



# Chapter 7

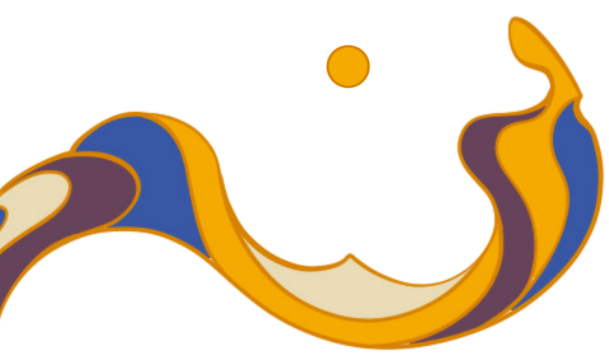
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## Economic Integration in East Asia and Viet Nam

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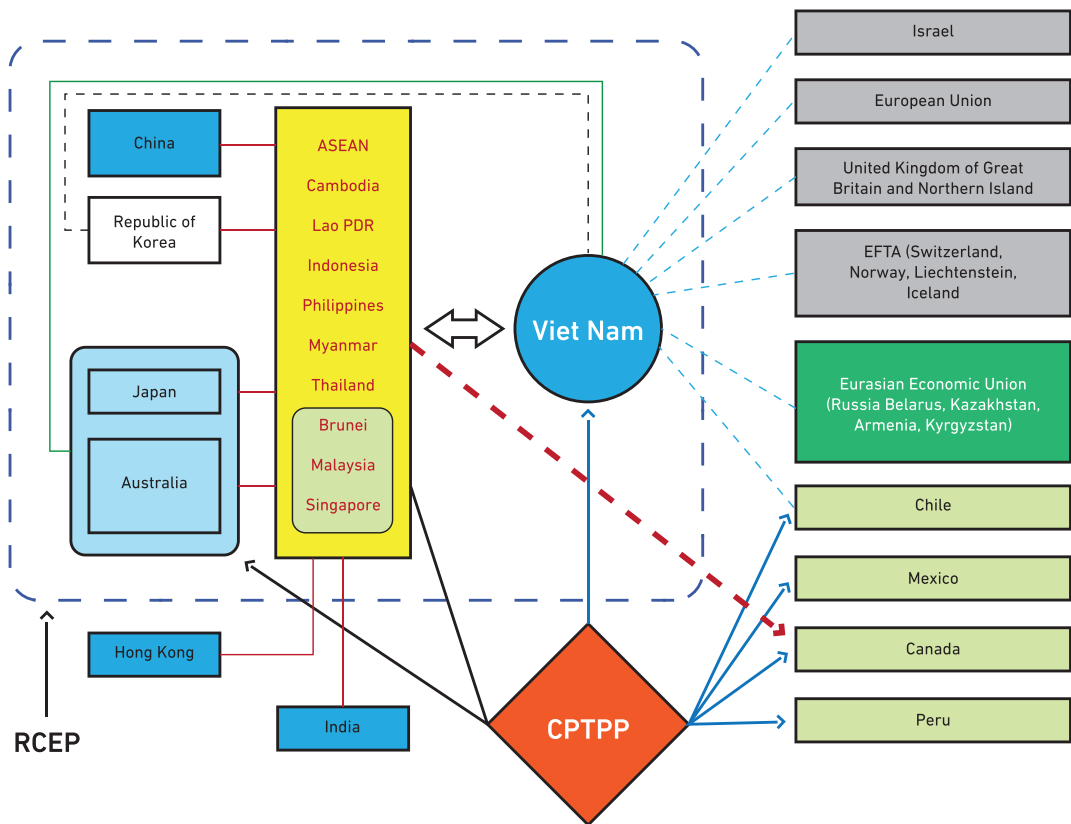


# 1. Introduction

Viet Nam has undertaken ambitious and extensive economic reforms since the start of Doi Moi (Renovation) in 1986. Reducing at-the-border and behind-the-border barriers to trade and investment has been one of the main pillars of reforms. Viet Nam had its mindset about trade and investment liberalisation changed gradually, from an open-door policy before 2000 to economic integration between 2000 and 2015, and then to successful economic integration since 2016. A vast literature (e.g. Vo, Nguyen, and Do (2021) and CIEM (2021a)) has shown that economic integration efforts have facilitated Viet Nam's broader engagement in global value chains and enhanced access to foreign markets and investments and adaptation to international trade governance.

By 2022, Viet Nam's economic integration process had had four important milestones (CIEM, 2021a). The first milestone was its accession to the Association of Southeast Asian Nations (ASEAN) in 1995 and accordingly the ASEAN Free Trade Area (AFTA). The second milestone was the signing of the bilateral trade agreement (BTA) with the United States (US) in 2000. Until 2000, the BTA with the US was the most comprehensive and closest to the 'standard' of the World Trade Organization (WTO) that Viet Nam had signed. The third milestone was Viet Nam's accession to the WTO in 2007. Accordingly, Viet Nam was treated equally to other member countries in the WTO. After joining the WTO, Viet Nam's integration process transited to a new phase, from horizontal integration to deeper integration. The fourth milestone came when Viet Nam started implementing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union-Viet Nam Free Trade Agreement (EVFTA) in 2019 and 2020, respectively. In that context, Viet Nam enhanced its strategic partnerships, comprehensive strategic partnerships, and comprehensive partnerships with free trade agreements (FTAs). As of December 2022, Viet Nam had negotiated, signed, and implemented 18 FTAs (Figure 7.1).

**Figure 7.1. Viet Nam's FTAs as of December 2022**



FTA = free trade agreement; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EFTA = European Free Trade Association.  
 Source: Authors' update based on CIEM (2021a).

Centring on ASEAN has been a remarkable feature of Viet Nam's economic integration. ASEAN was the first 'playground' that facilitated practices and adaption for Viet Nam before its WTO accession (Vo, 2015). Together, ASEAN member states worked incrementally towards a single production base (i.e. the ASEAN way), which appealed to and was further concretised by supply-chain-led investors from Japan, the Republic of Korea (henceforth, Korea), and the European Union (EU), etc. Open regionalism also enables ASEAN member states to pursue FTAs with external partners, especially those in Northeast Asia. Building upon its long experiences of harmonising the ASEAN community-building process and open regionalism, ASEAN could contribute to harmonising the integration tracks in East Asia.

Looking forward, economic integration still plays an important role in Viet Nam's integration strategy. According to the World Bank and the Ministry of Planning and Investment (2016), by 2035, Viet Nam aspires to become the following: *'A responsible member of the global community of nations will build global alliances and fulfill global responsibilities for peace and security while proactively*

*seeking regional and global opportunities for economic integration*’ (p. 14). The Communist Party of Viet Nam (CPV, 2021) has also set out viewpoints for achieving dynamic, rapid, and sustainable economic development, economic independence and economic autonomy on the basis of scientific and technological progress, innovation, and more effective diplomatic and international integration efforts. The CPV (2021) has also set the target for Viet Nam to become a high-income developed country by 2045. Within that broad approach to economic integration, envisioning future East Asian economic integration and the implications for Viet Nam will be essential.

This chapter attempts to discuss possible pathways of economic integration in East Asia until 2045. In doing so, it also reviews the importance of East Asian economic integration for Viet Nam in the past decades. On that basis, the chapter presents some policy implications and options for Viet Nam.

The remainder of the chapter is structured in four sections. Section 2 elaborates on the past experiences of East Asian economic integration to show how the process has been beneficial for Viet Nam. Section 3 sketches the possible pathways of East Asian economic integration towards 2045. Section 4 looks into some key issues for Viet Nam in harmonising East Asian economic integration with other integration tracks. Section 5 concludes with some recommendations.

