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Trade Policy, Domestic Reforms, and Structural Transformation in Viet Nam

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Abstract: *Viet Nam is one of the most remarkable success stories of economic transformation in Asia. In a span of 3 decades, Viet Nam has managed to transform itself from an isolated, centrally planned agrarian economy into a dynamic manufacturing and services hub that is deeply connected to global supply chains. Increased trade and investment have been pivotal to Viet Nam's economic success, with exports, in particular, playing a critical role. This study addresses the key question of whether Viet Nam has been able to utilise its trade policy, in general, and its free trade agreements (FTAs), in particular, as a vehicle to pursue and unlock difficult domestic reforms. If so, which of the agreements have had the greatest impact on domestic reforms, and in which sectors? To do this, the analysis employs a combination of qualitative and quantitative approaches, as well as an extensive review of existing studies. The findings indicate that modern FTAs, especially the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the European Union-Viet Nam Free Trade Agreement, have been able to keep the reform momentum going and fill gaps in some of the more difficult areas of reform. Nevertheless, significant changes came with the decisions to join the Association of Southeast Asian Nations and the World Trade Organization, and the preparatory reforms associated with them continue to influence the economy more than any of the FTAs signed subsequently.*

If the FTAs can promote domestic reforms, then they have the potential to further facilitate the structural transformation of the economy. Structural transformation modelling allows us to estimate the typical development path of the manufacturing share of employment relative to Gross domestic product per capita over time and compare this with the actual path for Viet Nam, in the past and into the future. The comparison reveals that Viet Nam's manufacturing share of employment rose rapidly from substantially below the typical development path to one substantially higher and maintaining an upward trend. Nevertheless, avoiding employment deindustrialisation in the future will require further domestic reforms that enhance within-sector productivity growth. Continued implementation of the more difficult reforms embedded in the modern FTAs, together with strong domestic reform efforts, will play a determining role in ensuring Viet Nam's continued economic transformation and growth.

Keywords: FTAs; WTO; structural transformation; Viet Nam

JEL Classification: F13; F16; F63; O47

1. Introduction

Background and Rationale for the Study

Viet Nam is one of the most successful stories of economic transformation in Asia, if not the world. In a span of 3 decades, Viet Nam has managed to transform itself from an isolated, centrally planned agrarian economy into a dynamic manufacturing and services hub that is deeply connected to global supply chains. Increased trade and investment have been pivotal to Viet Nam's economic success, with exports in particular playing a critical role in minimising the damage from various external shocks, such as the 1997–1998 Asian financial crisis, the 2008 global financial crisis, and the more recent COVID-19 pandemic.

These achievements would not have been possible without Viet Nam's adoption of progressively liberal and difficult market-based reforms. The *doi moi* (renovation) reforms initiated in 1986 provided the foundation for the shift away from centralised planning and the introduction of market-based systems. Viet Nam's accession to the ASEAN Free Trade Area (AFTA) in 1995 and the World Trade Organization (WTO) in 2007 required even bolder economic, legal, and institutional reforms that cemented trade and investment as key drivers of growth and transformation.

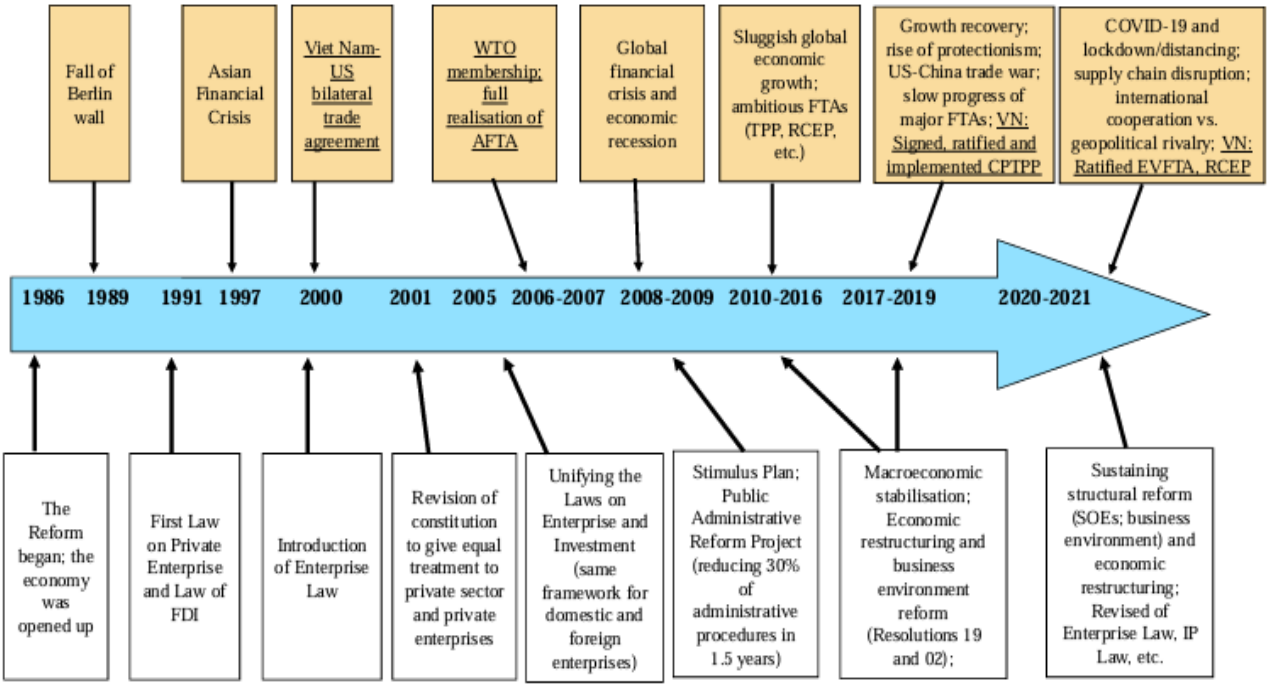
In addition to AFTA and the WTO, Viet Nam has also been actively participating in bilateral and plurilateral trade agreements, which have proliferated as multilateral trade talks at the WTO have stalled. Initially, Viet Nam pursued membership in FTAs under the ambit of the Association of Southeast Asian Nations (ASEAN) through the so-called ASEAN+1 free trade agreements (FTAs), which the regional bloc signed with key dialogue partners. Since the mid-2010s, however, Viet Nam has increasingly ventured out on its own, signing FTAs independently of ASEAN and broadening both its FTA partners and commitments. To date, Viet Nam has a total of 16 FTAs in effect and 3 under negotiation.

Figure 1 summarises the major milestones in Viet Nam's liberalisation process since the *doi moi* policy was adopted in 1986. Despite the progress that Viet Nam has made in embracing market-based reforms, its reform agenda remains largely unfinished. With tariff rates having come down substantially, reducing non-tariff barriers and achieving behind-the-border reforms have become more important determinants of trade and investment competitiveness. This challenge is not unique to Viet Nam, however, and many other countries in ASEAN and elsewhere are facing similar difficulties in pushing ahead with their reform programmes.

Viet Nam's recent FTAs are increasingly new-generation, modern FTAs that entail ambitious trade and investment liberalisation schedules and cover areas that go beyond the scope of WTO agreements. Reform-minded developing countries such as Viet Nam could, and indeed should, leverage these modern FTAs to drive further market-oriented reforms and economic transformation (Khuong and Hartley, 2020; Chauffour and Maur, 2010).

Most assessments of the effectiveness of FTAs focus on the provisions of the agreements and their impact on economic outcomes, such as trade volumes. However, as Chauffour and Maur (2010) point out, this approach limits our understanding of what truly drives successful policy reform and liberalisation. Further research into political economy aspects is needed to tease out the elements that influence the impact of FTAs on domestic reforms.

Figure 1. Milestones in Viet Nam's Liberalisation Process, 1986–2021



Source: Nguyen and Vo (n.d.).

Survey of Related Literature

Two theories are typically offered to explain the underlying drivers of FTAs. Terms of Trade Theory focuses on economic motivations: from an economic standpoint, an FTA enhances economic welfare by avoiding the prisoner's dilemma that arises from unilateral tariff setting.

Commitment Theory, on the other hand, focuses on the political and policy reform benefits: from a political-economy standpoint, an FTA can serve as a commitment device that enhances the creditability, predictability, and stability of policy reforms. By tying policy reforms to penalties for non-compliance, FTAs can act as an external constraint that locks in commitments and allows governments to overcome the time-inconsistency problem (Kydland and Prescott, 1977), where politicians struggle to lock in promises due to vested interests or domestic pressure (Beshkar and Bond, 2019; Baccini and Urpelainen, 2014a, 2014b; Chauffour and Maur, 2010; WTO, 2009; Maggi and Rodríguez-Clare, 2007). Baccini and Urpelainen (2014a, 2014b) note that FTAs can be helpful, particularly for new leaders or democracies that face strong opposition to controversial reforms.

Countries might also use FTA-driven reforms as a form of negotiating coin: rather than pursue unilateral liberalisation, they may opt to use the promise of reforms to extract concessions from FTA trading partners (Harms, Mattoo, and Schuknecht, 2003). Baccini and Urpelainen (2014c) further find that developing countries strategically time their reforms by changing regulations between the signing and ratification of FTAs to burnish their credibility with FTA partners.

Chauffour and Maur (2010) offer two reasons why the implementation of FTAs may be more critical than WTO agreements in driving ambitious reforms. First, FTAs may require stronger and deeper obligations to achieve effective liberalisation, whereas WTO agreements allow for higher levels of protection and exceptions for developing countries. Second, FTAs may delve into newer and deeper areas like services liberalisation, competition, and intellectual property rights, which go beyond current WTO disciplines. Both these factors have become more compelling over the years, with the gradual weakening of the WTO.

