

SUMMARY REPORT

Vietnam after 2 years of CPTPP implementation from the business perspective

1. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has come into effect in Vietnam since January 14, 2019, for more than two years now. Summarizing the first results as well as evaluating problems in the CPTPP implementation in order to recommend to the Government, businesses and related entities in the upcoming CPTPP implementation period is essential.

To contribute to this goal, within the framework of the Australia Supports Economic Reform in Vietnam (Aus4Reform) Program, the Vietnam Chamber of Commerce and Industry (VCCI) implemented the Report “Vietnam after 2 years of CPTPP implementation from the business perspective”, focusing on identifying problems in the CPTPP implementation from the reality of businesses, thereby identifying necessary measures to increase CPTPP implementation efficiency and support better for businesses in this process.

The report is made on the basis of analyzing (i) statistics on the general trade and investment situation between Vietnam and CPTPP partners and law-making process in the two years 2019-2020 and (ii) results of business survey conducted from August to October 2020 on aspects related to the CPTPP and FTAs implementation by businesses'

2. In 2020, Vietnam and the world economy were seriously disturbed in an unprecedented way by the COVID-19 pandemic, therefore, the results from the CPTPP implementation from the date of entry into force can only be reflected relatively accurately through the 2019 statistical data. Therefore, the evaluation of results of the trade and investment activities in the first phase in this Report is mainly done through the 2019 statistical data.
3. Vietnam's export turnover to CPTPP partners in 2019 achieved an average growth of 7.2% compared to 2018, while imports only increased slightly by 0.7%. Exports

to new markets in the CPTPP recorded an impressive growth (26% -36%). In the context of almost all CPTPP partners reducing imports in 2019, the fact that Vietnam still achieved this growth shows that CPTPP has created initial positive impacts. In particular, the CPTPP has taken a positive effect on paving the way for Vietnamese exports to enter the America directly (in the markets where the CPTPP has taken effect, including Canada and Mexico) and indirectly (through dynamics to promote bilateral trade with markets where the CPTPP has not yet taken effect such as Peru, Chile).

However, in comparison with the general premises, the benefits from the CPTPP are still modest. Export growth to CPTPP markets (7.2%) was lower than the 8.4% growth in exports to the world in the same period. Moreover, in some CPTPP markets, the export growth momentum in the pre-CPTPP period was significantly higher than the average export growth to other markets, which shows that the CPTPP seemed to have only some complementary effect on this natural momentum.

The utilization rate of the CPTPP tariff preferences of Vietnam's exports in 2019 was only 1.67%, a very low level compared to not only the 2019 average (37.2%) but also the first year utilization rate of many other FTAs. This is a very worrying sign, showing that Vietnam's ability to actualize the direct export benefits from this Agreement has been still limited. Some objective reasons can lead to this fact, for example (i) the initial CPTPP tariff preferences are still low compared to the current tariff preferences under the FTAs that Vietnam has already had with the same partners, or (ii) CPTPP's rules of origin is relatively complicated and different from other FTAs, requiring time to learn and adjust production. However, it is impossible to ignore the significant limitations from the subjective perspective in the perception or ability to take advantage of preferences of the businesses. The positive point is that in the markets that have never had an FTA with Vietnam before the CPTPP such as Canada or Mexico, the utilization rate of tariff

preferences in the first year reached 7.26-8%, not lower than the utilization rate of many other FTAs in the first year of implementation.

In 2020, in the context of the COVID-19 epidemic, Vietnam's exports to markets that ratified the CPTPP only reached approximately the export turnover in 2019. However, the positive signal is that the utilization rate of the CPTPP tariff preferences in the second year improved and reached 4% on average, in new markets Canada and Mexico, utilization rate of the CPTPP tariff preferences is 17%.