## 2. Importance of East Asian Economic Integration for Viet Nam: Past Experiences

### 2.1. Trade Performance

Over the past decades, economic integration efforts with East Asian partners – both under the ASEAN-plus framework and bilaterally – have been crucial for Viet Nam. After the US embargo was lifted in 1994, Viet Nam made swift efforts to become a member of ASEAN in 1995. Being in the early stages of market-oriented economic reform and regional economic integration, Viet Nam finds the ASEAN integration process to be of vital importance in various aspects (Vo, 2015). First, notwithstanding the gradualism approach, ASEAN integration could well be seen as an important prerequisite for favourable conditions, including regional stability, for socioeconomic development and prosperity in the region. Second, ASEAN integration serves as the first important step for proceeding to wider and deeper economic integration. After joining ASEAN and its agreements, Viet Nam became a member of APEC and the WTO and a signatory in various agreements, such as the Viet Nam–US BTA, ASEAN–China Free Trade Area (ACFTA), and ASEAN–Korea Free Trade Area (AKFTA), etc. Third, being a member of ASEAN strengthens Viet Nam’s bargaining power, particularly in negotiations with other major trading and investment partners. Finally, ASEAN has proved itself to be a key trading and investment partner of Viet Nam.<sup>2</sup>

In this process, engagement in the Regional Comprehensive Economic Partnership (RCEP) came neither automatically nor by chance. Instead, participation in the agreement came as a result of

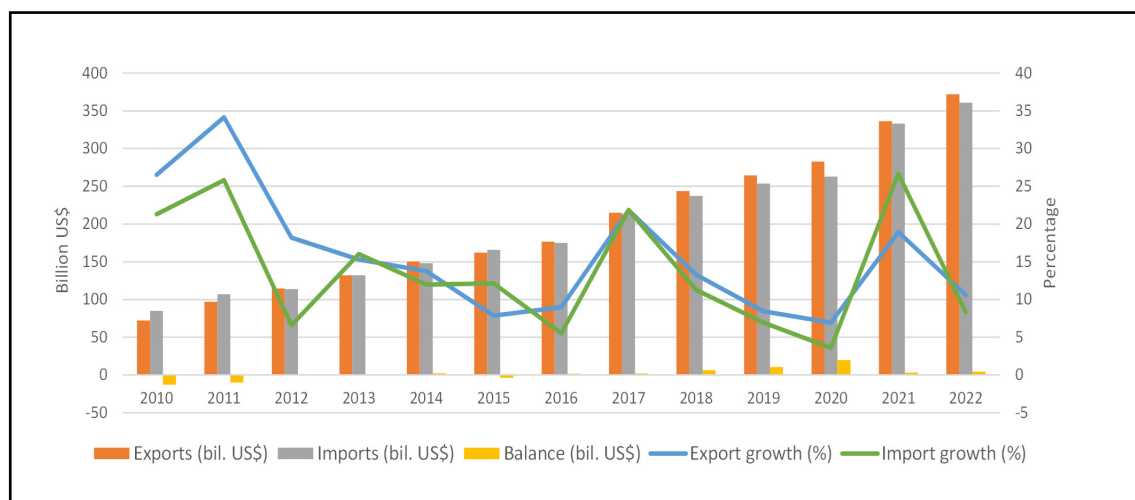
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<sup>2</sup>To be discussed in Section 3.

consistent efforts, not only at the policy level but also in economic structural adjustment. More crucially, Viet Nam had to put a lot of effort into the simultaneous negotiation of the three highest-quality and/or largest FTAs (i.e., RCEP, TPP/CPTPP, and EVFTA). CIEM (2021a) argues that had there not been a TPP/CPTPP or EVFTA, Viet Nam's institutional preparations might have been different, and the country's consideration of RCEP's content and the potential implications might have taken alternative paths. Arguably, TPP/CPTPP and EVFTA appear to have had the most significant effects on Viet Nam's economic institutions and the economy. Thanks to parallel efforts for coordinating the negotiations of the three major FTAs, even whilst RCEP receives relatively more adverse comments, reaching a consensus on the TPP/CPTPP and EVFTA increased the possibility that RCEP would be adopted in Viet Nam.

Engaging in and deepening trade relations with ASEAN and East Asia helped boost Viet Nam's trade performance for decades. Viet Nam's trade quickly recovered after the global financial crisis in 2008. In particular, both imports and exports continued to expand in the period 2010–2021 (Figure 7.2). In 2010–2015, amid the domestic and world economic recovery after the 2008–2009 financial crisis, imports and exports grew relatively quickly. Exports increased from US\$72.2 billion in 2010 to US\$162.0 billion in 2015, with an average annual growth rate of 17.5%. Imports grew more slowly by 14.3% p.a. on average, up from US\$84.8 billion to US\$165.6 billion in the 2010–2015 period. During 2016–2019, both exports and imports maintained positive growth rates, albeit slower than the previous period. Specifically, exports increased on average by 13.0% p.a., and imports increased by 11.2% p.a. on average. In the period 2010–2019 as a whole, imports rose on average by 12.9% p.a., slower than exports (15.5% p.a.). Hence, the overall trade balance was gradually reversed from a deficit to surplus expansion. Even during the COVID-19 context in 2020–2022, Viet Nam managed to attain relatively high export and import growth and a significant trade surplus.

**Figure 7.2. Viet Nam's Imports and Exports, 2010–2022**



Source: General Statistics Office.

Viet Nam's imports and exports became more resilient in the 2018–2022 period. In this period, the economy was being affected by the complicated impacts of the US–China trade war (from mid-2018), the COVID-19 pandemic and associated policy responses to the pandemic in many markets (from early 2020), and the Russia–Ukraine conflict (from February 2022). Besides the adaptive efforts of the business community, especially domestic businesses, the enhanced resilience of the economy in this period partly derived from the consistent measures to improve the business environment and enhance competitiveness, especially in terms of FTA implementation, trade facilitation, and e-commerce development.

**Table 7.1. Share and Growth Rate of Viet Nam's Exports by Country and FTA Partner, 2010–2020**

	Share (%)											Growth Rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2015	2016-2020
ASEAN	14.3	14.1	15.2	14.1	12.7	11.2	9.9	10.1	10.1	9.4	8.2	13.7	5.3
RCEP	44.0	45.4	45.7	42.2	40.1	37.7	38.9	43.0	44.1	41.8	40.7	16.7	13.9
China	10.7	12.0	11.2	10.0	9.9	10.2	12.4	16.5	17.0	15.7	17.4	21.8	25.7
Rep. of Korea	4.3	5.0	4.9	5.1	4.8	5.5	6.5	6.9	7.5	7.5	6.8	28.7	16.7
Japan	10.7	11.4	11.4	10.3	9.8	8.7	8.3	7.8	7.7	7.7	6.8	15.2	6.5
CPTPP	22.4	21.2	22.2	21.0	19.8	17.9	16.6	15.9	15.1	15.0	13.7	13.7	6.0
EU27	15.8	17.1	17.7	18.4	18.6	19.0	19.2	17.8	17.2	15.6	12.5	22.3	5.9
United Stated	19.7	17.5	17.2	1.1	19.1	20.7	21.8	19.3	19.5	23.2	27.4	19.7	18.3

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.

Source: Figures until 2019 are from CIEM (2021a). Figures for 2020 are the authors' calculations from World Integrated Trade Solution data.



**Table 7.2. Share and Growth Rate of Viet Nam’s Imports by Country and FTA partner, 2010–2020**

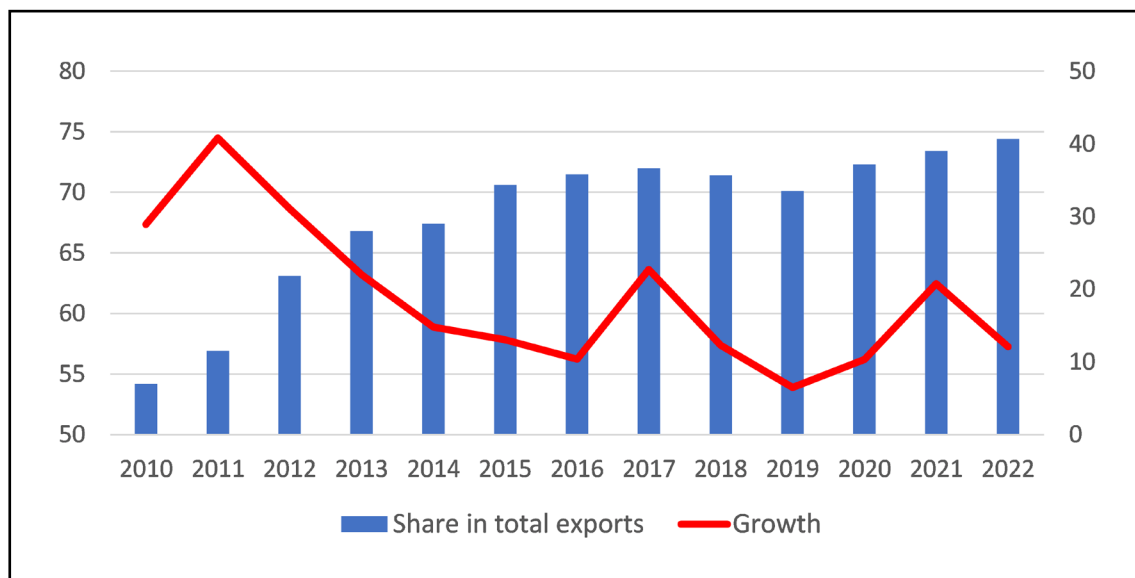
	Share (%)											Growth Rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010–2015	2016–2020
ASEAN	19.3	19.6	18.3	16.1	15.5	14.3	13.8	13.3	13.4	12.7	13.8	9.9	5.5
RCEP	67.4	67.3	69.6	70.0	70.1	70.8	71.0	72.4	71.0	70.7	76.6	16.9	10.6
China	23.8	23.3	25.5	27.9	29.5	29.8	28.6	27.5	27.7	29.8	40.4	19.9	12.4
Rep. of Korea	11.5	12.3	13.7	15.7	14.7	16.6	18.4	22.0	20.1	18.5	17.2	26.3	12.5
Japan	10.6	9.7	10.2	8.8	8.7	8.6	8.6	7.9	8.0	7.7	6.1	11.5	7.5
CPTPP	22.6	22.7	22.4	18.8	18.7	17.0	16.6	15.9	15.9	15.0	14.8	10.1	5.8
EU27	7.5	7.3	7.7	7.1	6.0	6.2	6.4	5.7	5.8	5.9	3.4	10.3	2.9
United States	4.5	4.3	4.3	4.0	4.3	4.7	5.0	4.4	5.4	5.7	3.0	17.4	11.2

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.