Whilst the theoretical arguments for FTAs driving deep or deeper reforms may be sound, the evidence from the literature remains mixed. A number of studies show how Mexico, Chile, Costa Rica, and Peru used their FTAs with the United States (US) to initiate and solidify their domestic reform agendas (Levy, 2009; Schott 2003) Ghesquière (2001) shows how European Union (EU) association agreements with non-EU countries helped drive significant domestic reforms, including reducing protection, enhancing transparency, and harmonising regulatory aspects and procedures. The EU continues to use its deep and comprehensive agreements with

other countries to promote regulatory convergence, a process that requires those lagging behind to pursue ambitious domestic reforms (De Ville, 2023; Araujo, 2019).

The evidence goes beyond just accession to FTAs or mega-regional agreements. An empirical study by Tang and Wei (2009) finds that policy commitments associated with accession to the WTO helped move the needle on reforms, especially for countries with poor governance. Baccini and Urpelainen (2014a, 2014b) likewise find that the combination of leader change and democratisation has a large and statistically significant effect on the probability of negotiating FTAs. Their empirical and qualitative investigation of North-South FTAs also reveals a link between participation in trade agreements with the EU and the US and the implementation of economic reforms. However, a survey of the empirical literature by Dee and McNaughton (2011) finds that the empirical evidence does not fully support the theoretical arguments for regionalism promoting domestic reform.

These differences in results seem to stem from two main factors: the design and content of FTAs and the kind of trading partners involved. FTAs with more stringent provisions and clear dispute settlement mechanisms are more likely to lead to actual policy changes (Hicks and Kim, 2012). Conversely, excessive flexibilities to account for differences in implementation capacity often water down the reform potential of FTAs. An analysis by Johns (2014) goes further by looking at how the depth or rigidity of an FTA affects member countries' compliance with provisions. The study finds that deep FTAs with built-in flexibilities lower the likelihood of compliance, whereas shallow FTAs with stricter provisions produce the opposite outcome.

Studies examining the implementation of ASEAN member countries' commitments under their FTAs highlight the important role of depth of coverage and enforceability. An analysis by Kleimman (2013) finds that (i) the depth and coverage of the ASEAN+1 FTA commitments typically do not exceed ASEAN's own internal economic integration commitments, and (ii) the commitments vary considerably depending on the intensity of trade between ASEAN and the respective external partner. The same study also reveals that bilateral FTAs between six individual ASEAN Member States and Japan tend to have deeper commitments than the ASEAN+1 FTAs. Meanwhile, Menon and Melendez (2015) note that the implementation of agreements signed by ASEAN has been hampered by built-in flexibilities introduced under the 'ASEAN-X' formula, which allows member states to liberalise according to each country's readiness.

Furthermore, and perhaps unsurprisingly, the parties to an FTA also seem to matter. Baccini and Urpelainen (2014a, 2014b) find that FTAs with major economic powers, such as the US and the EU, tend to have a greater impact on domestic reforms because these FTAs have not only deep commitments but also more legally binding provisions. Developing countries that are parties to FTAs with major powers also have more to lose in terms of market access and other benefits should they renege on their commitments.

For Viet Nam, a number of authors assert that the government has used trade agreements to pursue sensitive reforms and that WTO accession and FTAs have led to tangible policy changes (Gioi, 2023; Nguyen, 2021; Deprez, 2018; Nguyen and Vo, n.d.). Deprez (2018) notes that Viet Nam has adopted a highly strategic approach to international trade integration, using it as a tool to lock in reforms, maximise trade creation, promote supply chain upgrading, and bolster its economic standing vis-à-vis its neighbours. Deprez (2018) likewise echoes studies that highlight the importance of strong enforcement, noting that the legally binding commitments found in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union-Viet Nam Free Trade Agreement (EVTFA) provide a stronger impetus for reform than the non-binding and more flexible 'ASEAN Way'.

Research Questions and Methodology

This research paper aims to contribute to the literature on the impact of FTAs on domestic reforms by delving into Viet Nam's policy commitments under its FTAs to answer the following questions:

i) Has Viet Nam been able to use its FTAs as a vehicle for pursuing and locking in difficult domestic reforms?
ii) Which of the bilateral or plurilateral FTAs have had the greatest impact on domestic reforms, and in which sectors?
iii) To what extent does the design or content of Viet Nam's FTAs influence their effectiveness as reform drivers?

Empirical analysis to conclusively show whether FTAs promote domestic reform is difficult to undertake, since this involves labour-intensive research and requires monitoring of actual policy changes over a substantial period (Dee and McNaughton 2011). For this reason, this study will rely primarily on a qualitative approach consisting of the following:

i) A desk review of recent studies analysing the impact of Viet Nam's FTAs on domestic policy reforms.

ii) An examination of Viet Nam's external and domestic policies that have been or will be implemented to meet commitments under its FTAs, specifically the Regional Comprehensive Economic Partnership (RCEP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the EU-Viet Nam Free Trade Agreement (EVFTA). These are the most recent and comprehensive FTAs signed by Viet Nam to date, and they offer a good opportunity to test whether domestic reforms are indeed influenced by the depth and rigidity of the agreement and the partners involved. This assessment will rely on recent policy documents and news articles, as well as relevant research, technical, and project documents produced by international organisations, research institutes, or academia.

iii) Consultations with relevant stakeholders to collect primary data and verify information obtained from the desk review. Consultations will involve individual semi-structured interviews and/or focus group discussions. A list of stakeholders consulted for the study will be provided in an annex to the final study.

Where possible, these qualitative findings will be supported by quantitative data from readily available databases and business surveys.

Finally, the study will also employ a structural transformation model to provide a quantitative assessment of the impacts of FTA-driven and other reforms on productivity and growth and examine different scenarios relating to how the manufacturing employment share may evolve depending on the extent of reforms.

Overview of the paper

This paper consists of seven sections. Following this introduction, Section 2 will provide an overview of Viet Nam's economic performance and examine the changing structure of trade and investment over the last 3–4 decades. Section 3 will discuss the structural transformation of the economy, and trade and investment policy in Viet Nam and delve into Viet Nam's FTA landscape. It will analyse the evolution of policy commitments, focusing on WTO+ areas that require deeper and broader domestic reforms. Using qualitative data from interviews and a review of recent publications, Section 4 will focus on three of Viet Nam's most recent FTAs, i.e. the CPTPP, RCEP,

and the EVFTA, to determine their influence on reforms in selected policy areas. Section 5 will present the structural transformation model and a description of the method and data used to implement it. This is followed by a discussion of the results from the model in Section 6. A final section concludes.

2. Overview of Viet Nam's Economy: Structural Transformation, and Trade and Investment Performance

Viet Nam's Economic Transformation: 1990–2022

Viet Nam's economy has grown from strength to strength since it first embraced the ambitious *doi moi* reforms in 1986. Viet Nam's gross domestic product (GDP) growth from 1990 was exceptional, averaging nearly 7% annually until 2019. The economy took a massive hit due to the COVID-19 pandemic, with GDP growth plummeting to 2.9% and 2.6% in 2020 and 2021. GDP per capita growth likewise fell to 1.9% in 2022 and 1.7% in 2021, a marked decline from the 5.5% annual average achieved in prior decades. Fortunately, the economy managed to stage a remarkable recovery by 2022, with GDP growth bouncing back to 8%.

The country's transformation has led to a dramatic improvement in living conditions and a decline in poverty in a single generation. Viet Nam reached lower middle-income status in 2010 and is on track to reach upper middle-income status by the mid-2030s (Trieu 2023). GDP per capita (purchasing power parity (PPP), in constant 2017 international US$) more than quadrupled from US$2,765 in the 1990s to US$11,396.5 in 2022. Extreme poverty, measured by the poverty headcount ratio with the US$2.15 a day (2017 PPP) poverty line, has been practically eradicated. The poverty headcount ratio at national poverty lines stood at 4.8% of the population in 2020. There have been vast improvements in social outcomes such as education and health. The literacy rate has increased from 90% in the 1990s to about 96% in the decade prior to the pandemic. Life expectancy at birth has extended from 71 years to 74 years during the same period. Both maternal and infant mortality rates have fallen significantly (Table 1).

Table 1: Viet Nam's Key Economic and Social Indicators

Indicator	Average			2020	2021	2022
	1990–1999	2000–2009	2010–2019			
GDP growth (annual %)	7.4	6.6	6.6	2.9	2.6	8.0
GDP per capita (constant 2015 US$)	886.9	1,537.0	2,579.1	3,352.1	3,409.0	3,655.5
GDP per capita, PPP (constant 2017 international US$)	2,765.2	4,791.9	8,040.9	10,450.6	10,628.2	11,396.5
GDP per capita growth (annual %)	5.5	5.6	5.5	1.9	1.7	7.2
Unemployment, total (% of total labour force) (national estimate)	2.4	2.2	1.4	2.1	2.4	1.5
Poverty headcount ratio at US$2.15 a day (2017 PPP) (% of population)	34.8	19.0	1.8	0.7	..	..
Poverty headcount ratio at US$3.65 a day (2017 PPP) (% of population)	69.8	51.0	8.9	3.8	..	..
Poverty headcount ratio at national poverty lines (% of population)	..	..	7.4	4.8	..	..
Literacy rate, adult total (% of people aged 15 and above)	90.3	91.8	95.8	..	..	..
Life expectancy at birth (years)	71.0	73.1	73.8	75.4	73.6	..
Maternal mortality ratio (national estimate, per 100,000 live births)	..	58.0	42.0	..	..	..
Mortality rate, infant (per 1,000 live births)	30.6	20.6	17.6	16.6	16.4	..

