

The Strategic Vision behind Vietnam's International Trade Integration

Sophie Deprez

Abstract: This paper evaluates the positioning of Vietnam in international trade. It addresses the key question of how Vietnam uses its participation in international trade agreements as a tool to ensure and advance national interest and security through increased economic power. The paper first examines how Vietnam participates in the international integration of the ASEAN Economic Community (AEC), and then looks at the importance for Vietnam to be outward-looking; that is, to participate in trade agreements outside the South-East Asian region. Finally, I examine how reforms required under international trade agreements push Vietnam into domestic economic reforms.

My conclusion is that the political elite of Vietnam has identified trade, export-oriented growth and international economic integration as international policy preferences and has used international trade integration as a strategic instrument to maximise these national priorities within the regional and international trade system. Therefore, Vietnam has a very strategic view on international trade integration and uses it as an instrument to ensure its national interest and security through increased economic power. Through careful selection of trade agreements, Vietnam aims to position itself in a strategically advantageous position vis-à-vis other economies of the AEC, to ensure continued economic growth through preferential access to key markets and to push through some of the more difficult and sensitive domestic economic reforms, using its commitments under external trade agreements as a lock-in mechanism.

■ Manuscript received 23 October 2017; accepted 2 July 2018

Keywords: Vietnam, international trade agreements, regional integration, domestic economic reforms, ASEAN

Sophie Deprez is a civil servant-diplomat for the Ministry of Foreign Affairs of Belgium, for which she has been posted to Vietnam (2011–2015) as the first secretary in charge of political and economic affairs to the Embassy of Belgium in Hanoi, Vietnam. She is currently posted to the Embassy of Belgium in Lima, Peru. Previous to her posting in Vi-

etnam she worked for the European Union in Macedonia. Her academic background includes a MSc. in economics from the Solvay School in Brussels and a MA in international political economy from the University of Warwick.

E-mail: <sophie.depez@gmail.com>

Introduction

International trade agreements and regionalism have been the subjects of analysis of various schools of thought. The realist and neorealist schools consider international trade a power-oriented zero-sum game, while the liberal-oriented schools of thought view it under a positive-sum collaborative approach, and international political economy (IPE) integrates economic and political dynamics with the importance of ideational forces.

This paper¹ looks at the strategy of Vietnam in positioning itself in international trade. In doing so, I look at three important trade agreements that Vietnam has recently concluded: the Association of South-East Asian Nations (ASEAN) Economic Community (AEC); the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), more commonly known as the TPP-11, which is the successor of the Trans-Pacific Partnership (TPP); and the European Union (EU)–Vietnam Free Trade Agreement (EVFTA). Although these are different types of trade agreements (intra-regional for the AEC, inter-regional for the TPP-11 and bilateral for the EVFTA), I consider them adequate examples to show the strategy pursued by Vietnam to position itself in the international trading system. Indeed, Vietnam seems not to make a difference between the types of trade agreements, considering them all useful tools in the implementation of national and international policy preferences.

The paper uses the theoretical framework of the Murdoch school of IPE and argues that the trade policy of Vietnam and its participation in the AEC, the EVFTA, the TPP-11 and the pursuit of a bilateral trade agreement with the United States of America (USA) to compensate for the absence of the USA in the TPP-11 is the result of a conscious choice and deliberate implementation of a strategic policy privileging national interest and security.

Vietnam is the only ASEAN country apart from Singapore that aims to have trade agreements with its two major trading partners out-

1 The author wishes to thank Lena Rethel, Bruno Angelet, Tom Vandenkendelaere, Jana Herceg and Joe Rodarme, as well as an unknown reviewer, for comments and suggestions on earlier versions. The author is working for the Ministry for Foreign Affairs, Foreign Trade and Development Cooperation of Belgium. The opinions expressed in this article are the personal considerations of the author and do not reflect official policy of the Belgian Government or the Federal Public Service Foreign Affairs Foreign Trade and Development Cooperation of Belgium, nor can they be attributed to it.

side the region, the EU and the USA – thereby securing preferential market access to its three main export markets (EU, USA and ASEAN). This position puts the lower-middle-income manufacturing country of Vietnam in an excellent place compared to its ASEAN peers. Furthermore, implementing the EVFTA and the TPP-11 will require domestic reforms, but I argue that the ‘externally imposed’ changes by these trade agreements consciously serve the national strategic development goal of locking in necessary reforms aimed at further developing the competitiveness of the country and ensuring continued economic growth.

I first look at the Murdoch school of IPE and explain how I will use this school of thought for the analysis of Vietnam’s trade policy. I then look at regionalism in Asia and show how ‘the ASEAN way’ of non-binding agreements and allowing countries to each move at their own pace leaves Vietnam with the necessary policy space to establish and implement its own foreign trade policy without giving the impression of disappointing the AEC integration process. This is followed by an analysis of why it is so important for Vietnam to look beyond ASEAN and the AEC for trade partners and, more recently, also accounting for a rising China and an ambiguous USA. I argue that Vietnam is consciously pursuing a trade creation strategy whereby it actively seeks to participate in preferential free trade agreements with important economic markets outside the ASEAN region that could potentially have an important trade creation effect for the country. Finally, I look at how domestic reforms are locked in due to the requirements of the rule-binding trade agreements that Vietnam concluded with the EU and the TPP-11 countries.

Theoretical Framework

The Murdoch school of IPE forms the theoretical basis for the analysis in this paper. While the original focus of the Murdoch school is the domestic, I build on contributions of later authors of the Murdoch school that are concerned with the international (Beeson, Jayasuriya, Nesadurai). More precisely, I use the strand of work that examines the *interaction* between the domestic and the international; that is, how domestic power relations are expressed in international relations. Authors following this approach look at how evolving domestic power relations shape international policy preferences and then go on to examine the ensuing interstate interaction (Hameiri 2014: 9-10). In other words, the approach “attempts to explore the role of domestic coalitions in underpinning a range of outward-oriented policies” (Jayasuriya 2003: 340).

I look at how the political elite of Vietnam has identified trade, export-oriented growth and international economic integration as international policy preferences, and the strategy and actions of Vietnam for the maximization of these national priorities within the regional and international trade system.

The Murdoch school is a critical political economy approach that was originally mainly concerned with questions of comparative politics and focused on social and political conflict. Although the school's initial focus was the domestic, it started to engage from very early on with international questions such as the impact of colonialism and the Cold War on Southeast Asian social structures and regime types. Nevertheless, its analysis was mainly limited to evaluating the impact of the international on the domestic (Hameiri 2014: 3). More recently, the Murdoch school has begun to study more explicitly international dynamics, with scholars using the approach to explain the international behaviour of states: by linking the international with the domestic and considering there is a reciprocal interaction between these two levels.

I use the work of Jayasuriya (2004, 2003), Beeson (2007b, 2007a), William Jones (2011) and David Jones (2015) about the AEC, in which they look at regionalism within ASEAN as an organisation and regional grouping. According to those authors, political sovereignty transfers, rules-based integration and the construction of institutional frameworks have not taken place to a large extent in ASEAN. As a regional economic governance project, ASEAN is very informal and flexible in nature. The nation-state and state-led international development have been allowed to continue to play an important role within ASEAN and persist to this day. For Vietnam, the ASEAN philosophy and the non-binding 'ASEAN way' create a permissive set of regional economic structures that allow for a relatively high degree of tolerance towards state-led development. This fits perfectly into Vietnam's strategy of preserving its independence, the defence of its national interest and the pursuit of its international policy preference.