Source: Figures until 2019 are from CIEM (2021a). Figures for 2020 are the authors’ calculations from World Integrated Trade Solution data.

Foreign-invested enterprises (FIEs) still accounted for the lion’s share in total exports, but this share tended to decrease during 2017–2019 before rising again in the years 2020–2022 (Figure 7.3). During 2010–2015, exports of FIEs continued to increase faster than the country’s export growth. Notably, the average export growth rates of the FIEs and the whole country were 23.9%/year and 17.5%/year, respectively. From 2016, domestic enterprises increased their exports more rapidly, thereby contributing more to the country’s export growth. In particular, Viet Nam’s export growth during 2018–2020 was mainly contributed by the domestic business sector. Meanwhile, the FIEs attained slower export growth from 2018, even reaching negative growth in the first 10 months of 2020. However, trade surplus and exports in absolute terms were still largely from FIEs. As Viet Nam started to recover from COVID-19, exports of FIEs rose on average by 16.3% p.a. during 2021–2022. As an implication, economic integration in East Asia – the key area of production networks – will continue to significantly affect the operations of FIEs in Viet Nam.

**Figure 7.3. Exports of Foreign-invested Enterprises, 2010–2022 (%)**



Note: The share of total exports is measured on the left-hand axis; the growth rate is measured on the right-hand axis.  
Source: General Statistics Office.

In the period 2010–2020, whilst the US and EU27 remained the largest export markets, Viet Nam’s export structure gradually shifted towards smaller shares for ASEAN countries and higher shares for China and Korea. This shift mainly resulted from the different growth rates of exports to various markets, not because of Viet Nam’s export decrease in absolute terms. Exports to China increased faster, on average by 21.8% p.a. in the 2010–2015 period and 25.7% p.a. in the 2016–2020 period. Exports to Korea increased on average by 28.7% p.a. in the period 2010–2015, then slowed in the 2016–2020 period to 16.7% p.a.

China, Korea, and ASEAN were also the main import markets of Viet Nam, with their respective shares in Viet Nam’s imports in 2020 of 40.4%, 17.2%, and 13.8%. Import growth from China reached an average of 19.9% p.a. during 2011–2015 and decelerated to 12.4% p.a. in 2016–2020. The import growth rate from Korea averaged 26.3% p.a. in the period 2010–2015 and decreased to 12.5% p.a. in the 2016–2020 period. The import share of Japan decreased gradually to 6.1% in 2020 (compared to 10.6% in 2010).





As illustrated by the Export Similarity Index (ES),<sup>3</sup> Viet Nam's export structure had a relatively high similarity compared to other RCEP member countries. Also, this similarity increased rapidly, especially in the period 2012–2018. Accordingly, Viet Nam's export similarity index with RCEP increased from 37.5 in 2001 to 52.8 in 2010 and 61.1 in 2018. The figure then fluctuated to 58.9 in 2019 and 60.2 in 2020 (Table 7.3). Compared with the group of CPTPP partners, Viet Nam's export similarity index with RCEP was significantly higher, and its pace of change was also faster. As an implication, whilst acknowledging the possible intra-industry trade across countries, Viet Nam's exporters may face more competition in RCEP than in CPTPP because RCEP has ASEAN and China with highly similar export structures as Viet Nam.

**Table 7.3. Export Similarity Index of Viet Nam Compared to Selected Partners, 2001–2020**

	Share (%)									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
RCEP	37.5	35.7	35.8	36.5	37.5	39.8	42.1	47.6	48.6	52.8
CPTPP	33.3	31.5	32.8	34.1	36.0	37.5	40.3	47.2	46.7	48.8

	Share (%)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
RCEP	58.7	63.9	64.7	63.9	62.8	60.7	60.4	61.1	58.9	60.2
CPTPP	52.9	52.3	50.6	49.7	47.8	45.9	45.9	46.0	43.4	43.7

RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Source: Figures until 2018 are from CIEM (2021a). Figures for 2019–2020 are the authors' calculations from World Integrated Trade Solution data.

<sup>3</sup> The ES is based on the comparison of export structure between Viet Nam and its trading partners. This index ranges from 0 to 100, where 0 represents a completely different export structure and 100 represents complete similarity. When an economy has a low export similarity with a trading partner, it means that the economy has the potential to export to the partner's market in the future. Conversely, if the export similarity index between the economy and its partner is high, i.e. the structure of exports is the same, then the ability of that economy to export to its partner market is limited.

Table 7.4 shows the improvement in the Trade Complementarity (TC) Index<sup>4</sup> of Viet Nam with selected partners in the period 2001–2018. Over time, Viet Nam’s exports generally better met the import needs of main partners such as ASEAN, China, Japan, Korea, RCEP, the US, the EU, and the CPTPP (i.e. both inside and outside RCEP). The TC index of Vietnamese exports to Japan remained above 50 but tended to decrease gradually during the period 2001–2018, from 56.1 in 2001 to 51.4, before recovering to 57.5 in 2020. Meanwhile, the TC index of Viet Nam’s exports with ASEAN also improved significantly, from about 34 to 37 in the period before 2005 to over 50 in the period 2012–2020 (except 2019). Viet Nam had a rapid improvement in the TC with China during 2001–2018, before a drop during 2019–2020. Meanwhile, the level of trade complementarity between Vietnamese exports and Korea was relatively modest, with scores mostly below 50. As another note, the level of trade complementarity of Vietnamese exports with key partners in ASEAN and East Asia (such as China, Japan, and Korea) all tended to decrease in the period 2018–2020. This trend implies more intense competition that Vietnamese businesses face in these markets and perhaps the vulnerability of its exports to ASEAN and East Asia during the COVID-19 pandemic. Thus, without an adaptive approach, Viet Nam may have its ability to meet the import demand of the RCEP market weakened and/or become relatively less resilient.



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<sup>4</sup>The TC provides information on the prospects of international trade based on the relevance of import and export structures between two partner countries. The trade complementarity index ranges in value from 0 to 100, with a greater value indicating a higher degree of relevance between goods imported from its partner. Note that the index only compares the export structure of one country with the import structure of another, regardless of the size of the trade of those two partners.

**Table 7.4. Viet Nam's Trade Complementarity Index with Selected Partners, 2001–2020**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASEAN	34.7	34.2	35.0	36.7	39.7	42.3	45.2	51.4	47.6	48.5	53.4	57.0	55.0	54.3	54.7	53.9	52.3	51.9	49.6	51.6
RCEP	43.9	41.2	41.3	42.6	44.6	47.6	49.7	53.1	50.0	50.1	53.9	54.3	53.4	52.4	53.1	52.5	51.7	50.9	48.2	48.8
CPTPP	42.2	40.3	41.7	42.9	44.9	47.0	50.1	55.0	52.6	52.0	56.3	55.7	54.7	53.7	52.8	52.0	51.5	51.3	49.5	51.4
EU27	41.0	39.5	39.8	40.5	43.0	45.2	46.8	52.9	52.4	54.1	54.6	52.7	51.2	51.0	49.4	48.1	47.7	47.1	47.8	50.6
United States	41.6	41.2	44.0	46.0	48.7	50.5	53.4	55.9	54.5	54.2	57.0	55.1	54.2	53.9	52.8	51.5	51.5	51.1	53.5	56.1
China	29.3	27.2	27.8	30.2	31.3	34.7	36.3	42.1	40.4	43.5	47.4	52.9	54.0	52.4	54.2	52.9	52.0	51.4	40.8	42.1
Japan	56.1	54.4	55.2	56.5	58.9	58.0	55.9	55.7	55.4	53.7	55.0	53.3	52.7	52.2	53.1	52.8	51.9	50.7	55.1	57.5
Rep. of Korea	47.9	45.6	45.0	47.2	50.0	50.2	49.2	50.6	46.0	46.3	50.3	49.6	49.4	49.3	51.2	51.0	49.5	47.2	49.3	50.4

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.  
 Source: Figures until 2018 are from CIEM (2021 a). Figures for 2019–2020 are the authors' calculations from World Integrated Trade Solution data.

