goods was the highest in Australia and Malaysia.

⁶ Source: Author's estimation based on data from ASEANstats.

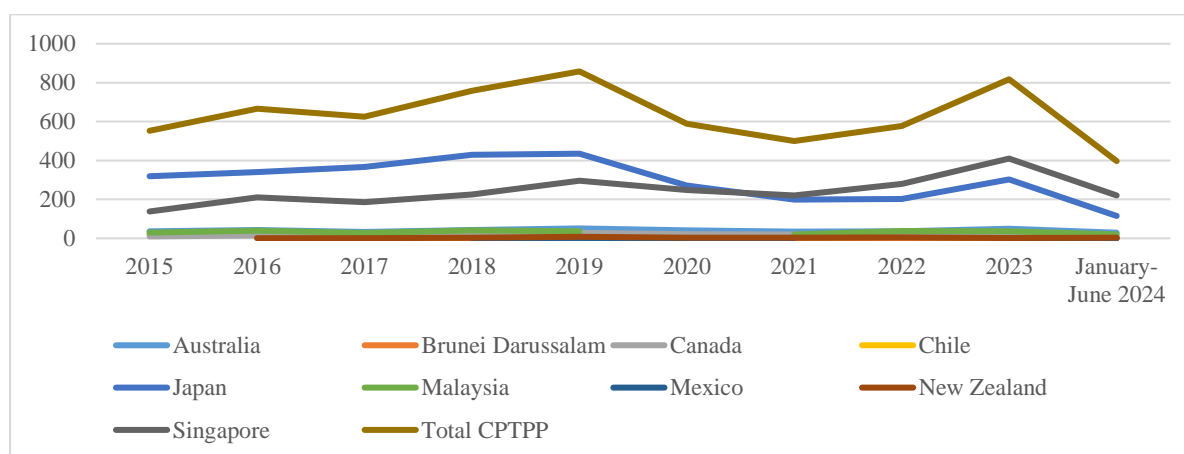
Table 3: Vietnam's trade balance with CPTPP countries (US\$ billion)

Countries	2010	2015	2020	2023
Australia	1.26	0.83	-1.05	-3.29
Brunei	0.00	-0.02	-0.26	-0.10
Canada	0.45	1.96	3.63	4.98
Chile	-0.20	0.36	0.75	0.82
Japan	-1.29	-0.21	-1.01	1.70
Malaysia	-1.32	-0.63	-3.19	-2.94
Mexico	0.40	1.07	2.64	3.60
New Zealand	-0.23	-0.05	-0.06	-0.03
Peru	-0.03	0.18	0.22	0.39
Singapore	-1.98	-2.93	-0.65	-0.43
Total CPTPP	-2.93	0.56	1.02	4.71

Source: Author's calculation based on data from ASEANstats.

Vietnam's investment relations with the CPTPP countries

The investment field is a crucial dimension of Vietnam's economic relations with CPTPP countries as FDI firms, such as Samsung Corporation play a vital role in the country's international trade and global value chain (GVC) participation⁷. Using data provided by the Foreign Investment Agency (FIA), Ministry of Planning and Investment of Vietnam, Figures 1 and 2 present information about the number of new FDI projects from the CPTPP countries in Vietnam.

Figure 1: Number of newly registered FDI projects from CPTPP countries in Vietnam.