Somewhat earlier, Nesadurai (2003) studied regional trade integration in South East Asia and examined the dynamics behind the forming of the ASEAN Free Trade Agreement (AFTA), using the Murdoch school approach. She analysed the state–market relationship and

[...] emphasises the reciprocal connection between the control of economic resources and the exercise of political power. Markets are not merely mechanisms that enable the efficient allocation of economic resources, they also allow the allocation and consolidation of political power. (Nesadurai 2003: 7)

Nesadurai also examined the conceptual issue of structure and agency by considering that domestic actors (mainly governments) are agents responding to specific aspects of globalisation (structure) in ways that were shaped by prior domestic social and political priorities (structure). However, through its actions the domestic actors (governments) attempt to use and/or alter the structure and/or processes of the global economy (in this case, the international trade system) to fulfil domestic priorities or interests (Nesadurai 2003: 157). In other words, the international trade system does not mean the same to all countries and cannot be considered as given: the interpretation of the current international trade system and its potential for each individual country depends heavily on the domestic socio-political structure. Therefore, the domestic is considered both as structure and as agent, and the international as a dynamic structure that will be influenced by the actions of the domestic.

This paper also builds on the work of Jayasuriya (2003, 2004) which looked in particular at the *governance* of regional integration. Jayasuriya argued that regional political projects have roots in domestic structures but, at the same time, that these domestic structures have come under pressure from globalisation and regionalisation. In other words, he considered the interaction between the domestic and the regional, both of which levels are influenced by global events. Jayasuriya mainly follows an 'inside-out' approach and "[...] attempts to explore the role of domestic coalitions in underpinning a range of outward-oriented policies" (Jayasuriya 2003: 340).

One of the particularities of the Murdoch school is its incorporation and use of theoretical concepts from other fields of study. This paper will do likewise and uses trade creation versus trade diversion theory (Viner 1950) as well as a computable general equilibrium (CGE) (Petri, Plummer, and Zhai Fan 2012), and some elements of (neo)realism to emphasize the importance for Vietnam of power and (economic) security. Both classical realism and neorealism consider the study of power and security in classical terms of war and peace. However, in today's globalized world, in which nation-states and other global actors compete for access to economic resources, economic growth, market share and investment, *economic* power and *economic* security are increasingly important and possible sources of security, insecurity and power (Gilpin 1987).

The main argument of this paper is that the trade policy of Vietnam and its participation in various trade agreements should be viewed as the result of a deliberate and strategic choice of its domestic forces for national interest, increased potential future economic wealth and power – and, therefore, more security.

Firstly, Vietnam has prioritised international trade integration with its most important trade partners outside the ASEAN region. For Vietnam, its own international trade integration is a more important objective than the shared ASEAN interest of establishing a fully functioning, successful and globally integrated AEC. Vietnam has understood that, in today's world, 'international' goes hand in hand with 'national' or 'domestic', but that there is a fundamental difference between 'international' and 'supranational'.

Secondly, I argue that, by using trade creation versus trade diversion theory, Vietnam is consciously pursuing a trade creation strategy whereby it actively seeks to participate in preferential free trade agreements with important economic markets outside the ASEAN region (mainly the EU and the USA)² that could potentially have an important trade creation effect for the country. In this scenario, Vietnam takes advantage of the reduced customs tariffs both within the AEC and with the EU and the USA to attract exporting companies to produce in Vietnam, and from Vietnam export onwards to trade partners outside ASEAN. In other words, Vietnam wants to create new trade flows and focuses on ensuring its own (economic) security by making use of regional and international trade agreements. Following the USA's withdrawal from the TPP, I also look at external factors such as the changing trade architecture in East Asia, a rising China and an ambiguous USA, and the importance for Vietnam to strategically balance participation in various trade agreements.

Thirdly, I argue that the rule-binding trade agreements, mainly with the EU but also the TPP-11 countries, serve a national domestic purpose of locking in domestic reforms. Domestic reforms, which are necessary for the continued economic growth of Vietnam in an increasingly globalized and interconnected world, but which are difficult to pass through and for which the Vietnamese political elite do not necessarily have the courage to implement on their own. The rule-binding agreements with the EU and the TPP-11 countries that 'force' Vietnam to reform serve this purpose better than the non-binding and voluntary 'ASEAN way'.

2 The ASEAN countries, the EU and the USA are Vietnam's major trading partners and, in 2016, accounted for: ASEAN countries 9.8 per cent, the EU 19.3 per cent, and the USA 21.7 per cent (GSO).

1 Regionalism in ASEAN

1.1 The ASEAN Economic Community and the ‘ASEAN Way’

ASEAN started in 1967 as a regional security arrangement but trade and economic cooperation between its member states have assumed increasing importance in recent years. In 2003 ASEAN leaders decided to create an ASEAN Economic Community (AEC) by 2020 but in an ambitious move its start was brought forward to 31 December 2015.

Although the economic integration of ASEAN was triggered by the Asian financial crisis of 1997, David Jones (2015: 9–10) argued that the changing global economic structure since and the lack of decisiveness of ASEAN have slowed down the intended regional integration efforts. As an example, he cites the creation of the ASEAN Free Trade Agreement (AFTA) and the ASEAN Investment Area (AIA) in the 1990s which, in effect, have had little impact on intraregional integration and have failed to transform the trade patterns inside ASEAN. *The Economist* (2014) wrote that tariff barriers, which have been brought down thanks to the AEC integration efforts, have been replaced by non-tariff barriers.

A study by the Asian Development Bank (ADB) concluded in May 2015 (seven months before the creation of the AEC) that “[...] creating a fully functional AEC by the end of 2015 seems nigh impossible” (Menon and Melendez 2015: 15). Although progress has been made, the authors suggest that “[t]he flexibility that characterizes ASEAN cooperation, the celebrated ‘ASEAN way’, may hand member states a convenient pretext for noncompliance” (Menon and Melendez 2015: abstract).

In 2015 ASEAN established the AEC but said it was not yet realised and deferred 105 of its 506 measures. Rhetoric changed by insisting the AEC should be viewed as an ongoing process (Menon and Melendez 2017; Tangkitvanich 2017) and the ASEAN Economic Community Blueprint (2008–2015) was replaced by its successor, the AEC Blueprint 2025, which describes the objectives for the AEC even more vaguely. Nevertheless, the ASEAN Economic Community Council (AECC) is expected to enforce compliance (Menon and Melendez 2017).

1.2 ASEAN Integration into the Global Economy

The ASEAN framework for integration into the global economy is given by characteristic 5 of the AEC Blueprint 2025: ASEAN wants to “work towards further integrating the AEC into the global economy”, to strengthen its “position as an open and inclusive economic region [...]”

and “make steady progress towards integrating the region into the global economy through FTAs and comprehensive economic partnership agreements [...]” (ASEAN 2015: 35). While working on its external economic relations, ASEAN wants to maintain its ASEAN centrality “where possible” (ASEAN 2015: 35).

Regionalism in Asia has been mostly outward-looking so far and, according to Plummer (2009), it needs to continue doing so because “anything but outward-oriented FTAs could be detrimental to the development strategies being pursued by the region’s economies”. Therefore, “regionalism in Asia needs to take into account the region’s relationship with major trade, investment and diplomatic allies such as the United States and the EU” (Plummer 2009: 67). According to Jones (2015: 11),

[a]ny attempt to broaden East Asian economic and financial integration has to take into account that, since 2001, economic growth in Asia remains dependent on US and European consumption together with Chinese growth.

Hence, the commonality of export-oriented development of the member states of ASEAN is actually an example of the priority that national sovereignty, national policy preferences and the strategy of national economic development take on regional economic integration. Jones (2015:11) said: “the regional aspiration sits at variance with the state led development that the member states of ASEAN continue to practice [...]”. Earlier, Beeson (2007a: 31) said that because of historical reasons a more state-led Asian-style intervention model has been allowed to develop. Jones (2015) agreed with Beeson (2007b: 221) that “the fact that Southeast Asia’s primary trade links lay outside the region and that its economies were inherently competitive made intra-regional cooperation [...] more difficult”. Tangkitvanich (2017) confirmed that

economic integration among ASEAN countries has so far focused on creating a more attractive package for multinationals looking to operate in the region, rather than on creating stronger bonds between member economies.

According to the same authors, “[m]any ASEAN countries view one another as rivals in their pursuit of exporting to the global market or attracting foreign direct investment” (Tangkitvanich 2017).