Meanwhile, exports of major trading partners seemed to better meet Viet Nam's import needs: the TC index of most partners' exports to Viet Nam had very high scores (ranging between 55 and 75 in the 2001–2020 period) (Table 7.5). The TC index of goods imported from Korea to Viet Nam increased continuously in the period 2001–2018 (up by 12.6) and stayed above 70 during 2012–2020. The TC indices of ASEAN and China with Viet Nam also exhibited significant improvement, especially during 2018–2020. Nevertheless, in the period 2010–2020, the TC indices of markets such as the EU, Japan, and the US – often perceived to have higher production and technology levels – decreased (for example, the US' TC decreased from 67.4 in 2010 to 60.4 in 2018 and 55.7 in 2020).



**Table 7.5. Trade Complementarity Index of Selected Partners with Viet Nam, 2001–2020**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASEAN	56.9	57.8	60.0	59.5	61.1	63.1	66.9	67.7	66.1	64.2	66.9	69.1	68.2	69.3	71.9	53.9	69.2	70.2	73.5	75.5
RCEP	64.3	62.6	62.4	59.9	60.2	60.0	63.9	65.9	66.9	66.6	69.1	70.4	70.4	71.2	73.3	52.5	70.8	71.9	76.6	77.0
CPTPP	62.4	62.1	64.3	62.2	63.7	64.0	68.4	71.3	69.3	67.7	70.8	66.4	63.9	64.4	66.2	52.0	63.1	63.4	65.5	65.2
EU27	67.2	66.4	67.9	64.5	64.2	64.2	66.9	66.7	68.0	69.3	67.7	65.4	64.4	64.2	65.4	48.1	62.2	61.2	63.9	62.8
United States	59.7	59.8	62.5	59.8	59.5	59.1	61.8	64.6	66.2	67.4	67.9	64.1	62.4	62.5	63.3	51.5	60.8	60.4	56.4	55.7
China	55.1	55.0	55.0	51.8	51.0	52.0	55.2	55.0	55.7	56.3	57.6	60.6	64.2	65.8	69.4	52.9	68.4	67.3	69.2	71.3
Japan	50.7	50.4	50.5	47.2	48.3	48.9	53.2	55.0	59.8	58.1	58.9	56.9	56.7	57.5	59.4	52.8	56.1	55.6	58.9	57.2
Rep. of Korea	62.8	60.5	61.5	57.6	57.7	57.6	58.8	60.4	61.4	61.5	65.2	70.5	71.1	71.3	72.7	51.0	74.9	75.4	73.1	73.2

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.  
 Source: Figures until 2018 are from CIEM (2021 a). Figures for 2019–2020 are the authors' calculations from World Integrated Trade Solution data.

Notably, the TC of RCEP countries with Viet Nam was generally high and steadily increased (from 64.3 in 2001 to 66.6 in 2010, 71.9 in 2018, and 75.5 in 2020). Viet Nam could therefore rely more on imports from the RCEP partners (in a relative sense compared to other trading partners) after the Agreement entered into force. Whilst this trend may bring ambiguous benefits depending on traders' capacity to meet rules of origin (RoO) and enjoy preferential tariffs, challenges will mount on the domestic manufacturing sector.

Table 7.6 shows Viet Nam's Trade Intensity Index (TII)<sup>5</sup> with key partners. Accordingly, the TII of Viet Nam with Japan, Korea, China, the US, CPTPP, ASEAN, and RCEP all received values of greater than 1. That is, these markets were important in trade with Viet Nam. Amongst them, the TII of Viet Nam with Japan remained relatively stable at over 2 during the period 2001–2018. The Korean market was becoming more and more attractive: the TII increased from less than 1 to above 1 since 2007 and continued to climb throughout the period 2008–2018. The increase was more apparent since the signing of the VKFTA in 2015. In the period 2016–2020, the TII of Viet Nam with Korea was above 2.5, the highest amongst all major partners under consideration. Viet Nam's TII with ASEAN decreased relatively rapidly, from 3.3 in 2001 to only 1.4 in 2020. Similarly, the trade intensity of Viet Nam with both RCEP and CPTPP decreased, reflecting that exports quickly reached their full potential; as such, the room for further penetration – given Viet Nam's existing export capacity – is very limited.

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<sup>5</sup>The TII is used to determine the amount of trade between two countries that is greater or less than expected based on their importance in world trade. The index is calculated based on the share of a country's exports to a partner divided by the share of the world's exports to that partner. Accordingly, if  $TI > 1$ , the bilateral trade flow is larger than expected; on the contrary,  $TI < 1$  implies that the bilateral trade flow is smaller than expected.

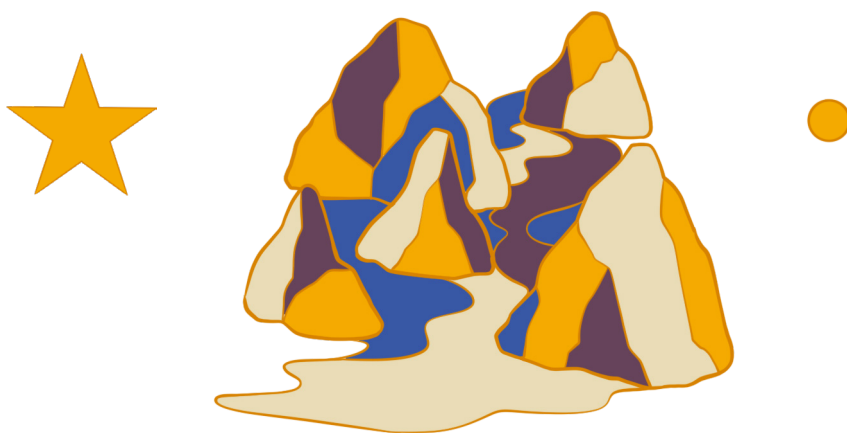
**Table 7.6. Viet Nam's Trade Intensity Index with Selected Partners,  
2001–2020**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASEAN	3.3	2.7	2.9	3.0	3.4	3.1	3.3	3.1	2.9	2.5	2.4	2.5	2.4	2.2	2.0	1.8	1.7	1.7	1.6	1.4
RCEP	2.8	2.5	2.4	2.3	2.4	2.2	2.2	2.1	1.8	1.7	1.7	1.7	1.6	1.5	1.5	1.6	1.7	1.7	1.6	1.6
CPTPP	2.0	2.0	2.0	2.0	2.2	2.1	2.1	2.1	1.7	1.5	1.5	1.5	1.5	1.4	1.3	1.2	1.2	1.1	1.1	1.0
EU27	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
United States	0.4	0.8	1.1	1.1	1.1	1.2	1.4	1.4	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.4	1.5	1.8	2.0
China	2.4	2.0	1.7	1.8	1.6	1.2	1.1	1.1	1.2	1.2	1.2	1.1	1.0	1.0	1.0	1.3	1.6	1.5	1.7	1.7
Japan	2.9	2.8	2.8	2.7	2.7	2.7	2.8	2.8	2.5	2.3	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.0	2.4	2.1
Rep. of Korea	1.2	1.2	1.0	0.9	0.8	0.8	1.0	1.0	1.4	1.5	1.7	1.7	1.9	1.7	2.1	2.6	2.5	2.7	3.1	2.7

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.  
Source: Figures until 2018 are from CIEM (2021a). Figures for 2019–2020 are the authors' calculations from World Integrated Trade Solution data.

In the opposite direction, the analysis of the TII of some major partners with Viet Nam is presented in Table 7.7. Viet Nam was a very attractive market for Korea, Japan, China, ASEAN, and RCEP with a TII greater than 1 and relatively high. The index was the highest for Korea – consistently above 3 for the entire study period, rising fast and maintaining above 5 since 2013, and peaking at 6.9 in 2017. China’s trade intensity with Viet Nam also increased during 2001–2014, before decreasing until 2020. ASEAN’s TII with Viet Nam decreased relatively rapidly, from above 4 in the period 2004–2008 down to only 3.0–3.6 in the period 2009–2016, and further to about 2.1 in 2020.