Notes: Average values generated using the World Bank's World Development Indicators database time function. Observations that are not available are ignored; zero values are included.
Source: World Bank, World Development Indicators database (accessed 5 February 2024).

Viet Nam's economic transformation has been underpinned by a Lewis-type development process, with labour reallocated from low-productivity agriculture to higher-productivity industry (Table 2). Industry's value added share has grown from an average of about 29% in the 1990s to 38.3% in 2022, driven mainly by continued growth in manufacturing. However, agriculture's value added share of GDP has declined from almost a third in the 1990s to about 12% in 2022. The services sector remains the largest sector in the economy, with services value added accounting for

about 41% of GDP since the 1990s. However, about a third of service activities are estimated to come from wholesale and retail trade (OECD, 2020).

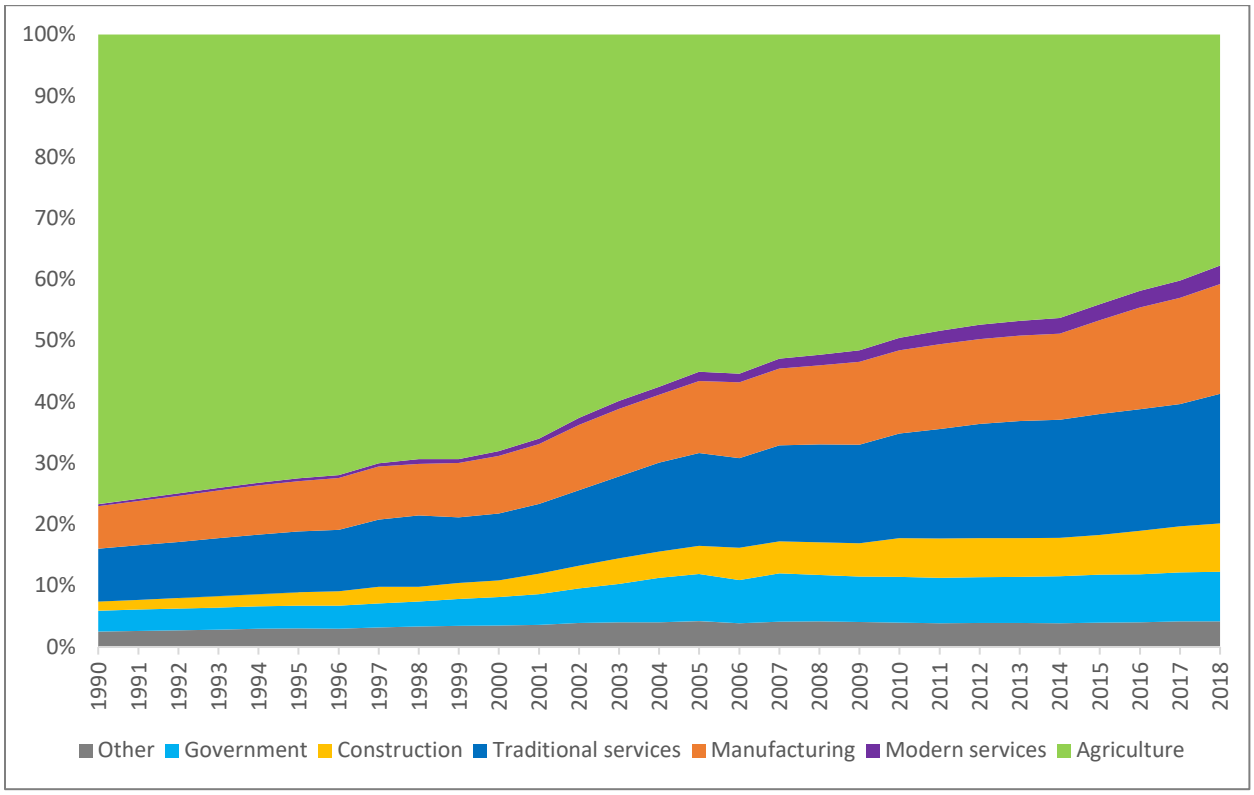
Table 2: Sector Value Added, 1990–2022 (% of GDP)

Indicator	Average			2020	2021	2022
	1990 - 1999	2000-2009	2010-2019			
Agriculture, forestry, and fishing, value added	30.2	21.1	14.3	12.7	12.6	11.9
Industry (including construction), value added	28.9	38.3	35.1	36.7	37.5	38.3
of which manufacturing, value added	..	*18.9*	*20.9*	*23.9*	*24.6*	*24.8*
Services, value added	40.9	40.6	41.2	41.8	41.2	41.3
Trade	82.7	131.0	140.9	163.2	186.4	185.7
Foreign direct investment, net inflows	6.8	5.2	4.7	4.6	4.3	4.4

Notes: Average values generated using the World Bank's World Development Indicators database time function. Observations that are not available are ignored; zero values are included.
Source: World Bank, World Development Indicators database (accessed 5 February 2024).

Apart from the changes in the sectoral shares of GDP, Figure 2 displays the dramatic reduction in the share of workers employed in agriculture over the period and how this was distributed to other sectors of the economy. To simplify the picture, we have grouped several of the Groningen Growth and Development Centre (GGDC) sectors into broader categories. The agricultural share in total employment halved from 77% in 1990 to 38% in 2018. The government sector has tended to play a material role in absorbing more labour, reflecting Viet Nam's communist system, whilst construction has also increasingly played a role. However, the lion's share of the reduction in the share of agricultural employment has gone into manufacturing and traditional services (comprising the trade and other services sectors). Modern services, in contrast – consisting of real estate, financial, and business services – still occupy a small share of total employment.

Figure 2: Share of Total Employment by Broad Sectors

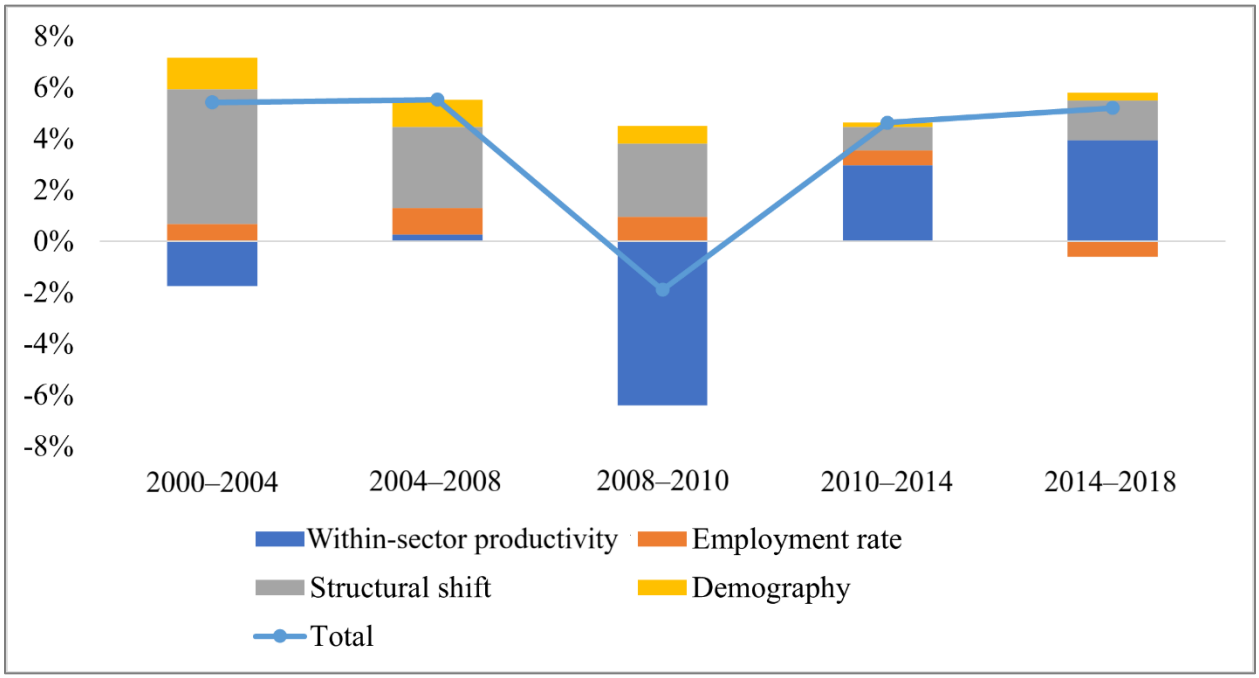


Source: Authors' calculations based on GGDC data.

Structural change in the distribution of employment has, in turn, supported strong gains in productivity and output. Figure 3 shows growth in output per capita in Viet Nam over different periods decomposed into the contributions from increases in within-sector labour productivity, productivity gains from the structural shift of workers from lower to higher productivity sectors, changes in the employment-to-population ratio, and demographic effects through changes in the working age to total population dependency ratio. As the graph shows, there has been a considerable evolution in the drivers of economic growth in Viet Nam. During the 2000s, output per capita grew at 2.9% a year on average. During this period, most productivity gains came from the structural shift of workers from lower to higher productivity sectors, notably moving from agriculture to manufacturing and traditional services. A rising employment rate and demographic dividend through a lower dependency ratio also contributed materially to output per capita growth. However, within-sector productivity detracted substantially, with negative labour productivity growth in most sectors (Figure 4).