4. From the perspective of foreign investment attraction, the results of the first year of CPTPP implementation are fairly unsatisfactory. In 2019, Vietnam attracted approximately 9.5 billion USD of investment capital from CPTPP countries, declined by nearly 36% compared to 2018. In terms of each partner, investment from Japan into Vietnam had the deepest decline in value (from nearly 9 billion USD in 2018 to more than 4 billion USD in 2019, equivalent to a decrease of 52%). In terms of speed, FDI decreased sharply from traditional sources such as Australia (decreased by nearly 63%), Malaysia (decreased by 50%) ... Although there are a number of technical reasons that cause the decline in growth rate in FDI attraction from the CPTPP, overall, this is still a disappointing result, especially when (i) Vietnam's total FDI attraction from all sources in 2019 still increased by 7.2% and (ii) total investment capital of CPTPP partners still increased by 51.3%.

The bright spot in this picture is that FDI capital from new CPTPP partners (Canada, Mexico) into Vietnam or small traditional partners (Brunei, New Zealand) was significantly improved in 2019.

In 2020, the situation was better when the total investment capital attracted from CPTPP partners reached 11.8 billion USD, increased by 24.4% compared to 2019 in the context of the total foreign investment capital into Vietnam decreased by nearly 25%.

5. From the perspective of institution improvement, in order to implement the CPTPP, Decision 121/QĐ-TTg promulgating the Government's CPTPP Implementation Plan has specified a list of documents that need developing, amending and supplementing. Reality review shows that after 2 years of implementation, the work of amending, supplementing and promulgating new documents to implement CPTPP commitments coming into effect as soon as the Agreement took effect completed in quantity (with a total of 18 documents newly issued, amended and supplemented).

In terms of progress, although drafted at a considerably faster pace than the normal process, most of the CPTPP implementation documents were issued later than the commitment requirement (from half a month to 20 months).

6. Regarding the enterprises' knowledge about the CPTPP, 69% of enterprises have heard or have preliminary knowledge of this Agreement, higher than all other FTAs, and 25% of enterprises have a certain understanding of the Agreement. However, only 1 out of 20 enterprises knows about the CPTPP commitments related to their business activities. This result shows that the CPTPP propaganda and dissemination efforts have had a positive initial effect, but mainly on the surface. For a difficult and complicated FTA as the CPTPP, it is necessary to have more in-depth, detailed and useful information propaganda measures for businesses in the coming time.
7. Regarding overall impacts, the CPTPP is in the top 3 FTAs which are the most appreciated by enterprises participating in the survey, with 51% of enterprises saying that the Agreement has had a relatively or very positive impact on business activities over the past time (only lower than FTAs with Japan, almost equivalent to FTAs with South Korea). With a new Agreement in effect for just over a year and a half, the tariff schedule has almost no advantages compared to the existing FTAs, which is an unexpectedly optimistic result. The fact shows that businesses look at the CPTPP not only through direct impacts but also as a symbol showing that the Vietnam Government strives to integrate into the international economy in depth, with high standards, accepts the pressure to reform. The businesses also seem to

realize the determination that the Government has made not only to implement the CPTPP but also to combine and promote the effective implementation of the existing FTAs. FTAs had never attracted the attention and determination to act as they have in the past few years, especially during the CPTPP implementation period. This has created effects that resonate with efficiency recognized by the businesses.

Another surprising but not much optimistic fact was also revealed from the enterprise's assessment about the overall CPTPP impact. While FDI and private enterprises clearly realize the CPTPP impact (with 51-52% of enterprises of these groups saying that the CPTPP has the positive impact and 6.8% and 2.2% respectively think that the CPTPP has the negative impact), the 100% state-owned enterprises largely stand apart from these effects (with 64% of enterprises in this group saying that CPTPP and other FTAs has no impact on them). It seems that the in-depth integration through the CPTPP and FTAs has not yet reached these businesses.