Notably, except for Japan, the TII scores of most East Asian partners (such as Korea, China, and ASEAN) were higher than Viet Nam’s TII with those partners. As an implication, Viet Nam gained net benefits in trade with Japan and the EU, whilst benefits from trade with other partners were not as large as expected.





**Table 7.7. Trade Intensity Index of Selected Partners with Viet Nam,  
2001–2020**

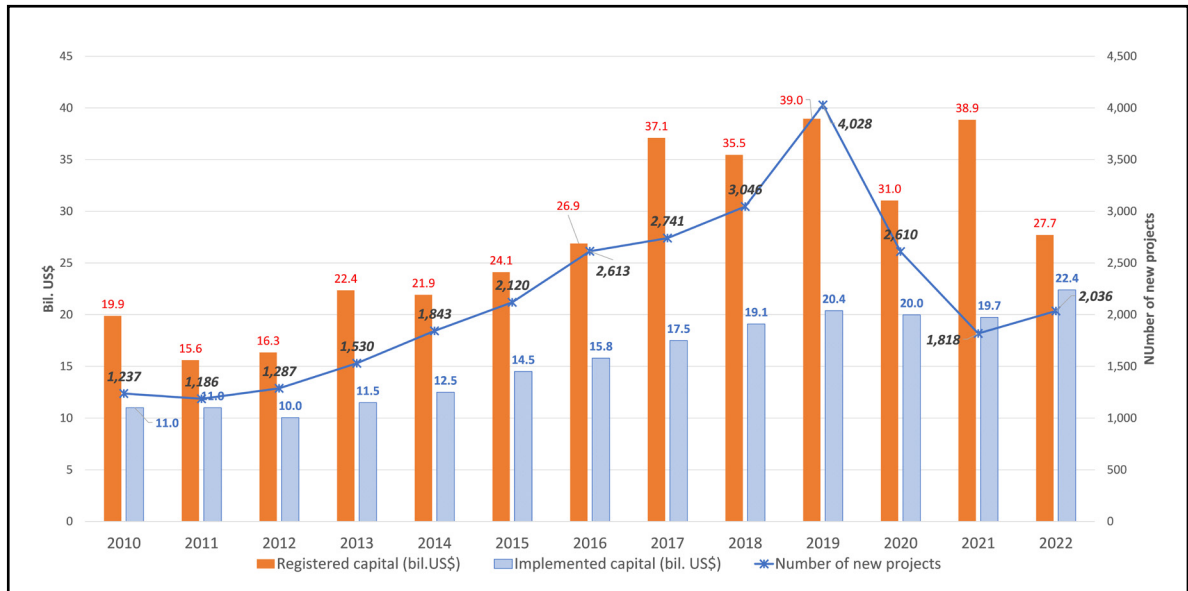
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASEAN	3.9	3.6	3.4	4.0	4.1	4.3	4.0	4.0	3.8	3.6	3.6	3.5	3.2	3.1	3.0	3.0	2.7	2.8	2.4	2.1
RCEP	2.8	2.6	2.5	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.8	2.9	3.1	3.2	2.9	2.9	2.9	2.9	2.7	2.6
CPTPP	1.6	1.5	1.4	1.5	1.6	1.8	1.7	1.7	1.7	1.6	1.7	1.7	1.6	1.6	1.4	1.4	1.3	1.3	1.1	1.1
EU27	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
United States	0.2	0.3	0.5	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.4	0.5	0.5	0.4
China	2.6	2.1	2.2	2.0	2.1	2.1	2.1	2.1	2.4	2.6	2.6	2.7	3.1	3.5	2.9	2.7	2.6	2.8	2.6	2.6
Japan	1.7	1.7	1.6	1.6	1.7	1.7	1.7	2.0	2.0	1.9	2.0	2.2	2.1	2.2	2.0	1.8	1.8	1.8	1.6	1.6
Rep. of Korea	4.3	4.5	3.9	3.7	3.4	3.2	3.4	3.7	3.5	3.7	4.1	4.7	5.4	5.0	5.3	6.0	6.9	6.6	5.9	5.6

ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union.  
Source: Figures until 2018 are from CIEM (2021a). Figures for 2019–2020 are the authors' calculations from World Integrated Trade Solution data.

## 2.2. Foreign Direct Investment

Viet Nam recorded a rapid increase in foreign direct investment (FDI) in terms of registered capital, implemented capital, and the number of new projects (Figure 7.4). In particular, registered capital increased sharply in the period 2017–2019 before fluctuating in 2020–2022. Implemented capital meanwhile showed a clear upward trend from 2012 onwards, except for some contraction during 2020–2021 due to the COVID-19 pandemic.

**Figure 7.4. Foreign Direct Investment Inflows to Viet Nam, 2010–2021**



Note: Registered capital including newly registered capital, supplementary capital of existing projects. Since 2016: including contributing capital and purchase shares of foreign investors.  
Source: General Statistics Office.

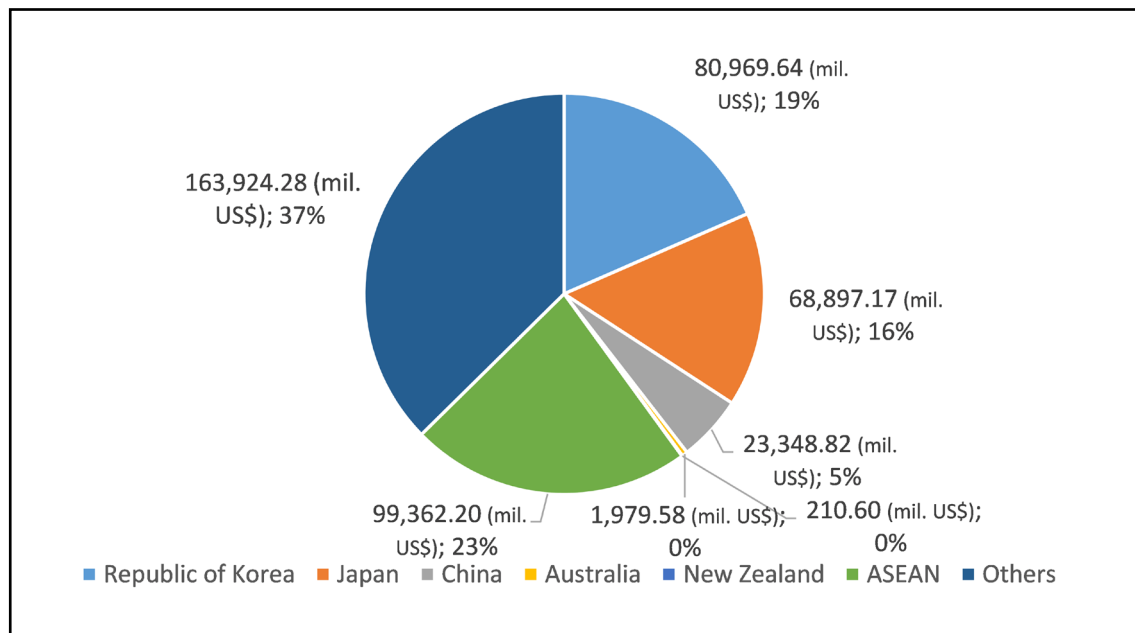
By partner, Viet Nam has the presence of investors from over 160 countries and territories. However, most of them are small. FDI capital was mainly sourced by investors from 15 countries and territories, altogether accounting for about 93.2% of the registered capital by 2022. Those countries and territories were mainly concentrated in Asia. It should be noted that 6 out of the 10 largest investment partners in Viet Nam are East Asian countries, namely Korea, Japan, Singapore, China, Malaysia, and Thailand.

In the period 2010–2022, Viet Nam attracted a total registered capital of about US\$438.7 billion, of which the five dialogue partners under RCEP<sup>6</sup> accounted for about two-fifths of total capital, and ASEAN countries accounted for 22.7% of total capital (Figure 7.5). It should be noted that various EU and US investors invested in Viet Nam through a third country, including East Asian ones. Along with the process of joining FTAs + 1, Viet Nam’s FDI inflows grew rapidly in the second half of 2010–2019,

<sup>6</sup> RCEP-5 here refers to the five non-ASEAN RCEP countries of Japan, Korea, China, Australia, and New Zealand.

especially from the RCEP-5 group and ASEAN countries. Registered capital from the RCEP-5 group increased by 90% in the period 2015–2019 compared to the period 2010–2014. FDI inflows from ASEAN increased by 46% in the same period (CIEM, 2021a).