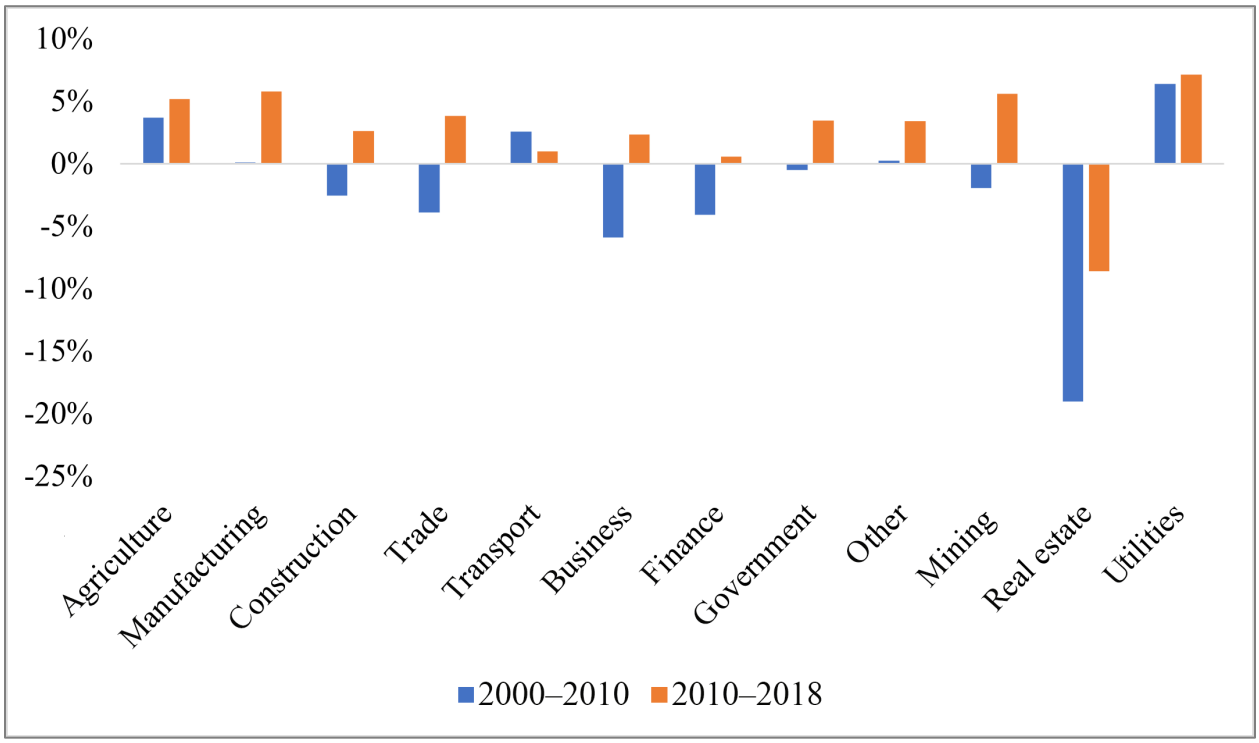
In the 2010s, however, there was a dramatic change in the sources of growth. By the 2010s Viet Nam's demographic dividend had largely faded away, whilst the contribution from changes in the employment ratio declined and then turned negative. Nonetheless, during 2010–2014, growth in output per capita accelerated to 4.5% a year. This was primarily driven by within-sector productivity gains. By contrast, there was a much smaller contribution from structural shift during this time, particularly as increases in the manufacturing share of employment eased. However, during 2014–2018, the share of manufacturing in total employment began to rise again more strongly, which, along with a further increase in the contribution from within-sector productivity growth, allowed the pace of growth in output per capita to increase further to 4.9% per year (Figure 4).

Figure 3: Output per Capita Growth Decomposed



Source: Authors' calculations based on GGDC data.

Figure 4: Sector Labour Productivity Growth



Source: Authors' estimates.

For Viet Nam to make the transition to a high-middle income country, it will need to do more on sectoral diversification, innovation, and improvements in the quality of human and physical capital. Integrating services with manufacturing would increase productivity and help the country move up global supply chains (OECD, 2020).

Growing openness has played a huge role in Viet Nam's transformation, with trade as a share of GDP growing from an average of about 83% in the 1990s to 185.7% in 2022.

Table 3. Trade and Investment Performance, 1990–2022

Indicator	Average			2020	2021	2022
	1990–1999	2000–2009	2010–2019			
Trade (% of GDP)	82.7	131.0	140.9	163.2	186.4	185.7
Foreign direct investment, net inflows (% of GDP)	6.8	5.2	4.7	4.6	4.3	4.4

Notes: Average values generated using the World Bank's World Development Indicators database time function. Observations that are not available are ignored; zero values are included.
Source: World Bank, World Development Indicators database (accessed 5 February 2024).

3. Trade and Investment Liberalisation in Viet Nam: From *Doi Moi* to the Proliferation of FTAs

Unilateral Reforms under the *Doi Moi* Policy

The *doi moi* policy adopted in 1986 was intended to raise productivity and living standards by turning Viet Nam into a 'socialist market economy'. The initiative was partly a response to the end of the Cold War and the subsequent collapse of the Soviet Union, which deprived Viet Nam of its main export market and source of economic aid. The resolution of the Seventh National Congress in 1991 marked a formal shift towards a policy of openness (Thao, 2019; Government of the Socialist Republic of Viet Nam, 2013). The *doi moi* reforms deregulated foreign trade and investments in a bid to expand trade and commercial relations. A key aspect of the *doi moi policy* was the introduction of reforms targeting state-owned enterprises (SOEs). These reforms removed the state's monopoly on foreign trade, relaxed restrictions on foreign trading companies, allowed private companies to engage directly in foreign trade, and removed SOE-specific quotas and targets (Government of the Socialist Republic of Viet Nam, 2013; Riedel and Turley, 1999; Freeman, 1996).

To promote trade, Viet Nam enacted the Law on Import and Export Duties in 1988. The reform process continued to gather pace in the 1990s. In 1992, Viet Nam replaced the original import tariff schedule with a detailed, consolidated schedule based on the Harmonized System of tariff nomenclature. The tariff structure was progressively fine-tuned, and the maximum tariff rate was reduced from 200% in 1997 to 113% in 2004. Viet Nam also abolished quantitative restrictions and converted to tariff rate quotas for some products. It streamlined the procedures for approving

investment projects, and fresh investment incentives were granted under the Law on Foreign Investment enacted in 1996 (Menon and Melendez, 2011; Athukorala, 2006). These unilateral reforms not only boosted Viet Nam's exports and attracted foreign direct investment but also created new trading and foreign direct investment partners.

Although *doi moi* kick-started the reform process in Viet Nam, there was a cautious approach to liberalisation, given the government's desire to balance domestic industry protection with greater market orientation (Thao, 2019).

Membership in ASEAN and the World Trade Organization

Viet Nam joined ASEAN in 1995, kicking off its FTA journey with its accession to the ASEAN Free Trade Area (AFTA). AFTA provided Viet Nam with the status of most favoured nation and national treatment for its exports to ASEAN countries, which was not guaranteed without WTO membership. AFTA called for phased reductions in tariffs to facilitate cross-border trade. AFTA's Common Effective Preference Tariff was designed to lay the foundation for the creation of a single ASEAN market and production base. AFTA would later become the ASEAN Trade in Goods Agreement, signed in 2009. Viet Nam would also become party to other agreements seeking to liberalise intra-ASEAN trade in services and investments: the ASEAN Framework Agreement on Services was signed in 1995, the ASEAN Comprehensive Investment Agreement was signed in 2009, and the ASEAN Trade in Services Agreement was signed in 2020. These agreements have all been subsumed under the ASEAN Economic Community, which was established in December 2015.

Viet Nam's membership in ASEAN served as an initial entry point for Viet Nam's integration with ASEAN's dialogue partners through the so-called ASEAN+1 FTAs. The earliest ASEAN+1 FTAs involved the Plus Three countries, given ASEAN's strong trade and investment linkages with these countries through regional production networks. The first of these was the ASEAN-China FTA (ACFTA) on trade in goods (ACFTA), which took effect in 2004. The ASEAN-Republic of Korea FTA (AKFTA) on trade in goods took effect in 2007, whilst the ASEAN-Japan Comprehensive Economic Partnership came into effect the following year. Two ASEAN+1 FTAs took effect in 2010: the ASEAN-Australia-New Zealand FTA (AANZFTA), covering trade in goods, services, and investment; and the ASEAN-India FTA (AIFTA), covering trade in goods. These early ASEAN+1 FTAs were subsequently upgraded. Under the ACFTA,

agreements on trade in services and investments followed in 2007 and 2010. An upgrade protocol was further signed in 2015 to improve the original Framework Agreement and the Agreements on trade in goods, services, and investment. Under the ASEAN-Japan Comprehensive Economic Partnership, negotiations on a trade and services agreement and an investment agreement were concluded in 2017. The AIFTA was upgraded with agreements on trade in services and investment taking effect in 2015.

To prepare the groundwork for WTO accession, Viet Nam concluded a bilateral trade agreement with the US in 2001. A host of other economic, legal, and institutional reforms were introduced before Viet Nam was finally accepted into the WTO in 2007, becoming its 170th member. The accession process ushered in numerous reforms, including the adoption of enterprise and investment laws to provide equal treatment of Vietnamese and foreign investors, and the elimination of non-tariff barriers, such as quantitative restrictions, permits, and authorisation and licensing requirements. Viet Nam also bound its entire tariff schedule, mostly in the 0%–40% range (International Trade Administration, 2024; Government of the Socialist Republic of Viet Nam, 2013).

Participation in Modern and More Global FTAs: 2010 Onwards

In the mid-2010s, Viet Nam's engagement in FTAs began to broaden in geographic scope, as it began to participate in bilateral as well as plurilateral FTAs with trading partners in Asia, Latin America, and Europe (Table 4). Its FTAs also began to broaden in terms of scope, covering a host of WTO+ areas (Table 5).