Jones argued that, since the Japan–Singapore Economic Partnership Agreement in 2003, “bilateralism has altered both the direction and pattern of trade in the region” and showed that ASEAN’s most developed economies, Thailand and Singapore, are concentrating on their own markets and “depriving ASEAN of its best integrators in the process”

(Jones 2015: 11). Although Jones used the example of Thailand and Singapore, I argue that a similar argument can be used for Vietnam a couple of years later than 2003. Since 2007, Vietnam, one of ASEAN's most open and trade-oriented economies, has mainly focussed first on its World Trade Organisation (WTO) accession and later on concluding preferential trade agreements with the EU and the USA, which are Vietnam's most important export markets, instead of giving priority to the integration of ASEAN.

2 The Importance for Vietnam to be Outward Looking beyond ASEAN

2.1 The Importance of Characteristics 1 and 5 of the AEC Blueprint 2025 for Vietnam

For the Vietnamese economy, two characteristics of the AEC Blueprint 2025 are particularly important: “characteristic 1: a highly integrated and cohesive economy” (in the former ASEAN Economic Community Blueprint (2008–2015) more clearly called “pillar 1: single market and production base”) and “characteristic 5: a global ASEAN” (formerly “pillar 4: integration into the global economy”).

Characteristic 1 attempts to “enhance ASEAN's trade and production networks, as well as to establish a more unified market for its firms and consumers” with a view to “enhance the region's participation in global value chains” (ASEAN 2015: 3, 11).

Characteristic 5 wants ASEAN to strengthen its “position as an open and inclusive economic region” and “make steady progress towards integrating the region into the global economy through FTAs and comprehensive economic partnership agreements” (ASEAN 2015: 35). The old blueprint (2008–2015) defined ASEAN's international integration more clearly as described in its so-called pillar 4: “enable ASEAN businesses to compete internationally [and] to make ASEAN a more dynamic and stronger segment of the global supply chain [...]” (ASEAN 2008: 25).

Both characteristics are in line with Vietnam's economic development strategy, but Vietnam seems to fear trade diversion effects under characteristic 1. In a fully functioning AEC, Vietnam's role in regional production chains could be limited to becoming (one of) the low-wage, low-added-value producers of the region, an economic model it finds itself in currently. In this scenario, basic manufactured products would move on from Vietnam to other countries of the AEC for further pro-

cessing, adding value and eventually exporting to final consumer markets outside the region. Vietnam fears this would not bring new trade flows but, on the contrary, entrench the country further into the level of economic development it currently finds itself, risking becoming stuck in the lower middle-income trap.

On the contrary, Vietnam seems to actively seek potential trade creation effects under characteristic 5 of the AEC by looking for and engaging in strategic international trade agreements outside of the ASEAN region, such as the EVFTA and the TPP, which I examine in this paper. Numerical analysis by Petri, Plummer, and Zhai Fan (2012), which I will look at in more detail below, confirms that Vietnam has the most to gain from international integration but the least to gain from purely regional economic integration (the AEC). By advancing (individually) on characteristic 5, Vietnam seemingly hopes to catch some of the trade creation effects that increased preferential market access to major consumer markets outside of the ASEAN region such as the EU and the USA offers.

Paradoxically, by actively seeking trade agreements outside ASEAN, Vietnam implements its commitment as an ASEAN member towards characteristic 5. A permissive set of regional economic structures such as ASEAN and the AEC has allowed Vietnam to continue its strategy of state-led development at the international level (Jayasuriya 2003). It is therefore perceived as a 'good pupil' and a proponent of regional integration. In reality, however, it is mainly Vietnam's national policy preferences and considerations of increased national economic power and economic security that drive it towards further international integration. The 'ASEAN way' offers member states the margin or convenient pretext to privilege the characteristics that a country considers more important for its own national development – characteristic 5 in the case of Vietnam.

2.2 The Effect of the AEC, AEC+ and AEC++ / ASEAN+ for Vietnam

Petri, Plummer, and Zhai Fan (2012) analysed the effects of the ASEAN Economic Community (AEC) on the economies of its participating countries. A computable general equilibrium (CGE) model with different scenarios analyses how the different components of the AEC contribute to the overall economic benefits of each country. The various scenarios look at the different forms of economic and trade integration of the ASEAN region with other countries and regions, and each of the five scenarios introduces elements of the ASEAN Blueprint and new interna-

tional agreements (existing or not (yet) existing) with external partners. Indeed, Petri, Plummer, and Zhai Fan stated that

[a]n important objective of the AEC is to make the region more attractive as a partner for other countries and regions and the benefits of these efforts will be fully realized if ASEAN concludes additional FTAs. (Petri, Plummer, and Zhai Fan 2012: 105)

Put briefly, the outward looking attitude of ASEAN and its member countries is analysed.

In the case of Vietnam, the present paper shows that the country has most to gain in the case of what it calls AEC+ and AEC++. AEC+ is a bilateral FTA between the AEC and the East Asian Summit countries (Australia, New Zealand, India, Japan, China and South Korea), whereas AEC++ means a further bilateral FTA between the AEC and the USA and the EU. In other words, the CGE model of Petri, Plummer and Zhai Fan (2012) examines the impact of various scenarios of the international integration of ASEAN as set out under characteristic 5 of the AEC Blueprint 2025.

In the case of Vietnam, the full realisation of the AEC would add 2.8 per cent to *GDP growth* compared to 2004. However, the AEC+ scenario would add 16 per cent to GDP growth and the AEC++ scenario a mere 29.8 per cent. Vietnam is, by a large margin, the country in ASEAN that would benefit most from the further international integration of ASEAN with the rest of the world, and in particular with the USA and the EU: the country to benefit the next most from AEC+ and AEC ++ would be Malaysia, but by only 11.2 per cent and 14.7 per cent, respectively (Petri, Plummer, and Zhai Fan 2012: 107).

On the contrary, for the purely *intraregional* (that is, ASEAN) integration scenarios (AFTA, AFTA+ and AEC³), Vietnam is amongst the countries that score low. For the AEC scenario it is even the country with the lowest addition to its GDP growth: only +2.8 per cent compared to the 2004 scenario, whereas the ASEAN average is +5.3 per cent, and the next-lowest scoring country is Malaysia with +3 per cent.

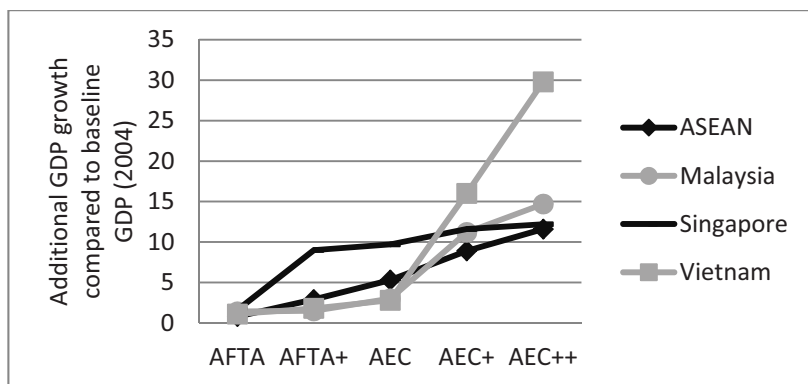
3 AFTA is the completion of the ASEAN Free Trade Agreement (AFTA) through the elimination of remaining intra-ASEAN tariffs (completed in 2004); AFTA+ is the intensification of AFTA through the removal of non-tariff barriers (NTB), including regulatory barriers; AEC is the ASEAN Economic Community and reforms that improve the investment climate.

Table 1. Additional GDP Growth

Additional GDP growth compared to baseline GDP (2004) (in %)	AFTA	AFTA+	AEC	AEC+	AEC++
ASEAN	0.8	2.9	5.3	8.9	11.6
Malaysia	1.4	1.5	3.0	11.2	14.7
Singapore	1.6	9.0	9.7	11.6	12.2
Vietnam	1.1	1.8	2.8	16.0	29.8

Source: Petri, Plummer, and Zhai Fan 2012: 107.