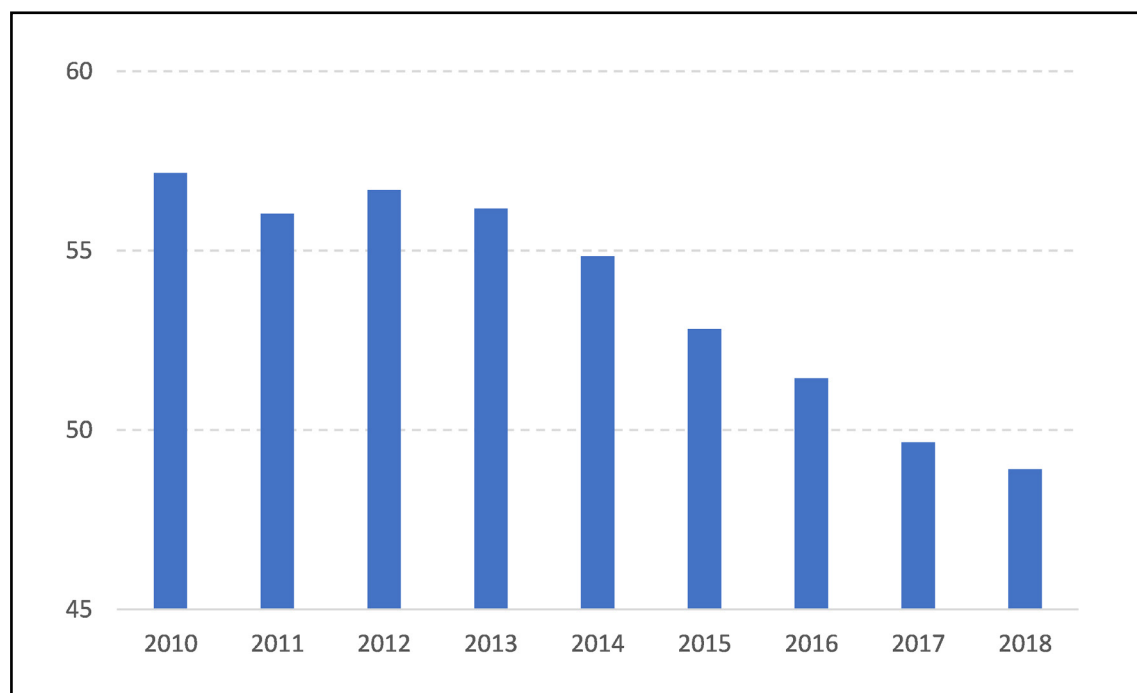
**Figure 7.5. Foreign Direct Investment Inflows by Partner, by End of 2022**



ASEAN = Association of Southeast Asian Nations.  
Source: Ministry of Planning and Investment.

The greater presence of FDI had impacts on the pattern of Viet Nam’s trade. According to Organisation for Economic Co-operation and Development’s Trade in Value-added database (TiVA–OECD), the share of domestic value added in Viet Nam’s gross exports decreased gradually, from 57.2% in 2010 to only 52.8% in 2015 and 48.9% in 2018 (Figure 7.6). However, in absolute terms, domestic value added acquired from export activities rose on average by 13.3% per annum during 2010–2015, and by 11.2% during 2015–2018. This shows that Viet Nam still benefited from participating in global value chains. Besides, the share of value added from East Asian countries went up on average by 19.4% p.a. and 14.6% p.a. during 2010–2015 and 2015–2018, respectively. As of 2018, East Asian countries together accounted for 30.7% of value added in Viet Nam’s gross exports, of which China had the largest share (14.4%).

**Figure 7.6. Share of Domestic Value-added in Total Exports of Viet Nam (%)**



Source: OECD-TiVA.

Another aspect concerns the linkage between FDI and local firms. Exports have increased thanks to foreign investment, both directly and indirectly. Nguyen, Vo, and Do (2018) and Vo and Nguyen (2011) demonstrate using macroeconomic data and error-correction models that an increase in implemented FDI tends to enhance exports, with the gain being bigger in the long term than the short term. The effects of FDI spillovers on the exports of other domestic businesses account for the bigger long-term impact. In a similar vein, an even higher contribution of FDI to total employment may be expected when additional employment generated indirectly by FDI in domestic enterprises is taken into account.

Linkages between FDI and domestic companies are still inadequate. An approximate number of 1,500 Vietnamese businesses received only a small amount of technology and knowledge transfer from FDI on a sectoral level (UNIDO, 2012). The primary sources of supply for FDI businesses are imported raw materials and intermediary commodities, with no established connections to domestic supply chains (MUTRAP, 2015; Ministry of Planning and Investment, 2022). Nguyen and Truong (2022) argue further that in many manufacturing industries, Viet Nam only engages in the lowest midstream activities of global value chains, such as subassemblies and finished products.

## 2.3. Key Lessons

The past decades of engaging in FTAs with ASEAN and East Asian partners have provided some important lessons. *First*, maintaining support for ASEAN centrality plays a crucial role in the FTA process, especially in the pathfinding process for new ideas for trade and investment liberalisation. *Second*, continuous efforts are required for inclusive, innovative, and resilient supply chains with East Asian investors. *Third*, Viet Nam needs to popularise good practices in promoting positive spillovers of FDI to local firms. Instead of focusing only on business-to-business (B2B) efforts, Viet Nam should work with partners to deepen government-to-government (G2G) and government-to-business (G2B) approaches. *Finally*, Viet Nam needs to build further capacity at both the institutional and firm levels to ensure the effective implementation of FTAs, including those with ASEAN and East Asian partners. In this process, Viet Nam should try to make the best use of development cooperation provisions – a peculiar characteristic of FTAs in East Asia.

To complement economic integration, domestic reforms continue to be of importance. Various studies (CIEM, 2021a; Vo et al., 2021; CIEM, 2013; Dinh, Trinh, and Nguyen, 2009; etc.) have argued that Viet Nam's economic integration has interacted closely with domestic reforms and that the past periods with drastic integration efforts (e.g. 1989–1996, 2000–2007, and 2016–2019) also witnessed significant reforms of regulations and policy conduct. More importantly, the key essence lies not only in the number and quality of regulatory changes but also in the process through which Viet Nam engages with stakeholders to collect inputs, constructive comments, and consensus. As in the recent case during the COVID-19 pandemic, frequent dialogues with the business community, including FIEs, enabled Viet Nam to swiftly change the policy approach from zero-COVID-19 to safe adaptation whilst foreign business associations also worked with Vietnamese authorities in vaccine diplomacy efforts.

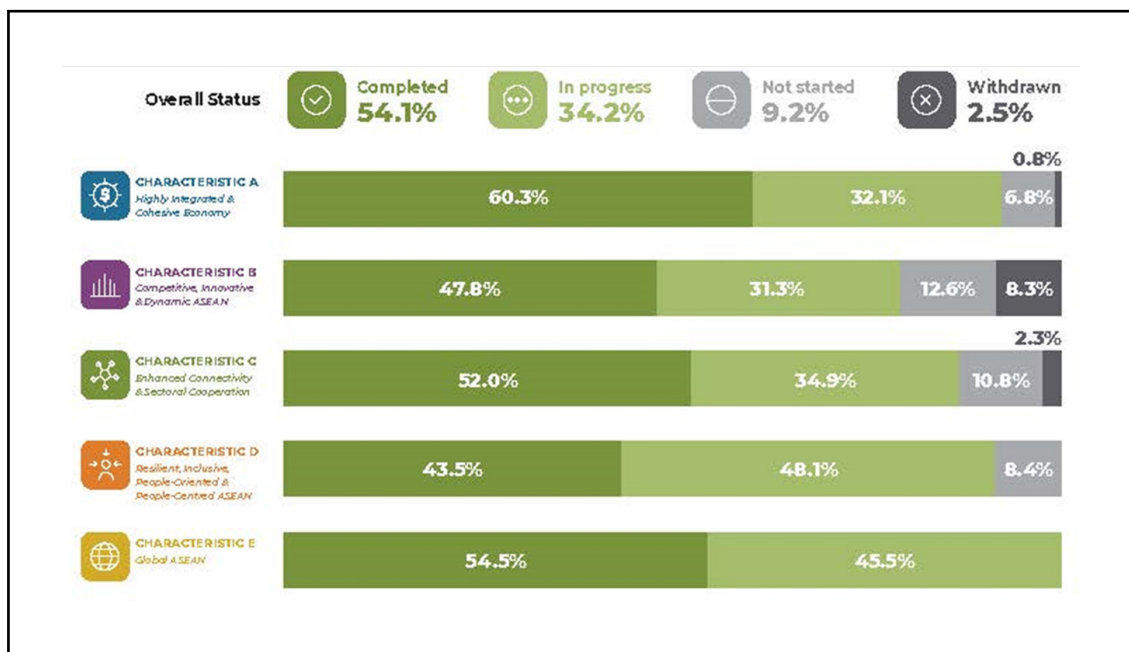
## 3. East Asian Economic Integration: Possible Pathway Towards 2045

This section elaborates on the possible pathways of East Asian economic integration by 2045. These include ASEAN integration, ASEAN cooperation with a partner(s), the Free Trade Area of the Asia-Pacific (FTAAP), and new issues of economic integration.