Table 4. Viet Nam's FTAs as of August 2023

Name of Free Trade Agreement (FTA)	Effective Date for Viet Nam	Members	Scope	Type
ASEAN Economic Community (AFTA, ACIA, AFAS)	AFTA: 1995 ACIA: 1995 ATISA: 2021	Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam	Plurilateral	FTA & EIA
ASEAN-China (Upgraded)	2003	ASEAN, China	Plurilateral	FTA & EIA

Name of Free Trade Agreement (FTA)	Effective Date for Viet Nam	Members	Scope	Type
ASEAN-Republic of Korea (Upgaded)	2007	ASEAN, Republic of Korea	Country - bloc	FTA & EIA
ASEAN-Japan (Upgraded)	2008	ASEAN, Japan	Country - bloc	FTA
Japan-Viet Nam (Upgraded)	2009	Japan, Viet Nam	Bilateral	FTA and EIA
ASEAN-Australia-New Zealand (Upgraded)	2010	ASEAN, Australia, New Zealand	Plurilateral	FTA and EIA
ASEAN-India	2010	ASEAN, India	Country - bloc	FTA and EIA
Viet Nam-Chile	2014	Viet Nam, Chile	Bilateral	FTA
Republic of Korea-Viet Nam	2015	Republic of Korea, Viet Nam	Bilateral	FTA and EIA
Viet Nam-Eurasian Economic Union (EAEU)	2016	Armenia, Belarus, Kyrgyz Republic, Kazakhstan, Russian Federation, Viet Nam	Country - bloc	FTA and EIA
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	2019	Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Viet Nam	Plurilateral	FTA and EIA
ASEAN-Hong Kong, China	2019	ASEAN; Hong Kong, China	Country - bloc	FTA and EIA
Viet Nam-European Union (EU)	2020	Viet Nam, EU	Country - bloc	FTA and EIA
Viet Nam-United Kingdom	2021	Viet Nam, United Kingdom	Bilateral	FTA and EIA
Regional Comprehensive Economic Partnership (RCEP)	2022	ASEAN, Australia, China, Indonesia, Japan, Republic of Korea, New Zealand	Country - bloc	FTA and EIA
Viet Nam-Israel	2023	Viet Nam, Israel	Bilateral	FTA and EIA

ACIA = ASEAN Comprehensive Investment Agreement, AFAS = ASEAN Framework Agreement on Services, ASEAN = Association of Southeast Asian Nations, ATISA = ASEAN Trade in Services Agreement, EIA = economic integration agreement.

Sources: Center for WTO and International Trade, Vietnam Chamber of Commerce and Industry; Asia-Pacific Trade and Investment Agreement Database (accessed 30 January 2023).

Table 5. Coverage of Viet Nam's FTAs as of August 2023

Agreement/Content	AEC	ASEAN-China (Upgraded)	ASEAN-Republic of Korea	ASEAN-Japan	Japan-Viet Nam	AANZFTA (Upgraded)	ASEAN-India	Viet Nam-Chile	Republic of Korea-	Viet Nam-EAEU	CPTPP	ASEAN-Hong Kong, China	Viet Nam-EU	Viet Nam-UK	RCEP	Viet Nam-Israel
Trade in Goods	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
SPS/TBT	x	x	x	x		x	x	x	x	x	x	x	x	x	x	x
Safeguard	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x
Trade in Services	x	x	x		x	x	x		x	x	x	x	x	x	x	x
Investment	x	x	x	x	x	x	x		x	x	x	x	x	x	x	x
Trade Facilitation & Customs Cooperation	x				x	x		x	x	x	x	x	x		x	x
Government Procurement					x	x					x		x	x	x	x
Competition Policy					x	x			x	x	x		x	x	x	
Intellectual Property	x	x			x	x		x	x	x	x	x	x	x	x	
Dispute Settlement	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Labour protection						x				x	x		x			
Environment				x	x					x	x		x			
Technical Cooperation	x	x	x	x	x	x		x	x	x	x	x	x		x	
Transparency	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x
E-commerce	x	x				x	x		x	x	x		x	x	x	

AANZFTA = ASEAN-Australia-New Zealand FTA, AEC = ASEAN Economic Community, ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, EAEU = Eurasian Economic Union, RCEP = Regional Comprehensive Economic Partnership, UK = United Kingdom.

Note: The AEC includes three key agreements: the ASEAN Free Trade Agreement, the ASEAN Comprehensive Investment Agreement, and the ASEAN Framework Agreement on Services.

Sources: Center for WTO and International Trade, Vietnam Chamber of Commerce and Industry; Asia-Pacific Trade and Investment Agreement Database (accessed 30 January 2023).

4. The Impact of Viet Nam's FTAs on Domestic Policy Reforms: Changes Arising from the CPTPP, RCEP, and EVFTA

It is important to recognise, at the outset, that there are inherent difficulties in attributing domestic reforms directly to FTAs. The presence of multiple policy drivers makes the process of identification and attribution a difficult one. In some cases, we can trace the reforms directly to provisions contained in the FTAs, whilst others may have occurred indirectly and possibly preceded the more recent proliferation of FTAs. In particular, the early reforms associated with accession to AFTA and the WTO were game-changing. They may have enabled Viet Nam to sign up for the more ambitious, modern agreements, such as the CPTPP and the EVFTA. Therefore, AFTA and WTO accession may have contributed to reforms that tend to be associated with the subsequent FTAs. Indeed, one interviewee argued that the clear dividends from earlier liberalisation episodes made subsequent reforms 'self-fulfilling', to some extent.

The CPTPP, ratified by Viet Nam in November 2018, has had a discernible impact on reforming intellectual property (IP) and labour laws. For instance, the process to register a sound mark follows the requirements of Article 18.18 of the CPTPP, which is incorporated under Article 105.2 of Viet Nam's IP Law 2022. Also, enforcement has improved, with reported increases in the seizure of counterfeit goods along the northern border. However, these improvements have been incremental. Although the legal framework for copyright and trademark infringements is comprehensive, the number of investigations and convictions is almost zero. The prevalence of counterfeit goods and online piracy shows lax enforcement of these laws. As of 2024, 6 years after ratifying the CPTPP, Viet Nam is still on the US watch list in the 'Special 301' report, which tracks progress on IP rights protection and enforcement. The CPTPP was effective in changing legislation but remains limited in improving enforcement.

Although Viet Nam has not ratified the collective bargaining convention of the International Labour Organisation, workers' representative organisations now exist following CPTPP standards. The New Labor Code took effect in 2021, allowing employees to join or form an employee representative organisation that is independent of the Vietnam General Confederation of Labor, which is the sole and unified trade union organisation made up of the 18 National Industrial Unions. This is a significant development that must have involved a rethink within the Party, but the CPTPP appears to have played a role in bringing about such a change. These changes, whilst significant, are still insufficient for Viet Nam to sign up to Pillar 2 of the IPEF, however.

Other than Singapore, Viet Nam is the only other ASEAN country with an FTA with the EU. Like the CPTPP, the EVFTA addresses WTO-X and WTO+ issues. The EVFTA is also expected to generate significant market access benefits because Viet Nam does not have existing FTAs with members of the EU, unlike with the CPTPP or RCEP. In the difficult area of government procurement, the EVFTA is making progress in selectively opening the education and health sectors, as well as green procurement.

The EVFTA provides a template for the development of the many rules and standards associated with regulating exchange in these sensitive areas. Once these rules and standards are established, they can be easily multilateralised, thereby ensuring that the FTA acts as a stepping stone towards non-discriminatory liberalisation. In most cases, it is impossible to regulate access in a preferential manner like with tariff concessions. Even when it is possible, the cost associated with preventing free-riding may not justify the benefits of trying to do so.

Despite these achievements, these agreements have had a limited impact on reforming state-owned enterprises (SOEs). Although the CPTPP's separate chapter on SOEs includes advanced and innovative regulations, the carve-outs and extended timeframes that Viet Nam negotiated, which indicate a limited appetite for reform in this area, have dampened impact.

Although not as ambitious or deep as the CPTPP or EVFTA, RCEP is the world's largest FTA with a comprehensive reform agenda. One of RCEP's key objectives is to promote the growth of global supply chains through its open rules of origin, which has already benefitted Viet Nam. Progress on regulatory convergence has been slow but could lead to impactful changes over time, given its reliance on foreign direct investment.

The Viet Nam experience demonstrates how modern FTAs like the CPTPP and EVFTA can keep the reform momentum going and fill in gaps in difficult areas of reform. At the same time, it is also evident that the impact of modern FTAs varies across different policy areas, depending on technical and political difficulties. For instance, there has been less progress on the politically sensitive issues of SOE reform and digital openness, whilst progress with worker rights and government procurement has been selective. The ability of FTAs to safeguard against the rising tide of protectionism is also less clear (World Bank, 2023), as the global shift towards increasing resilience through industrial policy and export controls may lie beyond the purview of FTAs.

Whilst various tangible outcomes indicate the role of FTAs in shaping the reform agenda, membership can also expose countries to indirect and demonstration effects, the benefits of which may be difficult to quantify but are no less real. The big-bang changes came with the decisions to join ASEAN and the WTO, and the preparatory reforms associated with them continue to influence the economy more than any of the FTAs signed subsequently. Similarly, future FTAs currently under negotiation may be less impactful than focusing on the implementation of Viet Nam's recent high-quality FTAs and could even have negative effects if this were to contribute to a 'noodle-bowl' effect of messy trade rules.

5. Structural Transformation in Viet Nam: Model and Data

A key economic justification for the FTAs Viet Nam has entered into is for supporting domestic reforms that can facilitate the structural transformation of the economy. Structural transformation refers to the process of shifting workers from low-productivity traditional subsistence agriculture to industry and services where productivity is higher and often grows faster. Nobel Prize-winning economist Arthur Lewis (1954) focused on this dynamic to explain the process of economic development. Rodrik (2013) argues that manufacturing is 'special' given its ability to absorb large numbers of unskilled workers, its tendency to exhibit rapid convergence in worker productivity with the global frontier, and its role as a foothold for achieving beneficial economic agglomerations or clustering effects.