8. Regarding the specific impacts of the CPTPP, only 1 out of 4 enterprises has harvested the "fruit" from this Agreement. The most common interest group for these businesses is still tariffs, especially in new markets like Canada and Mexico. The positive impacts on the institution (reflected in measures to reform administrative procedures, adjust policies and laws since the CPTPP was officially implemented) are also emphasized by enterprises, even only after the tariff benefits. Next is the expected benefits in the future (through enterprises' cooperation-joint ventures plans with foreign partners to take advantage of the CPTPP, or the enterprises' expected market expansion with support of this Agreement). A few businesses even realize the benefits of the high-standard rule commitments in the CPTPP such as protection of intellectual property rights ...
9. For $\frac{3}{4}$ of enterprises that have not yet directly benefited from the CPTPP, the main reason (60%) is that they did not have any business activities related to the market or partners in the CPTPP area in the past two years. This fact is not surprising (when the CPTPP members are not Vietnam's largest trading partners, for example, the

CPTPP block only accounts for less than 15% of the total import and export turnover of Vietnam in 2019) but is an important suggestion for the necessity to promote new opportunities and potential benefits from the CPTPP, so that the businesses know and take advantage of, especially from new markets that have not been really familiar with enterprises in the CPTPP.

Among the businesses that have had transactions with CPTPP markets but have not yet benefited from the CPTPP, the reason mentioned by the majority (75%) is that they do not know any opportunities from the CPTPP. There is also a significant proportion (60%) who do not realize any related CPTPP commitments, or have enjoyed other more suitable preferences. A few businesses (14-16%) announce other reasons such as slowly issued guiding documents, complicated preferential procedures, difficult licensing procedures, or limitation of enterprises' ability to meet quality standards of importing countries...

10. Studying further about import and export activities with CPTPP partners, the survey identifies notable facts. In general, Japan continues to be the market with the most close-knit ties. But for state-owned enterprises, Singapore is a more familiar and popular market. For the FDI sector, Japan, Australia and Canada are regular partners.
11. Regarding the utilization rate of tariff preferences in the case of import and export activities with partners in the CPTPP, Canada is the market with the proportion of enterprises having the shipments taking the highest advantage of the CPTPP tariff preferences (50% of businesses), while Mexico is also a new market but only a quarter of businesses have ever done this. Also in these two markets, FDI and private enterprises have started to take advantage of the first tariff preferences, while 100% state-owned enterprises have almost never taken advantage of this opportunity. With the rest of the CPTPP markets where Vietnam had one or more FTAs previously, the proportion of businesses that had the shipments taking advantage of the CPTPP tariff preferences ranged from 21 to 29%.

The reasons why businesses cannot take advantage of the CPTPP tariff preference include two main groups. First is "positive" reasons, such as the fact that the MFN tariffs have already been 0%, so it is unnecessary to use the tariff preferences (mentioned by 43% of the enterprises), or the tariff preferences under other FTAs (37%)... Second is "negative" reasons, such as failure to meet the rules of origin (40%), problems with procedures or missing the deadline to apply for certificates of origin (20%), lack of necessary shipping documents (15%)... Notably, the biggest reason that also causes the most regret is that businesses do not know about the CPTPP tariff preferences for their shipments (45% stated this reason). It is clear that the promotion of new opportunities and the tariff benefits from the CPTPP so that businesses know and think about the utilization is essential.

For private enterprises, the most common reason (53% of businesses stated) is that they do not know about the CPTPP tariff preferences. It seems that the initiative in seeking information of these enterprises is the biggest problem preventing enterprises from benefiting from these Agreement preferences.

For 80% of 100% state-owned enterprises, the reason why they have not taken advantage of the CPTPP tariff preferences is that “material resources, businesses’ production process, do not meet the rules of origin”. Obviously, the flexibility in the supply chain and production and business lines may be the problem that needs solving so that this group can take advantages from the CPTPP in particular and the FTAs in general.

Meanwhile, not enjoying the CPTPP tariff preferences of FDI enterprises is a clear deliberate choice, they give up the CPTPP tariff preferences mainly because the MFN tariff or the tariff under the FTAs is better than that of the CPTPP.