Figure 1. Effect of Regional and International Integration on GDP Growth



Source: Author, based on source data from Petri, Plummer, and Zhai Fan 2012: 107.

Vietnam and Malaysia are the two ASEAN countries that score relatively low with regard to intra-regional ASEAN integration but face interesting growth perspectives once ASEAN integrates further with other countries and regions of the world. Singapore is the country that gains most over the entire line, confirming its strong economic position inside the ASEAN region and globally.

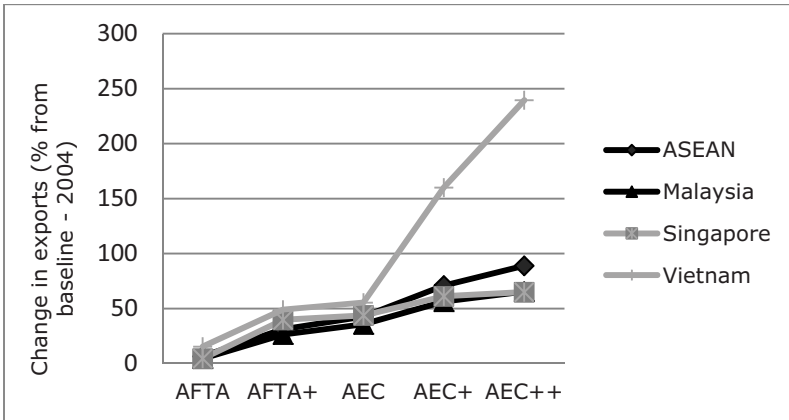
Similarly, Petri, Plummer, and Zhai Fan (2012) also examined the effects on *international trade* of each ASEAN member according to the same five scenarios. Again, Vietnam stands out as the ASEAN country that would benefit most: compared to the baseline scenario of 2004, AEC would increase Vietnam's exports by 55.4 per cent, AEC+ by 160.1 per cent and AEC ++ by 239.5 per cent. Vietnam is, again by a considerable margin, the country that would benefit most from ASEAN integration with the rest of the world.

Table 2. Change in Exports

Change in exports (% from baseline (2004))	AFTA	AFTA+	AEC	AEC+	AEC++
ASEAN	6.5	31.2	42.6	70.9	88.9
Malaysia	4.5	26.4	35.6	56.3	65.4
Singapore	4.5	39.7	43.7	61.1	64.9
Vietnam	15.4	49	55.4	160.1	239.5

Source: Petri, Plummer, and Zhai Fan 2012: 111.

Figure 2. Effect of Regional and International Integration on Exports



Source: Author, based on source data from Petri, Plummer, and Zhai Fan 2012: 111.

3 The Impact of International Trade Agreements on Domestic Economic Reforms in Vietnam

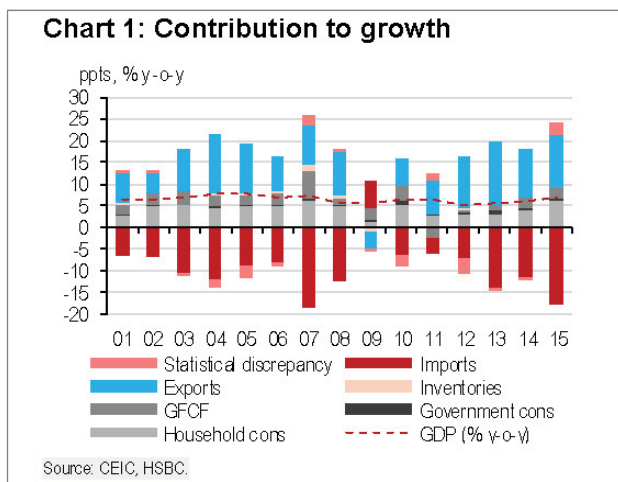
Vietnam started its major economic reform process in 1986 with the formal launch of Doi Moi, which laid the basis for its current economic policy. Thirty years later, the domestic reforms that this process has brought about are undeniable. Of major importance was the deeper and broader international economic integration that Vietnam sought, which has been a very successful aspect of the reform process. Within the new economic policy set in motion with Doi Moi, Vietnam has very well understood the importance of being ‘outward-looking’ (Hiep 2015: 3). Indeed, Vietnam understood very well what Nesadurai (2003: 153–154)

called the 'growth imperative'; that is, the need to engage with globalisation in order to secure GDP growth and more economic wealth.

3.1 The Importance of Openness to International Trade for Vietnam

Trade and export-oriented growth have been at the core of the international economic integration strategy of Vietnam for the last 30 years. A compilation of data between 2001 and 2015 by HSBC shows that exports have been the biggest contributor to growth (see Figure 3 below) (HSBC 2016: 2).

Figure 3. Contribution of Exports to Growth



Source: HSBC 2016: 2.

Since the country opened up for trade and foreign direct investment (FDI) in the early 1990s, several free trade agreements have been concluded. In 1995 Vietnam became an ASEAN member; in 1996 it joined the ASEAN Free Trade Area (AFTA) and it currently participates in the further economic integration of ASEAN by taking part in the AEC. The Bilateral Trade Agreement (BTA) with the USA in 2000 was an important milestone that paved the way for Vietnam's accession to the World Trade Organisation (WTO) in 2007 (CIEM 2010: 1).

To date, Vietnam and Singapore are the only two ASEAN member states to have free trade agreements with their two most important export markets (keeping in mind the large difference in economic devel-

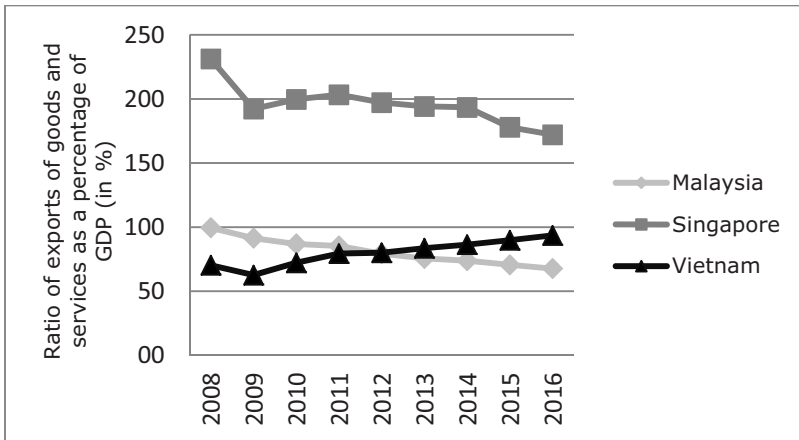
opment between Vietnam and Singapore). Indeed, the ratio of exports of goods and services as a percentage of GDP in 2016 amounts to 93.6 per cent for Vietnam and 176.5 per cent for Singapore. The country with the third-highest level of exports to GDP is Malaysia, with 70.9 per cent. Together with Singapore, Vietnam is the most export-oriented economy of ASEAN (World Bank Trade Indicators). The ratio of exports as a percentage of GDP of Vietnam has continually increased over the past five years, in contrast to Singapore and Malaysia (see Table 3 and Figure 4 below). HSBC (2016) confirms that “[t]rade is the engine of Vietnam’s growth. [...] Across Asia, Vietnam is [...] one of the few countries still enjoying a vibrant export sector amid sluggish global demand” (HSBC 2016: 1).

Table 3. Ratio of Exports of Goods and Services as a Percentage of GDP

Ratio of exports of goods and services as a percentage of GDP (in %)	2012	2013	2014	2015	2016
Malaysia	79.3	75.6	73.8	70.6	67.7
Singapore	197.2	194.2	193.4	177.9	172.1
Vietnam	80.0	83.6	86.4	89.8	93.6

Source: Author, based on source data from World Bank Trade Indicators.

Figure 4. Ratio of Exports of Goods and Services as a Percentage of GDP



Source: Author, based on source data from World Bank Trade Indicators.