In the previous section, we described how Viet Nam's accession to ASEAN and the WTO, as well as the modern FTAs that it has implemented subsequently, have had discernable impacts on the domestic reform agenda. These reforms have undoubtedly facilitated the ongoing process of structural reform of the economy. In this section, we build on this to examine Viet Nam's economic development from a structural transformation perspective. We do so by applying the structural transformation model developed by Rajah and Albayrak (2024) to understand Viet Nam's past and future economic development. The model draws on data from the Extended Economic Transformation Database produced by the Groningen Growth and Development Centre at the University of Groningen (see Kruse et al. (2022)). This database provides comprehensive, long-term, and internationally comparable data on output and employment for 12 sectors across 51 countries in Africa, Asia, and Latin America, covering the period from 1970 to 2018.

We now introduce the formal structural transformation model by Rajah and Albayrak (2024). The model has similarities to those of Zhu et al. (2019) and builds on these by estimating a more complete set of sector-level equations utilising a single, consistent cross-country dataset. The approach involves estimating a series of individual regressions for the employment share for 11 economic sectors contained in the GGDC database, with agriculture treated as the residual sector of employment reflecting the idea of Lewis (1954) of surplus traditional agricultural workers, as well as regressions for sectoral productivity growth for all 12 sectors, with a sample period of 1970–2018. These are then brought together into a single integrated economy-wide model consisting of 12 sectors for output and employment that is capable of being used for historical assessment and projection purposes.

The utility of the overall model lies in capturing within a single integrated model several key stylised facts that are well established in the literature on structural transformation and economic growth in developing countries. The first is conditional convergence, whereby countries and sectors with lower productivity levels exhibit faster growth, thereby catching up over time to richer ones (Barro, 2012; Rodrik, 2013; Dieppe and Matsuoka, 2021). The second is the evolving relationship between manufacturing employment and development, as documented, for instance, by Rodrik (2015), and Kruse et al. (2022). Specifically, the share of manufacturing in total employment tends to rise with higher levels of GDP per capita before declining as the economy matures and labour costs rise, following a hump-shaped pattern.

Critically, however, there is also evidence of 'premature deindustrialisation', whereby employment deindustrialisation sets in at lower levels of development compared to earlier decades, generally thought to reflect technological changes (automation) and China's role in crowding out other countries in manufacturing. The final key stylised fact is of rising 'servicification' of the economy (Nayyar et al. 2021; McMillan et al., 2017; Baldwin and Forslid, 2019), reflecting the movement of workers from agriculture into traditional services, the rising value-added role of services as inputs within global value chains, and advances in information and communications technology, which have made trading services across borders increasingly possible.

The regression equations we estimate for individual sectors closely follow the approaches used in other seminal studies in capturing the establishing the above key stylised facts. The model does not attempt to capture causal relationships. Indeed, the individual regression models rely on country and time fixed effects as controls rather than incorporating a battery of policy and other

variables, noting the substantial difficulties identified in the literature in credibly identifying the causal determinants of economic growth and their related magnitudes (Growth Commission, 2008).

We begin by estimating labour productivity growth within each sector using a fixed effects model with robust standard errors. The key aspect in line with the literature is that labour productivity in each sector is expected to exhibit 'conditional convergence' – whereby countries with lower sector labour productivity exhibit faster growth after controlling for other relevant factors. The regression is given by the following equation:

$$\hat{\boldsymbol{y}}_{\boldsymbol{ijt}} = \boldsymbol{\alpha_i} + \boldsymbol{\beta^i ln y_{ijt}} + \boldsymbol{\gamma_j D_{ij}} + \boldsymbol{\varphi_t D_{it}} + \boldsymbol{\varepsilon_{ijt}} \quad (1)$$

where $\hat{y}_{ijt}$ is the annual labour productivity growth rate in sector i, country j, and year t. lny_{ijt} is the natural log of the labour productivity level in 2015 PPP terms[1], D_{ij} is a set of country fixed effects, D_{it} is a set of time fixed effects, α_i is the constant term, and ε_{ijt} is the error term. The coefficient β^i represents the convergence rate in sector *i* and is expected to have a negative sign, indicating that countries with lower productivity levels will exhibit faster growth. The inclusion of country fixed effects provides a simple and standard method of controlling for all other country-specific factors, including geography and institutions.

We also estimate the relationship between sectoral employment shares and GDP per capita whilst controlling for population with the following fixed effects model with robust standard errors using the same methodology as Rodrik (2015). As the key aspect, sector employment shares follow a non-linear (quadratic) relationship with the level of GDP per capita, which can be interpreted as capturing how sectoral employment shares generally evolve in line with the economic development process (Herrendorf et al., 2014; Rodrik, 2015). The regression is given by the following equation:

$$\boldsymbol{empshare_{ijt}} = \boldsymbol{\alpha_i} + \boldsymbol{\beta_1 lngdp_{jt}} + \boldsymbol{\beta_2}\left(\boldsymbol{lngdp_{jt}}\right)^{\boldsymbol{2}} + \boldsymbol{\beta_3 lnpop_{jt}} + \boldsymbol{\beta_4}(\boldsymbol{lnpop_{jt}})^{\boldsymbol{2}} + \boldsymbol{\gamma_{ij} D_{ij}} + \boldsymbol{\varphi_t D_t} + \boldsymbol{\varepsilon_{ijt}} \quad (2)$$

where $empshare_{ijt}$ is the employment share of the sector i in country j and year t. $lngdp_{jt}$ is the natural log of the GDP per capita of country j in year t in 2015 PPP terms, $lnpop_{jt}$ is the

[1] We used PPP conversion factors from the World Bank.

population of country j in year t, D_{ij} is a set of country fixed effects, D_{it} is a set of time fixed effects, α_i is the constant term, and ε_{ijt} is the error term.

6. Structural Transformation in Viet Nam: Results

Econometric results for both sets of equations are contained in the Appendix. Similar to other key studies in the literature, all coefficients are found to be highly statistically significant with the expected signs, aligning with the key stylised facts of conditional convergence, premature deindustrialisation, and rising servicification.

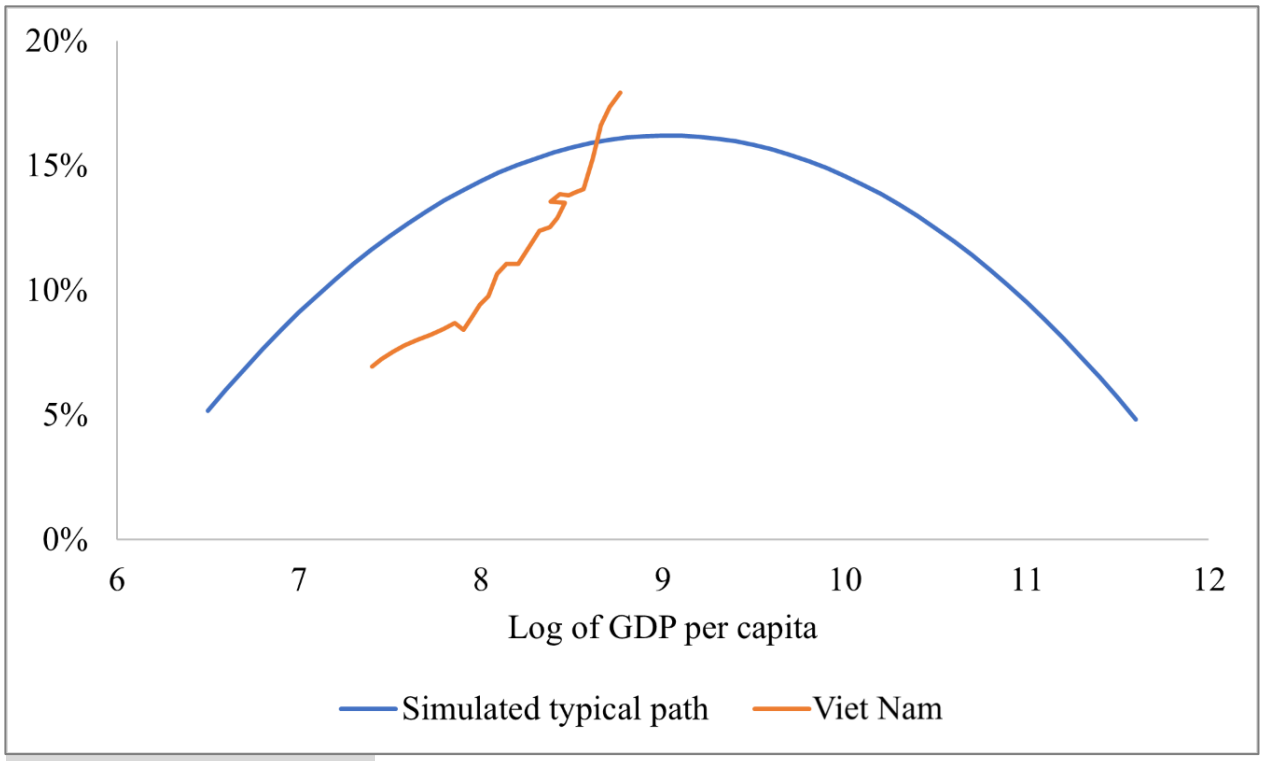
Bringing the individual models together and combining this with demographic projections (for the total and working-age population) from the United Nations Population Division allows us to construct an integrated economy-wide model of 12 sectors capable of projecting employment and output growth. The time effects in Equation 1 follow a consistent linear trend so we extrapolate these for future years. In Equation 2, we found no trends in the time effects, so we did not make any adjustments. For projections, we add recent error terms to each regression to more finely calibrate the scenario results. We assume the employment-to-population ratio will remain unchanged going forward, with total employment therefore growing in line with growth in the working-age population as projected by the United Nations.