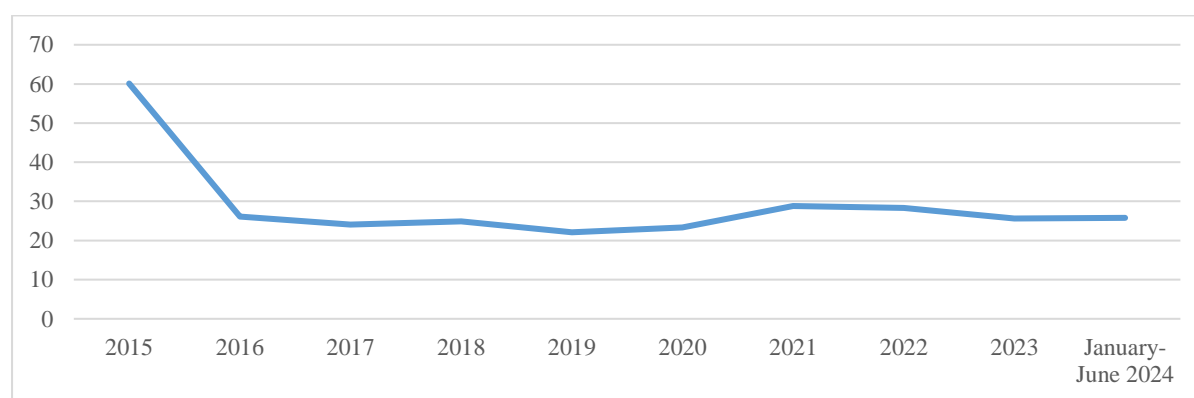
Source: Author's compilation and calculation based on data from the FIA of Vietnam.

Figure 1 shows that the number of newly registered projects from CPTPP countries in Vietnam increased between 2015 and 2019. This number significantly reduced in 2020 and 2021, which was mainly

⁷ Samsung's factories in Vietnam contributed to nearly 20% of the country's total goods exports in 2022, <https://viettimes.vn/samsung-dong-gop-bao-nhieu-trong-tong-kim-ngach-xuat-khau-cua-viet-nam-nam-2022-post163370.html>.

attributed to the negative effects of the COVID-19 pandemic on international investment activities by multinational enterprises (MNEs). Subsequently, the number of newly registered projects recovered, reaching 577 and 817 in 2022 and 2023, respectively. Among CPTPP countries, Japan had the largest number of projects between 2015-2020, including notable investors, such as Cannon (imaging and optical products), AEON (retail industry), and Mitsubishi (power generation, infrastructure development, and banking). However, Singapore has occupied this position since 2021 which is significantly attributed to close distance, increasing trade exchange, and strategic collaborations between Vietnam and Singapore⁸. Figure 2 shows that the CPTPP share in the total number of FDI projects in Vietnam was 60.1% in 2015. This share was significantly reduced to 26.1% in 2016. This decline was simply because there was much higher growth in the number of FDI projects from non-CPTPP member partners such as Korea and Taiwan in Vietnam. Subsequently, the CPTPP share has slightly changed between 2017 and 2023.

Figure 2: Share of CPTPP countries in the number of newly registered FDI projects in Vietnam



Source: Author's compilation and calculation based on data from the FIA of Vietnam.

In terms of investment value, data shows that inward FDI into Vietnam from CPTPP investors has a growing tendency, from US\$6.77 billion in 2015 to US\$11.58 billion and US\$14.49 billion in 2020 and 2023, respectively⁹. A substantial expansion in the FDI flow into Vietnam from the CPTPP countries, especially after 2019 demonstrates the positive effect of trade and investment liberalization from this agreement on Vietnam's FDI attraction. Table 4 demonstrates an increasing trend in the share of CPTPP countries in Vietnam's inward FDI; from 28.1% in 2015 to 39.59% in 2023. Among the CPTPP countries, Singapore and Japan are the two largest investors, sharing 18.5% and 17.9% of Vietnam's inward FDI in 2023, respectively. Singapore's outward FDI in Vietnam focuses on developing industrial zone infrastructure while Japanese investment in Vietnam concentrates on medium and high technological industries, such as electronic products as well as on retail, banking, and life insurance industries. It is

⁸ Anisha Sharma and Ayman Falak Medina (2024), Singapore's Growing Investments in Vietnam: Key Sectors, *ASEAN Briefing*, July 27, 2024, <https://www.aseanbriefing.com/news/singapores-growing-investments-in-vietnam-key-sectors/#:~:text=Singapore's%20investments%20in%20Vietnam%20illustrate,strong%20foundation%20for%20ongoing%20investment.>

⁹ Note that there is no investment project from Peru in Vietnam during the studied period.

worth noting that Malaysia's share has significantly decreased in recent years. The reason is possibly because Malaysian investors face higher competition from other investors in the Vietnamese market.