Starting in 2012 and 2008, respectively Vietnam started negotiations for two so-called ‘new generation’ trade agreements: the EU-Vietnam Free

Trade Agreement (EVFTA) and the Trans-Pacific Partnership (TPP) in which the USA was the most important participant for Vietnam. Negotiations of both trade agreements were concluded at the end of 2015. Vietnam strategically managed its negotiations with both trade agreements largely with the same negotiating team and mainly following a similar calendar, in order to commit to similar reforms under both trade agreements but also to exploit differences in negotiating position between the EU and the USA (under the TPP) to obtain a better deal. Indeed, according to Jandl (2018), Vietnamese diplomacy has always been skilful at exploiting “big-power rivalries to balance economic and political interests”. In the case of EVFTA, ratification is expected in the second half of 2018; however, following the USA's withdrawal from the TPP, it has been replaced by the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), more commonly known as the TPP-11, which was signed on 8 March 2018.

Of major interest for Vietnam is that the EVFTA and the TPP would have given it preferential access to the markets of its main trading partners: the EU and the USA. A study by the World Bank identified Vietnam as the country that would have benefitted most from the TPP, with an increase in GDP of up to 10 per cent by 2030. “The largest gains in GDP are expected in smaller, more open member countries, such as Malaysia and Vietnam (8% and 10% by 2030, respectively)” (Lakatos 2016).

Berger (2016) conducted an elaborate study of the implications of deep preferential trade agreements – the so-called new generation trade agreements – on the upgrading of global value chains in Vietnam. The study found that both the TPP and the EVFTA may have significant positive effects on the economic performance of Vietnam, but that these effects are not automatic and that the Vietnamese government and business sector needs to play an active role. The TPP and EVFTA provide opportunities either in a direct way (such as rules of origin for textiles and garments) or in an indirect way (for example, rules on investment and state-owned enterprises).

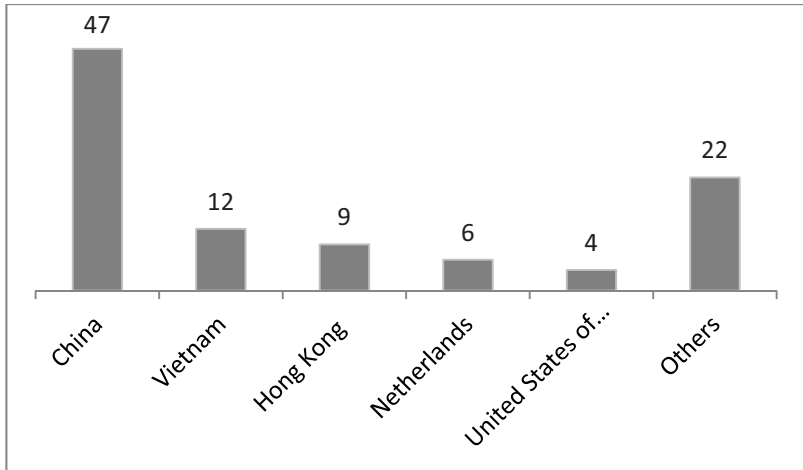
Both the TPP and the EVFTA regulate behind-the-border issues such as investment, competition and intellectual property rights (IPR), and they require substantial institutional reforms towards enhanced market efficiency in these areas. Reforms in these areas will potentially generate spill over effects to other areas, creating a momentum for an overall reform push. (Berger 2016: 36)

Plummer (2009: 59) stated that ASEAN's exports are still substantially driven by extra-regional final demand and OECD markets remain im-

portant for final goods produced in Asia. A study by The Economist Intelligence Unit (2014: 14) showed that companies with business activities in Asia want increasingly ambitious FTAs: they want the agreements to be more comprehensive and with larger economies. The study identified the TPP as an example of moving towards meeting the demands of firms.

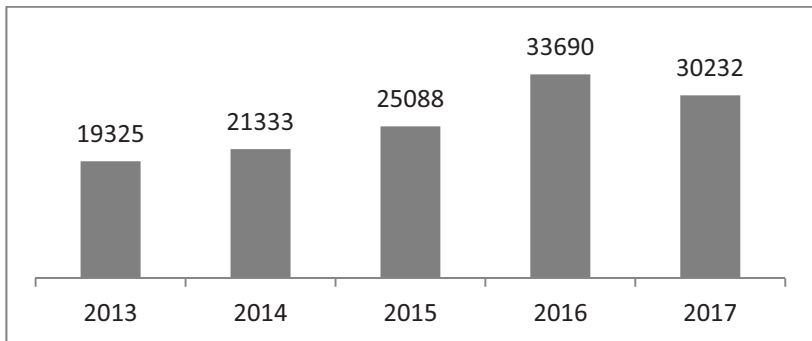
While Vietnam's earlier trade policy was mainly focused on traditional international trade integration with the reduction of tariff barriers, the present paper argues that its current trade policy puts more focus on the *strategic positioning* of the country in international trade. Through preferential trade agreements (EVFTA, TPP, TPP-11 and a bilateral trade deal with the USA) with its main export markets for final goods, Vietnam wants to position itself at the *end* of the production and global value chain: a country from which finished high-value manufactured products can easily be exported to the EU and other countries where they enjoy preferential market access. In this way, Vietnam hopes to capture more of the added value and move the production of goods in Vietnam up in the added value chain. Desired side effects are the creation of a local supply industry and moving away from being merely the cheap labour provider for international manufacturers. A recent successful example of this new strategy is the exponential increase in exports of mobile phones assembled in Vietnam towards the EU and the USA. Samsung significantly increased its assembly and production of mobile phones in Vietnam in 2014, and Vietnam is now the second-largest mobile phone exporter in the world, after China (see Figures 5, 6 and 7 below) (Export Genius).

Figure 5. Largest Mobile Phone Producers in the World in 2017 (in % of Total Production)



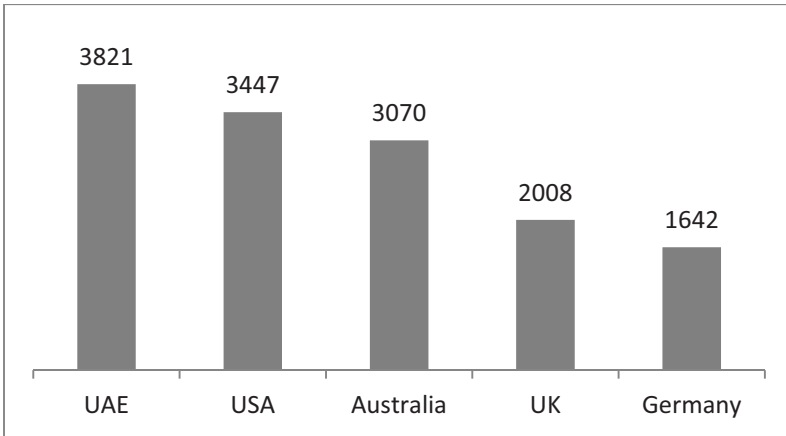
Source: Author, based on source data from Export Genius.

Figure 6. Export of Mobile Phones from Vietnam (Value in Million USD)



Source: Author, based on source data from Export Genius.

Figure 7. Main Export Markets for Mobile Phones from Vietnam in 2017
(Value in Million USD)



Source: Author, based on source data from Export Genius.