The future path of the manufacturing share of employment is particularly critical since this is the key driver of growth for Viet Nam both through within-sector productivity increases and the productivity gains from the movement of workers out of lower-productivity agricultural employment. Figure 5 compares the evolution of Viet Nam's manufacturing share of employment relative to its GDP per capita over time and compares this to the typical development path estimated by our model (i.e. applying the median country fixed effect and the same population size as Viet Nam). Figure 5 shows how remarkable the Vietnamese experience has been, with the manufacturing share of employment rising rapidly from substantially below the typical development path to one substantially higher and seemingly on a continuous upwards trajectory. As the decomposition in Figure 3 indicates, the productivity benefits of this structural change have been a major driver of economic growth.

A key question is whether Viet Nam will be able to sustain the trajectory of manufacturing employment share in future years. On the one hand, there are reasons to think that Viet Nam might be able to do so particularly as the country has been a prime destination for supply chains and

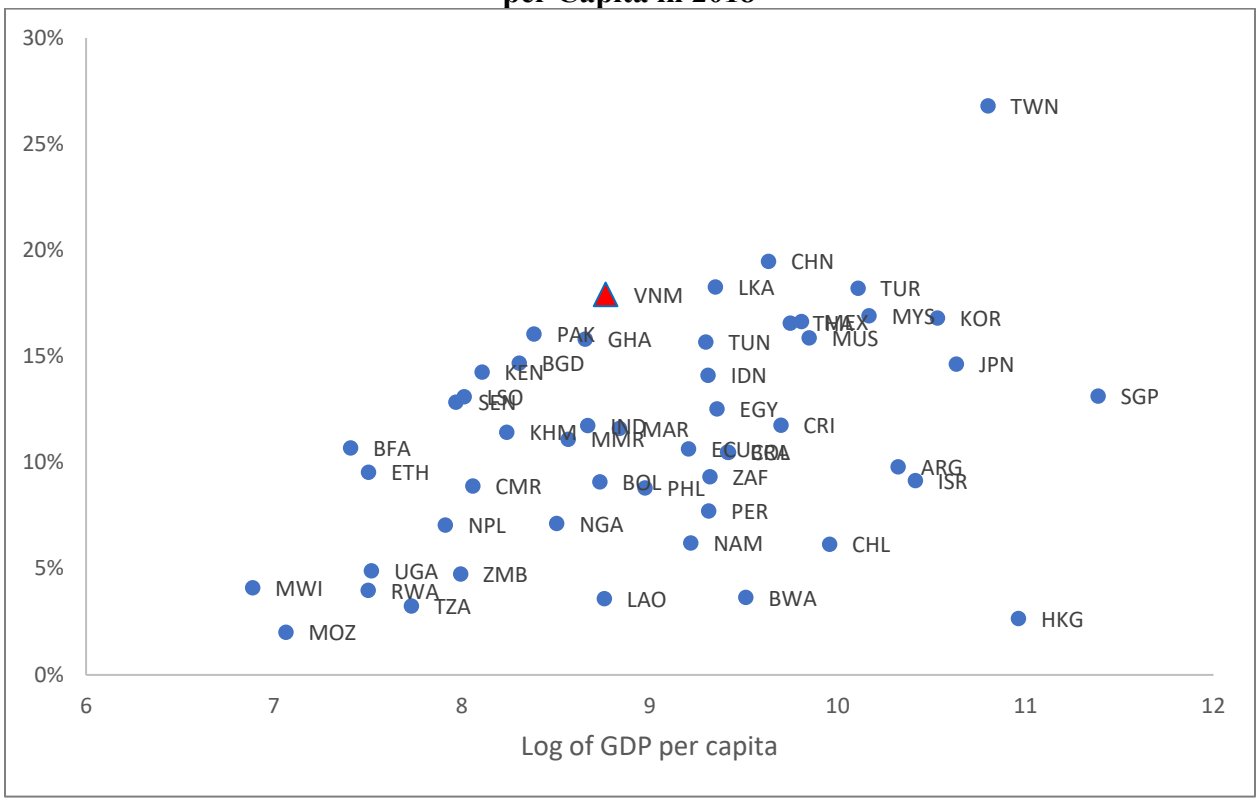
foreign direct investment diversifying away from China given rising labour costs and escalating geoeconomic tensions between China and the US. On the other hand, China remains highly competitive even in relatively labour-intensive sectors, and ongoing automation has increasingly reduced the ability of the manufacturing sector to absorb labour, as reflected in the evidence of premature deindustrialisation and our model. Indeed, as Figure 6 shows, Taiwan is the only country in our sample to presently have a substantially higher manufacturing share of employment than Viet Nam. If Viet Nam follows the cross-country experience, which is encapsulated in our model, then the manufacturing share of employment can be expected to decline.

Figure 5: Viet Nam's Manufacturing Employment Share Over Time Compared to the Typical Development Path



GDP = gross domestic product.
Source: Authors' estimates.

Figure 6: Manufacturing Employment Shares Across Countries at Different Levels of GDP per Capita in 2018



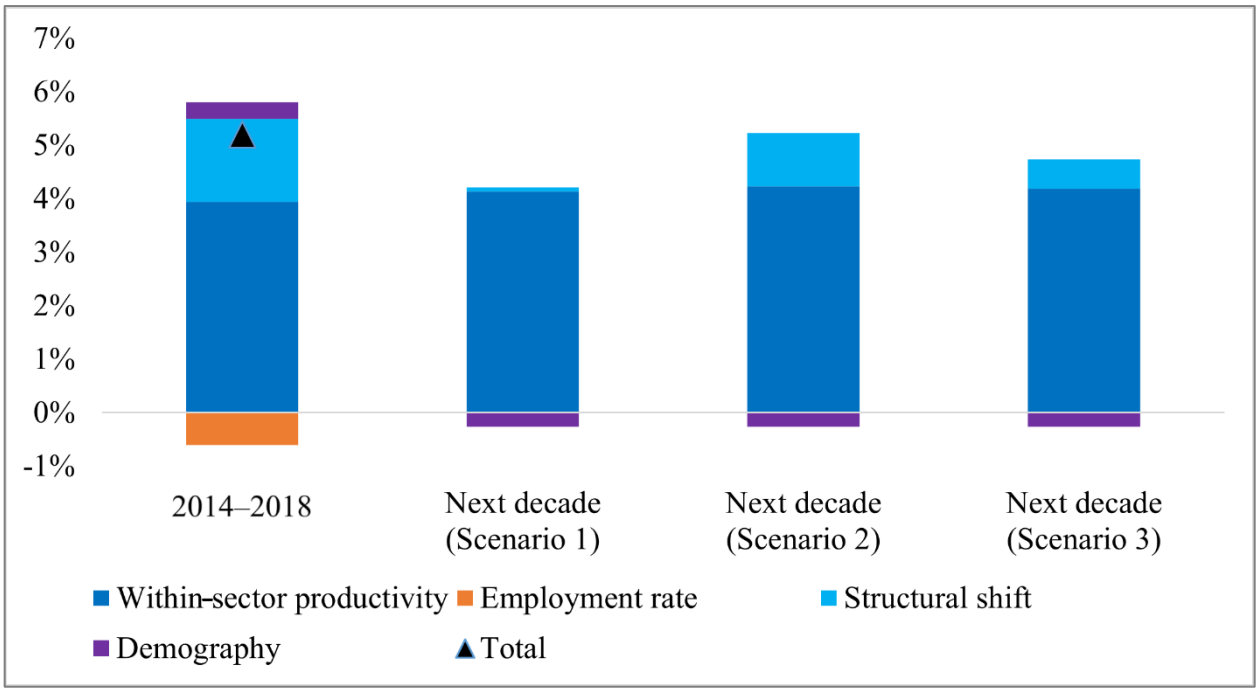
GDP = gross domestic product.
Source: Author's calculations based on GGDC and World Bank data.

We consider three different projection scenarios to examine Viet Nam's future growth prospects through structural transformation over the following decade, depending on the future path of the manufacturing share of employment. In the first scenario, the manufacturing employment share evolves according to our model. This sees the share of manufacturing in total employment decline slightly from 17.9% in 2018 to 17.5% a decade later, reflecting the cross-country experience of modest employment deindustrialisation setting beyond Viet Nam's current level of GDP per capita. In the second scenario, we instead assume Viet Nam is able to continue to outperform to a substantial degree, extrapolating the most recent trend during 2014–2018 of a sharply rising manufacturing employment share. This would see manufacturing reach 28% of total employment by 2028, 1 percentage point higher than Taiwan presently. In the third scenario, we assume a mid-way path between the first and second scenarios, with the manufacturing share of employment reaching 23% by 2028. This would be a very similar path to extrapolating Viet Nam's

long-run trend from 2000 to 2018. Across the three scenarios, all other sectors and variables are projected according to the structural transformation model.

Figure 7 shows the results, decomposing the sources of projected growth in output per capita into its sources. During 2014–2018, output per capita growth averaged 4.9% per year. Under Scenario 1, economic growth falls to 4% per year over the next decade as gains from the structural shift of workers from lower to higher productivity sectors almost entirely peter out. However, with a higher share of its workforce engaged in manufacturing and other non-farm activities with stronger productivity growth, the contribution from within-sector productivity gains rises slightly, from 3.9% to 4.1%. In Scenario 2, by contrast, Viet Nam sustains more rapid growth at an average of 5% per year over the next decade. This is virtually entirely driven by continued large gains from structural change, contributing about 1 percentage point to total growth and reflecting the continued rapid expansion of manufacturing employment assumed in this scenario. The contribution from within-sector productivity gains is also marginally higher at 4.2% per year. Finally, Scenario 3 represents a mid-way path, with growth in output per capita averaging 4.5% a year, driven by a more moderate productivity contribution from structural change.