*First*, ASEAN economic integration will likely be deepened further in the period until 2045. There are several reasons for this projection. ASEAN is on track for implementing its ASEAN Economic Community Blueprint 2025 (AEC 2025), which builds upon five interrelated and mutually reinforcing characteristics, namely: (i) a Highly Integrated and Cohesive Economy; (ii) a Competitive, Innovative, and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectoral Cooperation; (iv) a Resilient, Inclusive, People-Oriented, and People-Centred ASEAN; and (v) a Global ASEAN (Figure 7.7). Notably, the overall vision under the AEC 2015 is still relevant for the AEC 2025, reflecting the consistency of economic community-building efforts by ASEAN. Its economic integration efforts are simultaneously

complemented by efforts to narrow the development gap and improve the inclusiveness of stakeholders in ASEAN. Thus, ASEAN integration is not only about competition but also about cooperation for building capacity and attaining shared prosperity.

**Figure 7.7. Progress of Implementing the AEC 2025**



Source: ASEAN (2021).

The room for further meaningful integration efforts of ASEAN remains ample. ERIA (2021) assesses the impact of the ASEAN Trade in Goods Agreements (ATIGA) on intra-ASEAN trade and finds that a large proportion of trade takes place in products where the most-favoured-nation tariff is zero or the margin of preferences is very small. At the same time, there is strong evidence that tariff reduction under ATIGA did stimulate FTA utilisation. As an implication, further reductions of ATIGA tariffs – under the existing roadmap and/or under a newly agreed schedule in the future – may further promote intra-ASEAN trade. Specifically, for such reductions to be meaningful, econometric analysis by ERIA (2021) shows that firms may need a tariff margin of at least 3% so as to consider using ATIGA. In the context that various ASEAN-plus FTAs are under negotiation for upgrading or research for upgrading, this also implies that a new round of negotiations for upgrading ATIGA would be of potential benefit.

The current context has several factors that may affect further economic integration efforts of ASEAN in the near term, such as the Myanmar situation, the COVID-19 context and the facilitation of trade in essential products, and geopolitical tensions in various regions of the world, etc. As contended by ERIA (2019), the global and regional context by 2040 will be vastly different from the past 5 decades. In terms of purchasing power parity, ASEAN, China, and India will be amongst the

top four economies in the world by 2040. Asia will increasingly dominate the world economy. However, a lesson from the past also shows that ASEAN member states have leveraged efforts to forge regional economic cooperation during times of difficulty (such as the Asian monetary crisis in 1997 and the COVID-19 outbreak in 2020). In this respect, the so-called 'ASEAN way' may enable pathfinding efforts by ASEAN, especially via incremental steps and some flexibility in roadmaps depending on the development level for implementation by ASEAN member states.

In another aspect, the trade and investment linkages in Southeast Asia will remain strong, if not deepened further. As foreign investors progressively shift their investment location (during reshoring, nearshoring, or friendshoring), various ASEAN member states may become more attractive and gain potential. Each ASEAN member state on its own, nevertheless, may not meet all the diverse needs of foreign investors, nor would it be big enough to host all or substantial parts of the global value chains. In this regard, whilst competing for FDI, ASEAN member states may still perceive the need to collaborate and work together to form a single, interconnected investment destination for the whole region.

*Second*, ASEAN will deepen economic integration with each dialogue partner in the 'extended' East Asia region (including China, Japan, Korea, Australia, and New Zealand). ASEAN has implemented FTAs with China, Korea, Japan, India, Australia, and New Zealand under the ASEAN-plus framework. Induced by various factors (such as the entry into force of RCEP), further negotiations to upgrade existing ASEAN+1 FTAs are already ongoing or will take place in the future. As of December 2022, the AANZFTA is under negotiation for upgrading, whilst the AKFTA is under research for upgrading.

The East Asian economies have gradually built up their distinctive industrial network over the last few decades. The development of this manufacturing network can be attributed to the Japanese industrial boom, with significant spillover effects on neighbouring economies, particularly the first generation of newly industrialised economies like Hong Kong, Korea, and Singapore. After that, the second generation, comprised of Malaysia, China, Thailand, and Viet Nam, began to emerge. As more developed economies rose in the East Asian production network, some manufacturing stages were gradually relocated there to take advantage of the low labour costs and accommodative investment policies, etc.

The agglomeration and fragmentation of industrial processes in East Asia have also been pushed by the trend of ASEAN-plus economic integration. Agglomeration may be further developed when businesses seek to



recognise and seize economies of scale. Digitalisation may help in accelerating this trend, even during times of crisis. Using survey data on firms in ASEAN and India in 2020 with the outbreak of COVID-19, Oikawa et al. (2021) show that the firms implementing supply chain digitalisation also tend to have implemented both supply chain optimisation and remote operations. However, there may emerge risks associated with this approach as well. These include excessive investment over the optimal level, and the congestion effect from agglomeration. For instance, Vo (2020) reports that most technology firms claim that a physical presence in the industrial zones is neither necessary nor financially viable in the context of digitalisation. Still, addressing such risks depends upon the enterprises' future efforts towards specialisation, which in turn depend upon comparative advantages and service-link costs.<sup>7</sup>

The ASEAN-centred East Asian integration process may be further institutionalised. The joint statement issued in 1999 by China, Korea, Japan, and ASEAN members reflects the political commitment of East Asian economic leaders to regional integration. A community for East Asians has been proposed. As noted above, ASEAN integration will likely progress, including with the renewal of the AEC Blueprint. In a different approach, ASEAN has worked together and expressed official views on a number of initiatives proposed by external partners, such as the ASEAN Outlook on the Indo-Pacific, etc. Similarly, a number of ASEAN member states have also joined the negotiations for the Indo-Pacific Economic Framework, which may help shape future economic cooperation.

*Third*, RCEP will play a crucial role in the future of ASEAN. A vast literature already shows that RCEP also has a trade creation effect, rather than just trade diversion effects. Other studies (such as Petri and Plummer (2020)) assert that RCEP could help compensate for the adverse impacts of the US-China trade war on regional trade. In the face of complicated challenges and opportunities for regional trade and investment after COVID-19 (e.g. see Kimura et al. (2022)), the entry into force of RCEP in 2022 was timely. More importantly, the signing and entry into force of RCEP already show that ASEAN can assume centrality in working with external partners to overcome difficulties.

Induced by RCEP, East Asian economies may deepen efforts to build and improve their socioeconomic infrastructure, particularly economic infrastructure. This makes way for private economic activities, whilst making the regional economies more appealing to flows of FDI. This process of regional infrastructure development (e.g. the Greater Mekong Subregion) has seen numerous joint efforts by Japan, Korea, China, and ASEAN member countries, and this has been amongst the key factors contributing to expanding regional trade and investment and, ultimately, promoting economic growth.

Likewise, cooperation may be further enhanced in the development of human resources and of institutional capacities in both the public and private sectors. Such cooperation has been in various forms, including capacity building and technical assistance, etc. Various country assistance strategies of regional and international donors have included cooperation along these lines, and they boast strong relevance to the needs of the recipient countries. A significant example is Viet

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<sup>7</sup> Transportation, customs processes, warehouse charges, shipping costs, and telecommunication costs, etc. are a few examples of service-link costs.



Nam, which has long recognised that a fundamental obstacle to long-term prosperity is a lack of human capability and has actively worked with donors to solve this issue. This helps explain the peculiar characteristic of ASEAN FTAs of incorporating a development cooperation provision, and this characteristic may likely be preserved in future arrangements.

*Fourth*, there may be a renewed possibility of realising FTAAP. Annex 1 of the APEC Economic Leaders' Statement in 2016 already refers to the direction of work towards realising FTAAP. However, the Annex explicitly elaborates on FTAAP via pathways of RCEP and the TPP. Given that both RCEP and the CPTPP have entered into force, the future of FTAAP deviates farther from impossibility. Material incentives may emerge for East Asian countries to participate in the FTAAP process. On the one hand, the Asia-Pacific region is still an economically dynamic region, which makes trade and investment liberalisation beneficial for members. On the other hand, the strategic US–China rivalry, which will arguably continue for decades into the future, also creates room for joint pathfinding efforts by East Asian countries.