Table 4: Share of CPTPP countries in Vietnam's inward FDI value (%)

Countries	2015	2020	2021	2022	2023	January - June 2024
Australia	0.83	0.25	0.21	0.26	0.29	0.17
Brunei Darussalam	0.82	0.00	0.03	0.10	0.05	0.14
Canada	0.03	0.24	0.20	0.21	1.51	0.36
Chile	0.00	0.00	0.00	0.00	0.00	0.00
Japan	7.48	8.30	12.51	17.25	17.94	11.40
Malaysia	10.28	0.00	0.46	0.67	1.21	0.10
Mexico	0.00	0.00	0.00	0.00	0.00	0.00
New Zealand	0.05	0.00	0.00	0.01	0.00	0.00
Singapore	8.64	31.52	34.38	23.29	18.58	36.74
Total CPTPP countries	28.11	40.32	47.79	41.78	39.59	48.92

Source: Author's calculation based on data from the FIA of Vietnam.

Korea's potential to join the CPTPP and the prospect of Vietnam-Korea economic cooperation

Korea considered joining the CPTPP in 2013¹⁰. If Korea participates in the CPTPP, there are the following implications for Vietnam-Korea economic relations. *First*, together with the Vietnam-Korea free trade agreement FTA (VKFTA), the CPTPP will bring about benefits for both sides in many areas, especially agriculture, trade, and digital technology. There will be more space for the development of two-way trade between Vietnam and Korea. *Second*, many countries have recognized Vietnam as a market economy, including Korea, which is favorable for the former in trade defense investigations, especially anti-dumping investigations¹¹, thereby promoting the economic relationship between the two toward a more sustainable one. *Third*, considering the importance of the position of Korea's multinational enterprises (MNEs) in the global value chains (GVCs), there are more opportunities for Vietnam-Korea cooperation in helping Vietnamese enterprises deeply engage in GVCs, particularly electronic and automobile industries. *Lastly*, Korea's accession to the CPTPP will help promote and attract more economies to join this regional FTA, expanding market access opportunities for Vietnamese goods and contributing to increasing Vietnam's attractiveness to foreign investors.

¹⁰ Peter A. Petri and Michael Plummer (2021), Why South Korea should join the CPTPP, December 2, 2021, <https://www.brookings.edu/articles/why-south-korea-should-join-the-cptpp/>

¹¹ Anti-dumping investigations are procedures initiated and conducted either following a complaint by the domestic industry producing the like product or, in some situations, investigations that are self-initiated by authorities in the importing country to determine whether a product is being dumped and is injuring national producers (or a third country's exporters) of the like product.

Policy implications

To gain greater benefits from the CPTPP agreement, Vietnam needs to consider the following suggestions: *Firstly*, Vietnam needs to strengthen its coordination with other CPTPP member countries to promote the implementation of the bloc's commitments. *Secondly*, Vietnam needs to make greater policy efforts to address some structural limitations (such as low labor productivity and value added, and modest linkages between domestic and foreign sectors), thereby, better exploiting the process of increasing integration within the CPTPP framework. *Thirdly*, Vietnam must strengthen its domestic manufacturing capacity, logistic system, and supporting industries, thereby enabling domestic enterprises and all other segments of the economy to establish closer links with CPTPP economies. This will contribute to broader benefits to Vietnam when participating in GVCs, such as technological progress and stronger productivity spillovers. *Finally*, Vietnam needs to prioritize attracting large-scale industrial investors with “big infrastructure” from CPTPP countries.

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