Figure 7: Output per Capita Growth Projection Scenarios Decomposed by Source



Source: Authors.

These are mechanical projection scenarios intended to shed light on the potential future sources of economic growth in Viet Nam through structural transformation of the economy, which is thought to be arguably the key economic benefit of the many FTAs Viet Nam has entered. There are several key insights. First, future economic growth will need to be driven primarily by within-sector productivity gains rather than expanding manufacturing employment. This is borne out by both the historical decomposition and the projection exercise. Positively, Viet Nam has recently been generating strong within-sector productivity gains and is projected to continue to do so. Second, attempting to maintain the pace of growth seen prior to the pandemic by continuing to expand manufacturing employment seems difficult.

Most countries tend to experience employment deindustrialisation around Viet Nam's level of GDP per capita, and there are few examples of countries managing to achieve and sustain a substantially higher level than Viet Nam today. Third, this suggests that delivering on Viet Nam's growth ambitions of sustaining growth upwards of 6% a year to reach high-income status by 2045 will require focusing on within-sector productivity gains (World Bank, 2024). Even under the most ambitious assumptions for continued manufacturing employment expansion, the productivity gains would only be enough to deliver growth of around 5%. Finally, generating greater within-sector productivity gains will require looking at promoting greater productivity and industrial upgrading not only within the manufacturing sector but across all sectors of the economy, including services.

7. Conclusion

The key question that this study has strived to answer is whether Viet Nam has been able to use its trade policy, in general, and its FTAs, in particular, as a vehicle for pursuing and locking in difficult domestic reforms. If so, which of the agreements have had the greatest impact on domestic reforms, and in which sectors? To do this, the analysis employed a combination of qualitative and quantitative approaches, as well as desk research of existing studies. On the qualitative side, a mission visited Hanoi in April 2024 to conduct interviews with Viet Nam's policymakers, researchers, industry representatives, and development partners. On the quantitative side, a modelling exercise employing a structural transformation model was implemented.

The findings from the qualitative analysis suggest that the big-bang changes came with the decisions to join ASEAN and the WTO, and the preparatory reforms associated with them continue

to influence the economy more than any of the FTAs signed subsequently. In fact, they enabled Viet Nam to sign up for the more ambitious, modern agreements, such as the CPTPP and the EVFTA. Therefore, WTO accession may have contributed to reforms that tend to be associated with the subsequent FTAs.

Nevertheless, the Viet Nam experience does demonstrate how modern FTAs like the CPTPP and EVFTA can keep the reform momentum going and fill in gaps in difficult areas of reform. Both the CPTPP and the EVFTA address the difficult WTO-X and WTO+ issues. The CPTPP has had a discernible impact on reforming IP and labour laws, whilst the EVFTA is providing a template for the development of the many rules and standards associated with regulating exchange in sensitive sectors, such as education, health, and green procurement. Whilst various tangible outcomes indicate the role of these FTAs in shaping the reform agenda, membership can also expose countries to indirect and demonstration effects, the benefits of which may be difficult to quantify but are no less real. However, their ability to safeguard against the rising tide of protectionism is less clear (World Bank 2023), as the global shift towards increasing resilience through industrial policy and export controls may lie beyond the purview of FTAs.

If the FTAs can promote domestic reforms, then they can facilitate the structural transformation of the economy. Structural transformation refers to the process of shifting workers from low-productivity traditional subsistence agriculture to industry and services where productivity is higher and often grows faster. To the extent that FTA-induced reforms can facilitate this process, then they will contribute to improving the living standards of the population.

The structural transformation modelling allows us to estimate the typical development path of the manufacturing share of employment relative to GDP per capita over time and compare this with the actual path for Viet Nam, in the past and into the future. The comparison reveals that Viet Nam's manufacturing share of employment rose rapidly from substantially below the typical development path to one substantially higher and seemingly on a continuous upwards trajectory. As the decomposition in Figure 3 indicates, the productivity benefits of this structural change have been a major driver of economic growth.

The next question is whether Viet Nam will be able to sustain the trajectory of manufacturing employment share in future years. We consider three scenarios. Most countries tend to experience employment deindustrialisation around Viet Nam's level of GDP per capita. If this happens to Viet Nam as well, then its manufacturing employment share will fall slightly to 17.5%

by 2028. However, if the strong upwards trend during 2014–2018 were to continue, this would see manufacturing reach 28% of total employment by 2028, about where Taiwan is today. In the third scenario, we assume a mid-way path between the first and second scenarios, with the manufacturing share of employment reaching 23% by 2028. This would be similar to simply extrapolating Viet Nam's long-run trend from 2000 to 2018.

Avoiding employment deindustrialisation in the future (Scenario 1) will require domestic reforms that enhance within-sector productivity growth, and depending on the extent of the reforms, Viet Nam's future may slightly exceed where Taiwan is today (Scenario 2) or fall somewhere below it (Scenario 3). Continued implementation of the more difficult areas in the modern FTAs will play a determining role in this process, as will national drivers of reform.

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Appendix: Econometric Results

Table A1: Labour Productivity Convergence Results

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Agriculture	**Mining**	**Manufacturing**	**Utilities**	**Construction**	**Trade services**	**Transport services**	**Business services**	**Financial services**	**Real estate services**	**Government services**	**Other services**
convergence rate	-0.0768***	-0.0860***	-0.0199***	-0.0624***	-0.0821***	-0.0433***	-0.0279***	-0.0164*	-0.0278**	-0.0238*	-0.0309*	-0.0354*
	(0.00881)	(0.0322)	(0.00406)	(0.0138)	(0.0219)	(0.0112)	(0.00555)	(0.00710)	(0.00874)	(0.0105)	(0.0123)	(0.0156)
_cons	0.282***	0.518*	0.121***	0.218***	0.336***	0.163***	0.114***	0.0667	0.140**	0.140*	0.129**	0.0883
	(0.0331)	(0.212)	(0.0254)	(0.0447)	(0.0883)	(0.0487)	(0.0249)	(0.0376)	(0.0516)	(0.0616)	(0.0485)	(0.0473)
N	2180	2178	2180	2175	2180	2180	2180	2180	2180	2012	2180	2180
R-sq	0.109	0.079	0.159	0.068	0.100	0.067	0.129	0.175	0.118	0.107	0.081	0.091
adj. R-sq	0.067	0.036	0.119	0.024	0.057	0.023	0.088	0.136	0.076	0.062	0.038	0.048
	* p<0.05 **p<0.01 ***p<0.001											

Source: Authors' estimates

Table A2: Employment Shares

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Agriculture	***Manufacturing***	***Construction***	***Trade services***	***Bus services***	***Financial services***	***Government Services***	***Other services***	***Mining***	***Real estate services***	***Utilities***	***Transport services***
lngdp	-0.179***	0.308***	0.0158**	0.0912***	-0.114***	-0.0547***	-0.0501***	-0.0386**	0.0187***	-0.0312***	0.00453***	0.0302***
	(0.0327)	(0.0214)	(0.00535)	(0.0141)	(0.00468)	(0.00394)	(0.0128)	(0.0120)	(0.00247)	(0.00247)	(0.00134)	(0.00310)
lngdp2	0.00629**	-0.0170***	0.000596	-0.00510***	0.00700***	0.00357***	0.00317***	0.00220**	-0.000919***	0.00202***	-0.000209**	-0.00158***
	(0.00203)	(0.00134)	(0.000321)	(0.000897)	(0.000291)	(0.000244)	(0.000788)	(0.000724)	(0.000151)	(0.000150)	(0.0000793)	(0.000188)
lnpop	0.119*	0.0740***	-0.0862***	0.0412*	0.0540***	0.0213***	-0.0190	-0.131***	-0.0262***	-0.000192	-0.00235	-0.0440***
	(0.0561)	(0.0213)	(0.0152)	(0.0189)	(0.00874)	(0.00309)	(0.0295)	(0.0219)	(0.00643)	(0.00152)	(0.00338)	(0.00481)
lnpop2	-0.00644***	-0.000663	0.00371***	-0.00119*	-0.00260***	-0.000720***	0.000231	0.00497***	0.00105***	-0.0000727	0.000313**	0.00142***
	(0.00163)	(0.000725)	(0.000475)	(0.000569)	(0.000288)	(0.0000923)	(0.000832)	(0.000725)	(0.000174)	(0.0000496)	(0.000119)	(0.000159)
_cons	1.187*	-2.268***	0.249	-0.626***	0.326***	0.0420	0.627*	1.070***	0.0556	0.138***	-0.0563	0.255***
	(0.554)	(0.202)	(0.131)	(0.188)	(0.0769)	(0.0336)	(0.300)	(0.199)	(0.0689)	(0.0175)	(0.0288)	(0.0451)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Agriculture	***Manufacturing***	***Construction***	***Trade services***	***Bus services***	***Financial services***	***Government Services***	***Other services***	***Mining***	***Real estate services***	***Utilities***	***Transport services***
N	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231	2231
R-sq	0.971	0.833	0.879	0.904	0.931	0.889	0.934	0.903	0.773	0.837	0.776	0.921
adj. R-sq	0.969	0.825	0.874	0.900	0.928	0.884	0.931	0.899	0.762	0.830	0.765	0.917
	* p<0.05 **p<0.01 ***p<0.001											

Source: Authors' estimates.

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