3.2 Domestic Economic Reform in Vietnam: The Process of Establishing and Executing Policy Preferences

According to Vu (2016: 13), the conflicting views over the past 30 years in terms of economic reform of the conservative and the progressive camps inside the Communist Party of Vietnam revolve around four main areas: (1) the role of the state versus the market as the key mechanism for economic coordination and allocation of resources; (2) the status of state ownership versus private ownership; (3) inward-looking import substitution versus outward-looking export promotion; and (4) the philosophical question whether the communist party should maintain its traditional alliance with the working class or should expand to include capitalists as well. Both sides have struck compromises during the reform of Vietnam since Doi Moi; however:

[i]n essence, the economic transition in Vietnam has been the gradual withdrawal of the state in favour of the market, the decrease of state ownership in favour of an increase in private ownership, and the abandonment of import substitution in favour of export promotion. (Vu 2016: 11)

According to Malesky and London (2014: 20.19, abstract), growth in Vietnam was most robust during periods of state withdrawal of the

economy and they argue that the distinctiveness of the Vietnamese model has been to allow “the private sector to expand alongside the state sector until eventually the private sector outpaced the formal state sector” (Malesky and London 2014: 20.13). Where a domestic consensus was harder to strike, Vietnam used its commitments under external trade agreements to push through some of the more difficult and sensitive economic reforms (Viet 2016: 3). In other words, Vietnam used its commitments under external trade agreements as new anchors; this exemplifies Jayasuriya's (2003: 343) argument that

shifts in regimes are prolonged and may involve [...] a period of long-term transition where the old regime is dying but a new regime struggles to find its coalitional and institutional anchors.

Once an ideological compromise is struck and policy preferences, both national and international, are identified, they need to be translated into the state and policy machinery of Vietnam for execution. The Vietnamese state uses its commitments in the international market and international trading system to achieve particular economic, social and political outcomes (Nesadurai 2003: 7). We can consider the process to come to an ideological compromise and policy preferences as an example of what the Murdoch school calls the ‘inside-out’ and reciprocal approaches: domestic coalitions play a role in setting international policy preferences but at the same time the international also influences domestic policy choices (Jayasuriya 2003: 340). Vietnam has identified export promotion as a domestic policy priority, but the choice of this priority has been influenced by the international trade system, which has brought considerable economic advantages to Vietnam that, in turn, constantly require further integration and domestic reforms in order to take advantage of the increased international trade. In other words, the Vietnamese state and the international trade system are both actors and structures that influence one another.

In its most simple expression, economic policy needs to trickle down from the highest macro level, where it has been defined by the Communist Party, to the lowest executive level legal norms, to be implemented both at national and regional levels by its respective governments. At the highest macro level, the 10-year socio-economic development strategy (SEDS) and five-yearly socio-economic development plan (SEDP), both written by the Communist Party of Vietnam during its five-yearly Party Congress play an important guiding role. They are submitted to the government and the national assembly of Vietnam for translation into respective action plans, laws, rules and other legal norms.

Throughout this whole process, the government, but even more so the Communist Party, retains the power of initiative: it is the government, with the approval or on the initiative of the Communist Party, that proposes laws and decrees to the national assembly. The national assembly itself takes little or no legislative initiative; it is sometimes called ‘the rubber stamp’ of the government, despite having become more vocal in recent years. And although in theory the main role of the Communist Party is to only *guide* the government and establish the main policy lines for the next five years, in practice the Communist Party holds the pen when legal norms are (re-)written.

CIEM (2010 and 2013) offers a good example of how the required reforms for the WTO accession of Vietnam trickled down to executive legislation and other implementing documents. Vietnam’s WTO accession was a major milestone in its international economic integration: it required important economic reforms, not only in the area of tariff reductions but also in legislative areas and on economic governance issues, but was widely supported by the population. Various major laws, such as the investment law and the enterprise law, needed to be checked for inconsistencies and revised and updated. A similar process would need to be followed for the implementation of new generation free trade agreements such as the EVFTA and the TPP-11.

The new Socio-Economic Development Plan 2016–2020 sets out the main political lines and directions of Vietnam in the five yearly period 2016–2020. Comparing it with the SEDP 2011–2015 shows the extent to which further reforms have been included and locked into the domestic political process. Both the SEDP 2011–2015 and the SEDP 2016–2020 share similar language about the restructuring of the economy: both talk about promoting the socialist-oriented market economy and creating conditions for socio-economic development. However, the SEDP 2016–2020 gives (slightly) greater importance to facilitating private sector development than the SEDP 2011–2015: in the SEDP 2011–2015 “facilitating private sector growth” is only identified – *after* the public sector, cooperatives and mixed ownership forms – as *one of* the driving forces of the economy, but the public sector still plays *a leading role*. On international integration, the SEDP 2011–2015 talks about “an independent and autonomous economy in the context of increasingly broader international integration”, whereas the SEDP 2016–2020 wants to “improve international integration” and clearly identifies “joining in new generation free trade agreements, grasping opportunities to expand [the] market” as an objective.

Some authors have examined sociocultural factors that they say influence how and with what degree of success Vietnam implements socio-economic reforms. Many observers consider the Vietnamese state to possess a high capacity to make and implement policies and programmes. The government has good legitimacy, authority and internal capabilities, especially for a lower middle-income country (Pincus 2016: 1, 7). Pincus (2016: 3) ascribed this, amongst other factors, to Confucian political philosophy that shares many characteristics of a properly functioning state with the Weberian description of modern bureaucracy, and that to this day continues to inspire Vietnamese society, economists and civil servants. Malesky and London (2014: 20.12) questioned whether Vietnam (together with China) represents an alternative economic development model, which would be the so-called Sino-capitalism that espouses different values from those of the currently dominant Anglo-American system of capitalism.

3.3 Locking in *Previous* Externally Required Reforms in the Domestic Policy Process: The Importance of Vietnam's WTO Accession and Short Literature Review

Scholars and practitioners of international relations draw a link between a country's WTO accession or its engaging in international free trade agreements (bilateral or plurilateral), on the one hand, and locking in domestic economic reforms, on the other hand. Lamy (2012) said that WTO accession is an "investment" in future competitiveness as it "lends added credibility to government policies and sends clear signals to investors about a country's commitment to an open economy". Ferrantino (2006: 2) went further, arguing that "[d]eeper integration with a large developed partner may [...] serve as an 'anchor' or 'lock-in mechanism' for domestic reforms" and that engaging in a free trade agreement "with large and developed partners provide an environment for developing countries to make deeper and more extensive policy commitments than WTO accessions". According to Ferrantino, the main reason for this is because FTA negotiations are quicker than WTO accessions and because the 'policy anchoring' is firmer; that is, the developed country insists more on the effective implementation of the agreed reforms (Ferrantino 2006: 6–7).

Most scholars and practitioners, including Kee-Cheok et al. (2011), CIEM (2010 and 2013) and the WTO Trade Policy Review (2013), agree that the WTO accession of Vietnam in 2007 – and, more specifically, the

reforms implemented during the negotiations and the run up towards effective membership – have provided a useful and effective policy anchor to lock in domestic reforms. Thanh said that:

[s]ince the start of the *doi moi* process, Vietnam has always acknowledged international integration as an integral part of the whole reform process. The positive connection between the extent of integration and economic development has enhanced the country's confidence in making further regional integration attempts. (Thanh 2012: 172)

Other Vietnam scholars have taken a more nuanced view, arguing that the role external trade agreements have played to lock in reforms in Vietnam has been overestimated, or that the state has been able to evade its responsibilities through so-called “mock compliance” (Vu 2017: 106). Vu (2017) argued that Vietnamese political leaders have been able to circumvent certain required economic reforms in the WTO accession of the country, such as Vietnam's policy on required reforms in state-owned enterprises (SOE) between 2000 and the accession of the country to the WTO in 2007. According to Vu, “international trade agreements may not be conducive as expected and, in some cases, may even be counterproductive” (Vu 2017: 106).