12. In over a half of the CPTPP effective period, enterprises’ business activities were disturbed in an unprecedented way by the COVID-19 pandemic. It is forecasted that businesses will have to prepare for the scenario of living with COVID-19 in a special way - doing business in a "new normal" context. Although suffering many damages

in the past, most of the businesses expressed a fairly calm attitude, with 60.4% of businesses saying that they would continue operating normally. Even 13.3% of businesses still operated very well during the pandemic, and even they planned to expand their business in the near future. However, about 17.2% of businesses fell into the state of moderation, and nearly 1% considered a temporary or permanent shutdown in the near future.

Businesses' responses to the post-pandemic future are different. Enterprises with 100% state-owned enterprises proved the most stable and calm during the pandemic, with 81.8% saying that they would continue to operate normally, only a few had to change a part of production and business or work in moderation.

Apart from the private enterprises continuing operating normally, half of which must face many different choices in the coming time, including the worst ones. For the group of FDI enterprises, while the majority continued operating normal business activities, this group had the highest rate of production and business expansion, and there was only one case have to temporary shutdown.

Regarding the effects of CPTPP and the FTAs in the post-COVID-19 future, businesses are surprisingly optimistic. 60% think that CPTPP and FTAs would be relatively or very useful for them in the "new normal" period, higher than 47% of enterprises assess that CPTPP and the FTAs had positive effects over the past time. Approximately 10% of enterprises believe that CPTPP and the FTAs would hardly make any sense in this matter, 29% of enterprises are unsure about whether the CPTPP or the FTAs might have the negative or positive impact. It seems that every opportunity such as the CPTPP or FTAs is much more expected by businesses in the difficult situation.

13. In the more distant future, businesses also express the optimism about the positive effects of the CPTPP and the FTAs. 91.5% of enterprises have different expectations of the benefits from CPTPP and the FTAs to their business activities. Up to 57.7% of enterprises participating in the Survey set high expectations on these Agreements.

And this expectation is equal in all groups of enterprises, whether FDI, private or 100% state-owned businesses.

On the positive side, this may be the driving force for businesses to study deeply and take appropriate action to actualize opportunities from the CPTPP and the FTAs. On the contrary, excessive or unsubstantiated expectations may pose risks to the business (in determining the future business strategies, in evaluating scenarios and forecasting the response options ...) and to the economy.

14. Regarding the expected specific benefits, the cooperation-joint venture opportunity with the foreign partners is on top with 96% of enterprises choosing; followed by a group of opportunities for a favorable business environment, for accessing to, and having the higher added value in global value chains, and market expansion opportunities (94%). Opportunities related to trade in goods (export tariff preferences, good sources of imported materials or favorable import and export procedures) are slightly lower expected (85 -90%).

This order is almost reversed compared to the order of the actual benefits that these enterprises benefited from the CPTPP in the past time, which shows that the enterprises have the clear distinction between direct benefits and long-term opportunities.

Notably, the opportunities placed in the top by enterprises seem to be the most correct, closest to CPTPP - a new generation FTA that experts believe that the effects of the Agreement would be higher" from an institutional, systemic and interconnected perspective rather than direct effects on tariffs or trade in goods.

15. Regarding the factors that businesses think they will obstruct the actualization of expected opportunities from the CPTPP and other FTAs, the first and foremost reason is the inferiority in the businesses' competitiveness compared to their competitors (51% mentioned by businesses), followed by market fluctuations and uncertainties (45%). The third group of obstacles is related to factors from the Government agencies, such as the lack of information about the commitments,

methods to understand and apply them (43.5%), or the delay, problems, lack of flexibility as well as other limitations in the CPTPP and FTAs implementation of Government agencies (41%). Finally, there are some technical reasons such as difficulty in meeting the rules of origin (26.6%), unfavorable FTA commitments for businesses (6.8%) ...

Compared with the Survey of VCCI in 2016 on the same issue, these results show positive surprises. If inadequacies in the implementation of state agencies five years ago were the main reasons obstructing enterprises (81% -84%), now this is only the problem of about a half of businesses, following the subjective reasons from the businesses' competitiveness. Compared to the past, businesses have been less anxious from an institutional perspective, and have also faced the fact that the biggest challenge in integration is themselves.