*Finally*, sectoral agreements may emerge as a new trend in East Asian economic integration. New issues such as labour standards and the digital economy, etc. have already been incorporated in FTAs involving East Asian countries, such as the CPTPP, and bilateral FTAs with the EU, etc. These have formed the substance of initiatives that are ongoing, such as the Indo–Pacific Economic Framework. However, some stakeholders perceive merits in having an early harvest via quickly formalising cooperation in potential sectors, rather than following a single-undertaking approach which may take a lengthy process (and even domestic political complications) to conclude. Indeed, the ACFTA already showcases that such an early harvest approach can be viable. In particular, such sectoral agreements may produce quick outcomes that can help encourage various stakeholders to pursue deeper collaboration.

## 4. Harmonising East Asian Economic Integration and Other Integration Tracks: Key Issues for Viet Nam

Being a member of various economic integration tracks (Figure 7.1), Viet Nam also needs to address various key issues. First, the country needs to minimise the trade diversion costs from the existing and future integration tracks. UNCTAD (2021) assessed the impacts of tariff reductions under RCEP and already documents its significant trade diversion effects for Viet Nam. In addition, new initiatives such as the Indo–Pacific Economic Framework – whether leading to binding commitments related to trade liberalisation and trade standard setting or not – may work just to promote trade and investment diversion towards the Indo–Pacific region.

Avoiding such trade diversion effects should not be based on keeping the existing modest utilisation of FTAs. Instead, it should be built upon improving domestic capacity and working with regional partners to harmonise the integration tracks. As Viet Nam's experience with the RCEP negotiations already shows, negotiating for this agreement alongside the EVFTA and TPP/CPTPP helps strengthen domestic consensus and preparation for mega-FTA issues whilst injecting the new issues under

new-generation FTAs into RCEP. Besides, promoting ASEAN centrality whilst preserving open regionalism is no easy task, as each ASEAN member state may have different calculations in various integration tracks (FTAAP, CPTPP, RCEP, and the Indo–Pacific Economic Framework). In this regard, fostering further dynamism would be possible after RCEP by reiterating efforts to consider negotiating upgrades to the existing ASEAN-plus FTAs – upon which RCEP was established.

*Second*, fostering linkages between FDI and local firms remains problematic. On the one hand, whilst Resolution 50-NQ/TW of the Politburo in 2019 already set out the direction to screen and enforce high standards over FDI inflows, Viet Nam cannot compel FIEs to procure inputs and materials from domestic firms. Nor would regulatory requirements to transfer technology make sense. It should be noted that the country still has to consider the impacts of the global minimum tax mechanism and how to continue appealing to foreign investors, rather than merely applying more requirements on them.

On the other hand, Viet Nam also needs to quickly upgrade the capacity of Vietnamese companies in order to join the FDI-led supply chains. The inadequate capacity of Vietnamese capacity is often reflected in the aspects of product price, product quality, the ability for large-volume production, and just-in-time delivery. More recently and into the future, increasing attention is being dedicated to green transition and decarbonisation efforts. The survey results of JETRO (2022) showed that decarbonisation efforts of Japanese firms in Viet Nam had already been ongoing but were mostly directed by headquarters. As an implication, decarbonisation was yet to be driven by the evolving perception, regulation, and cooperation needs of Vietnamese enterprises.

*Third*, whilst being open to considering new areas of integration arrangements, Viet Nam needs to be able to harmonise standards of commitments. Such areas may include intellectual property, trade and sustainable development, services, and paperless trading, etc. For instance, harmonising commitments in paperless trading is currently not an issue from the perspective of existing FTAs (CPTPP and RCEP) as the language still embodies significant flexibility. In light of this, Viet Nam may need to work together with ASEAN member states to promote the collective role of ASEAN as a pathfinder. Such a pathfinding role is still possible, given that the ASEAN way and emphasis on capacity building still enable patient (and even repetitive) efforts to progress in specific areas. In addition, ASEAN has concretised ASEAN centrality, and this centrality has also been supported by dialogue partners. The essence then lies in open dialogues and a credible work plan of ASEAN and between ASEAN and partners to ensure better viability of such a pathfinding process.

*Finally*, Viet Nam needs to sustain momentum for unilateral economic reforms. Over the past decades, Viet Nam has leveraged the doctrine of using pressures from integration commitments to boost domestic reforms. Examples of specific areas include reforms of state-owned enterprises, customs reforms, price liberalisation, and the simplification of business entry conditions, etc. However, there remain areas of reforms that can be leveraged further, such as regulatory coherence, cross-border data flows, and competitive neutrality. As the FTA process may be bumpy at times, ensuring that the economic reforms are self-sustained and pertain to the fundamental needs of Viet Nam is critical.

## 5. Conclusions and Recommendations

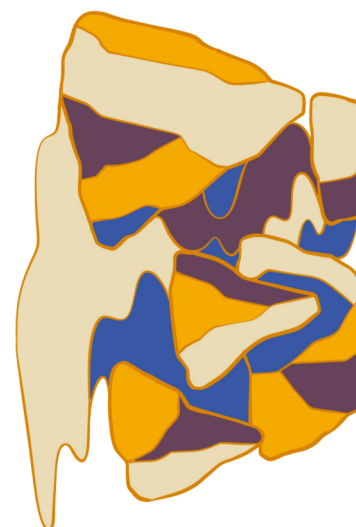
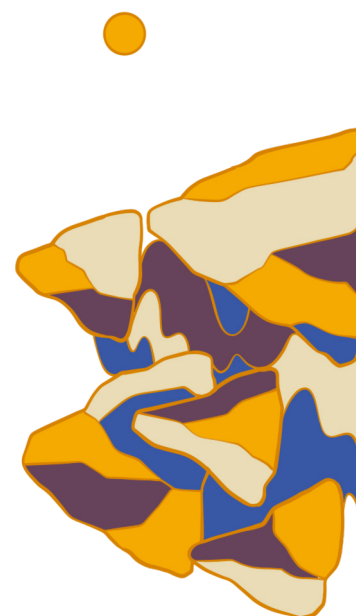
This chapter looks into the possible pathways of East Asian economic integration until 2045. Despite uncertainty, such pathways can be diverse and mutually reinforcing. ASEAN centrality may be a crucial precondition and, at the same time, a target that needs further contribution by ASEAN member states and external dialogue partners. Further engagement in shaping such pathways would be beneficial for Viet Nam, as already reflected in past experiences with trade and investment liberalisation. Still, Viet Nam has to address some key issues in harmonising East Asian economic integration and other integration tracks. These issues include: (i) minimisation of trade diversion costs; (ii) strengthening linkages between FDI and domestic enterprises; (iii) harmonising commitments in specific new issues; and (iv) sustaining domestic reforms.

Looking forward, Viet Nam needs to consider the following recommendations.

*First*, Viet Nam should deepen structural reforms to foster economic opportunities and reduce the costs of doing business. Priority areas for such structural reforms may include the markets for production factor markets, business environment, competition policy, innovation, and the digital economy. These reforms must fit within a policy framework for strengthening macroeconomic stability and enhancing economic resilience. Even these seemingly domestic efforts could still build upon the collaboration with partners. For instance, Shrestha and Doan (2021) elaborate that the ASEAN approach of consultation can help deal with difficult issues, though progress can be slow.

*Second*, trade policy should be in line with investment policy in order to help manage the trade deficit and imports of intermediate goods more effectively and harmoniously. It should also be in line with the gradual engagement of domestic businesses in the East Asian value chain in a way that can convince FIEs about improving supply chain resilience via such engagement. Realising this may require more than just B2B efforts but also G2B and G2G approaches.

*Third*, Viet Nam should make more efforts in working with ASEAN and East Asian partners to promote ASEAN centrality. Such centrality should be further enhanced in the areas relevant to economic cooperation, including new FTAs and their



harmonisation, cooperating with external partners in major projects (such as the Indo-Pacific Economic Framework), and capacity building. In doing so, promoting an early harvest approach in some priority sectors, such as digital transformation in export promotion<sup>8</sup> and trade facilitation,<sup>9</sup> etc. may become ASEAN's signature approach.

*Finally*, Viet Nam should further support multilateralism. It should be borne in mind that FTAs are considered an alternative pathfinding effort whilst the WTO fails to make timely and decent progress. Thus, Viet Nam needs to actively engage in dialogues with partners, including at multilateral fora, about the need and initiatives for WTO reforms. In this process, contributing to and making use of the collective voice of ASEAN may be essential.



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<sup>8</sup> For instance, see CIEM (2021b).

<sup>9</sup> For instance, see Doan and Le (2021).

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