Vu (2017) examined in more detail earlier claims of Pincus (2015), who said that “the Vietnamese state did not withdraw from the market but rather commercialized itself to take advantage of the opportunities [...] as markets expanded and internationalized” (Pincus 2015: 29). Pincus (2012: 17) identified economic governance and economic institutions as an obstacle to change and to the promotion of competition, efficiency and innovation. In particular, second-stage reforms – coming after the ‘easy’ reform phase of reducing barriers to domestic and international trade – conflict with the business interests of the state and are likely to trigger resistance (Pincus 2016: 8). The state has previously already ‘crowded out’ private business in order to profit from its preferential position and preferential access to resources, hereby penalizing the private sector and impeding the growth of genuinely private companies (Pincus 2016: 12). Malesky and London (2014: 20,17) took a different view, arguing that state-owned enterprises (SOE) are “institutions that helped mediate the internationalization of the economy”. In a regime where gradualism and collective decision-making are important, the tempering role of SOE in accepting the negative effects of internationalization (at least for certain groups in society) should not be underestimated. Both Jayasuriya (2003: 344) and Nesadurai (2003: 154) also considered that the so-called ‘growth imperative’ needs to be accompanied

by redistributive policies to domestic groups considered to be important for the legitimacy of the ruling regime. Jayasuriya said that

[...] the East Asian developmental states [...] put together policies that compensated non-export sectors of the political economy, and compensatory policies were critical in securing the political coalitions required for the pursuit of export-oriented industrialisation strategies. (Jayasuriya 2003: 344)

In other words, Vietnam's political elite (that is, the Communist Party) has justified staying in power through continued economic growth and an export-oriented industrialisation strategy. However, this has only been possible thanks to side payments to the weaker sectors of Vietnam's economy, notably through the protection of state-owned enterprises (SOE) that have formed a (temporary) buffer to absorb the negative effects of economic openness on the Vietnamese economy.

Both the EVFTA and the TPP-11 demand that state-owned enterprises compete on equitable and competitive terms with private companies in international trade and investment. As SOE participation and international activities have grown significantly over the past decade, so have the concerns about government influence, potential trade distortions and unfair competition (USTR 2015). However, Vietnam has negotiated important exceptions in both trade agreements, in order to protect its own SOEs. Annexes and special provisions to the main text detail that the most sensitive SOEs have been excluded, such as oil company Petrovietnam, electricity distributor EVN, Vietnam National Coal and Minerals company Vinacomin, the State Capital Investment Corporation (SCIC), the Debt and Asset Trading Corporation (DATC), the Airport Corporation of Vietnam, and SOEs in the printing, publishing, mass communication and audio-visual services sectors (European Union 2016b; USTR 2015).

3.4 Locking in *Future* Externally Required Reforms in the Domestic Policy Process 2: The Cases of the EVFTA, the TPP and the TPP-11

Ferrantino (2006: 14) said that the domestic actors interested in and pushing for domestic reforms are not limited to those with direct import-export interests, but also include an array of direct and indirect partners such as regime elites whose primary interest is maintaining power. Jayasuriya (2003) confirmed the close relationship between economic interests and political and economic power in Southeast Asia: paradoxical-

cally outward-oriented economic policies have helped the dominant political elite to remain in power. The last major external trade agreement requiring in-depth economic reforms was Vietnam's WTO accession in 2007. The present paper argues that part of the political elite of Vietnam, the reformists within the communist party, likely estimated a new far-reaching external trade agreement was necessary in order to keep or renew Vietnam's reformist momentum in order to maintain its "growth imperative" (Nesadurai 2003) and therefore engaged Vietnam in negotiations for the EVFTA and the TPP. Indeed, continued economic growth provides the Vietnamese communist party with the legitimacy to remain in power, and as we have seen above, trade and export-oriented growth is the main driver of Vietnam's economy.

Negotiations for the EVFTA were concluded on 2 December 2015 and TPP negotiations ended on 5 October 2015, with the 12th five-yearly Communist Party Congress starting on 20 January 2016. In other words, Vietnam embarked on two so-called 'new-generation free trade deals' requiring important domestic economic reforms only weeks before the national new leadership contest came to conclusion and the strategic development goals for the next five years were fixed in the SEDP. Therefore, there was only a brief window of opportunity for the outgoing leaders to lock in domestic reform before their successors took over and thus ensure their legacy on the economic future of the country. Paradoxically, the newly chosen leadership had the reputation of taking a rather conservative stance towards reforms, although the TPP and the EVFTA require important domestic reforms. Embarking on the TPP and the EVFTA had been supported and pushed forward by the reformists within the Vietnamese Communist Party which made up the previous government and had the upper hand in the Communist Party before the 2016 Congress. Retired US diplomat David Brown said about the leadership context in Vietnam that "Trong has paradoxically inherited Dung's reform agenda" (Brown 2016).⁴ Due to the withdrawal of the USA from TPP, the main question had become whether Trong would hang on to Dung's reform agenda. With the changed international context and with less external pressure, the current conservative minded

4 Nguyen Phu Trong: secretary-general of the Communist Party of Vietnam, the most important political figure in Vietnam. Nguyen Tan Dung: former prime minister of Vietnam until April 2016. Nguyen Tan Dung challenged Nguyen Phu Trong to become the secretary-general of the Communist Party of Vietnam during the 2016 Congress but lost. Nguyen Tan Dung is known as an economic reformer, whereas Nguyen Phu Trong takes a more conservative stance.

Vietnamese political leadership could have turned its back on the reforms Vietnam promised when it engaged in the TPP or the EVFTA, offering the new leadership an opportunity to *not* reform domestic economic policy in Vietnam. However, Vietnam's attitude in current trade developments in East Asia show that "Vietnam has committed to continue its policy of openness to trade and investment as the motivation for domestic reforms to promote growth [...] with or without the TPP" (Van 2017). Furthermore, Vietnam values its reputation as a reliable international partner with a stable and continuous foreign policy: it is therefore unlikely that Vietnam would suddenly come back on earlier foreign policy commitments, nevertheless it might seek to delay or soften implementation.

I agree with Van (2017) and argue that Vietnam's engagement in the EVFTA, in principle, requires very similar reforms to the ones the TPP required. Berger (2016: 26) expects the EVFTA to yield positive effects in similar magnitudes as the TPP. By engaging *simultaneously* in two similar trade agreements, Vietnam not only streamlined negotiating positions and ensured that no large discrepancies exist in trade relations with its two most important export markets; it also locked in domestic reforms requiring similar legal changes. However, with USA pressure now off the table, a matter of crucial importance for domestic reform in Vietnam will be the country's own motivation for domestic reforms and the *firmness* of the EU in demanding and ensuring that Vietnam complies with its reform commitments under the EVFTA. With only the EU pushing Vietnam to abide by its commitments, pressure is not as strong as it is in the case of two major trade partners (USA and EU) demanding that commitments are upheld. To this purpose, the EU is developing, together with Vietnam, an indicative roadmap with a technical assistance package for the full implementation of the FTA. This roadmap should set milestones requiring, amongst other things, the timely implementation of promised reforms by Vietnam accompanied by technical assistance aiming to help Vietnam to build up capacity. The EU is proposing the carrot-and-stick approach (European Union 2016a, European Commission 2016); nevertheless, the EU has a history of being relatively tolerant and patient in the case of non-compliance or late implementation of commitments by trading partners, which could give Vietnam – like in the case of ASEAN – a convenient margin for delay.

3.5 The Changing Trade Architecture in East Asia: Impact on Vietnam's Future Trade Policy

The USA's withdrawal from the TPP shook the emerging trade architecture of East Asia. The TPP was not just a trade agreement, it was a strategic policy instrument in the economic part of the USA's pivot to Asia. For Vietnam, it was as much an instrument to counterbalance China's weight in Asia as to mitigate the big and growing influence of China on Vietnam: "TPP would have made it easier for Vietnam to escape China's orbit" (Jandl 2018). With the lead role in economic rule-making for international trade in East-Asia shifting rapidly to Beijing, Vietnam has no other option than to appease China. Vietnam's best bet for now is to remain within the area of influence of China while trying to improve its bargaining position *within* a China orbit (Jandl 2018, 2017). Therefore, Vietnam's participation in the RCEP and the TPP-11, as well as pursuing a bilateral trade deal with the USA, should be considered bargaining chips towards both China and the USA.