16. To prepare for a distant future when CPTPP and the FTAs can be an effective aid, $\frac{3}{4}$ of enterprises report that they have been adjusting their business to take advantage of these agreements.

Regarding the detailed aspects of business adjustment plans, Survey results show that an almost absolute unity in the order of causes that businesses believe they will prevent them from taking advantage of opportunities from the FTAs (as stated above) with the priority solutions that they have been implementing in these plans (the first is the adjustments to improve the businesses' fundamental competitiveness, secondly calculations to take advantage of the direct market opportunities from the CPTPP and the FTAs, and finally the plans to be ready for the long-term opportunities).

Except for the most common interest in product quality improvement plans, the order of the priority adjustment plans of each business group has certain differences, which reflects the businesses' internal problems. Private enterprises focus on product management and promotion. Meanwhile, 100% state-owned enterprises focus on training to improve the capacity of both managers and workers as well as

focus on technology to increase productivity. Meanwhile, FDI enterprises prioritize the conversion of raw material supply to make better use of tariff preferences from CPTPP and the FTAs.

17. For the rest of businesses that do not have any plans to adjust for the future of CPTPP and the FTAs integration, the biggest reason is because they do not have the capacity and the resources to do or do not know how to adjust despite knowing that adjustment is necessary (39% of enterprises stated this reason). Taking a closer look at this group, these are mostly private enterprises. With the majority of micro and small enterprises, this group has limited capacity and resources and it is vulnerable to integration. This is the group that needs supporting policies of the Government in order to enhance the competitiveness, because they have demand and are ready to actively make good use of such support for necessary adjustments.

There is a certain proportion (28-36%) of the businesses choosing not to adjust because they do not see the necessity for the adjustment or transformation. They either are confident that their current capacity is sufficient to take advantage of the opportunities from the FTAs or think that the FTAs have no impact on their future business. Only less than 5% of businesses choose not to adjust because they do not believe the adjustment is necessary.

18. From the results of the first two years of CPTPP implementation, it can be seen that this Agreement has had the initial positive impacts and practical benefits to a number of businesses. However, achievements were significantly lower than expected, which is caused by not only objective events such as the global trade tensions or the COVID-19 pandemic, but also subjective issues of the State and enterprises. On the basis of these findings, the Vietnam government and enterprises can learn from experiences in order to "move themselves" better, be ready to implement more effectively in the coming time.

19. For the Government, the work of reviewing the compatibility and preparation for the development of legal regulations in accordance with the CPTPP institutional

commitments should be performed more carefully, with an inter-ministerial perspective, emphasis on careful evaluation requirements and close consultation with the business community. Ministries responsible for drafting documents and regulations to implement the CPTPP commitments need to plan the schedule for this work and implement as soon as possible, not wait until the commitments take effect, then start editing.

Regarding the CPTPP implementation, it is necessary to have an official focal point to inform, advise and explain the commitments for businesses and state agencies responsible for the implementation. At the same time, it is necessary to regularly monitor the situation, synthesize problems and take timely measures. The activities of disseminating and propagating about CPTPP in the coming time need going into detail, with contents designed in a practical, concise and suitable way for the interests of each specific businesses group.

Programs and activities to support businesses need to focus on essential activities to improve product competitiveness and systematically promote trade at the national level, especially in new markets, update market information and connect supply and demand. These activities should also be tailored to individual target groups, with special priority given to small and micro businesses.

20. For businesses, actively exploring opportunities, CPTPP commitments and taking action to realize the benefits from the Agreement is the most important requirement. Promoting competitiveness starting from product competitiveness is not only a regular work to be done but also a key for businesses to seize opportunities from the integration of CPTPP and the FTAs. Cooperation in business to be stronger, thereby directly or indirectly benefiting from this process is also what the businesses should pay special attention. Also, instead of single ineffective efforts, businesses need to cooperate (within the framework of VCCI or business associations) to advocate policies, improve business investment environment, thereby solving unleash creativity and successful integration./.