After initial hesitation, Vietnam strongly supported Japan taking the lead in the negotiations of the TPP-11. Japan has been a supporter of keeping a strong TPP-11 with minimal changes, mainly for two reasons: to continue addressing behind-the-border issues and to facilitate a potential return of the USA. For Vietnam, Japan is a key partner: Japan is the second-largest provider of FDI to Vietnam and the largest provider of official development assistance (ODA) (Tomiyaama 2017), and in the changing East Asian trade architecture Japan is an important ally for Vietnam. At first sight surprisingly, Vietnam did not ask for the removal or substantial watering down of any key USA demands in the TPP-11 negotiations. At the request of mainly other countries, the TPP-11 suspends 22 provisions, mainly in the areas of intellectual property and government procurement, giving Vietnam additional time to implement the requirements under the original provisions but without appearing to be the 'bad pupil': "the delay in the CPTPP [the TPP-11] is actually an opportunity for Viet Nam and its firms. Postponement means more time for our firms and policymakers to prepare" (*Viet Nam News* 2018). Furthermore, the behind-the-border issues the TPP-11 addresses are very similar to reforms required under the EVFTA, which Vietnam needs to implement anyway. Therefore, the TPP-11 allows Vietnam to follow its current policy preference of pursuing new generation trade agreements and lock in externally imposed reforms, despite lacking market access to the USA.

Negotiations for the Regional Comprehensive Economic Partnership (RCEP), on the other hand, started in 2012 and the aim is for the

agreement to be signed in November 2018. Although the official objective of RCEP is to consolidate the already existing separate trade agreements between ASEAN and six trading partners (Australia, China, India, Japan, South Korea and New Zealand) and hence to help provide a solution for the problem of the 'noodle bowl' of trade agreements in Asia, it is in reality a China-dominated initiative. The RCEP may open up East Asia to free trade as it slashes tariffs on goods but the agreement lacks the comprehensive behind-the-border aspects of a new generation trade deal such as the EVFTA or the TPP-11 (Jandl 2018). For strategic reasons, to appease China and to fulfil its commitment as an ASEAN member towards characteristic 5, Vietnam is participating in the negotiations of the RCEP even though it does not really fit into Vietnam's ambition to conclude new generation trade agreements nor will it help Vietnam to lock in economic reforms.

Vietnam has indicated that it is seeking a (new) bilateral trade deal with the USA, "less for its economic gains than for its symbolic value" (Jandl 2018). In the joint statement following Vietnamese Prime Minister Nguyen Xuan Phuc's visit to the USA and meeting with President Trump in May 2017, 'promoting bilateral trade' figured in the fourth paragraph, following descriptions of the new (higher) level of contacts and exchanges between both countries, but ahead of other important issues such as bilateral defence ties, human rights and the South China Sea (The White House 2017). Regarding the perception Washington might have of Vietnam and in order to create goodwill for future bilateral trade negotiations, may have been another reason behind Vietnam's willingness not to ask for the removal of key USA demands in the TPP-11. A bilateral trade agreement with the USA would only be a second-best option for Vietnam as there is considerable uncertainty concerning the level of market access the USA, under President Trump, would be willing to give to Vietnamese products; however, a Vietnam–USA agreement would serve the purposes of signalling a (strong) relationship with the USA while also serving as a strategic tool in balancing China's influence.

Conclusion

This paper has demonstrated that Vietnam's integration in international trade is mainly motivated and oriented by concerns for national interest and security through increased economic power. The political elite of Vietnam has a very strategic view on international trade integration and has identified trade, export-oriented growth and international economic

integration as international policy preferences, thereby using international trade integration as a strategic instrument to maximise their national priorities within the regional and international trade system. In highlighting these points, the paper has used the theoretical framework of the Murdoch school of international political economy (IPE).

Firstly, examining Vietnam's participation in the EU–Vietnam Free Trade Agreement (EVFTA), the Trans Pacific Partnership (TPP), the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) (more commonly known as the TPP-11) and the ASEAN Economic Community (AEC), I have argued that, through a careful selection of trade agreements, Vietnam aims to position itself in a strategically advantageous position vis-à-vis other economies of the AEC. Vietnam has a lot to gain from international trade integration with the rest of the world but little from trade integration with only the AEC. The non-binding 'ASEAN way' has conveniently created a permissive set of regional economic structures allowing for a high degree of tolerance towards state-led development and pursuing domestically defined international policy preferences, which suits Vietnam very well. The AEC Blueprint 2025's fifth characteristic offers Vietnam the convenient framework to keep looking outward and engaging in trade arrangements outside of the South-East Asian region, while still being considered as a beneficial integrator and defender of the AEC. In reality, however, within the AEC, Vietnam wants to capture some trade creation effects by positioning itself and attracting investors at the *end* of the production chain where added value is higher. Preferential access to the EU and the USA, ASEAN's main consumer markets, would allow Vietnam to export finished manufactured products at a lower cost than other countries in the AEC.

This paper also argued that Vietnam has used international trade agreements as an instrument to lock in domestic reforms that are difficult to pass but are necessary for continued economic growth. Vietnam uses its commitments in the international trading system as economic, political and institutional anchors in order to achieve particular economic, social and political outcomes. The rule-binding EVFTA and TPP-11 require important domestic economic reforms from Vietnam but offer the wanted 'anchor' or 'lock-in mechanism' and serve this purpose better than the non-binding and voluntary 'ASEAN way'. Trade and export-oriented growth have played an important role in domestic economic reforms and have been at the core of the international economic integration strategy of Vietnam for the past 30 years. Continued economic

growth provides the political elite of Vietnam with the legitimacy necessary for maintaining political power.

The strategic view of Vietnam on its integration in the international trading system and the use of trade agreements as strategic instruments has also been examined in light of the recent changes in the emerging trade architecture in East Asia following the USA's withdrawal from the TPP. With the lead role in economic rule-making rapidly shifting to Beijing, Vietnam has no other choice than to appease China by participating in the RCEP while trying to improve its negotiation position towards China by pursuing a bilateral trade deal with the USA. Both trade agreements are second-best options and do not require domestic economic reforms, nor do they offer the lock-in mechanism or anchors Vietnam is seeking; however, they are necessary for the strategic purpose of balancing external factors.

The analysis of this paper hence suggests that Vietnam's international trade integration is very strategic. Through a careful selection of its participation in international trade, the political elite of Vietnam wants to ensure continued economic growth through preferential access to key markets. This paper has argued that Vietnam's *strategic* vision has recently been stepped up and that Vietnam uses its participation in international trade agreements as a tool to ensure national interest and security through increased economic power.

References

- ASEAN (2015), *AEC Blueprint 2025*, Jakarta, online: <www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf> (6 March 2018).
- ASEAN (2008), *ASEAN Economic Community Blueprint*, Jakarta, online: <<http://asean.org/wp-content/uploads/archive/5187-10.pdf>> (7 March 2018).
- Beeson, Mark (2007a), Competing Capitalisms and Neoliberalism: The Dynamics of, and Limits to, Economic Reform in the Asia-Pacific, in: K. England and K. Ward (eds), *Neoliberalization: States, Networks, Peoples*, Oxford (UK): Blackwell Publishing Ltd., 28–48.
- Beeson, Mark (2007b), *Regionalism and Globalization in East Asia: Politics, Security and Economic Development*, Hampshire (UK): Palgrave Macmillan.

- Berger, Axel et al. (2016), *Deep Preferential Trade Agreements and Upgrading in Global Value Chains: The Case of Vietnam*, Bonn: Deutsches Institut für Entwicklungspolitik, online: <<http://wtocenter.vn/publication/deep-preferential-trade-agreements-and-upgrading-global-value-chains-case-vietnam>> (10 February 2017).
- Brown, David (2016), Vietnam: Old Guard, New Tack, in: *Asia Sentinel*, 11 April, online: <www.asiasentinel.com/politics/vietnam-old-guard-new-tack/> (4 August 2016).
- Central Institute for Economic Management (2013), *Comprehensive Evaluation of Vietnam's Socio-Economic Performance Five Years after the Accession to the World Trade Organization*, Hanoi.
- Central Institute for Economic Management (2010), *Impacts of International Economic Integration on Vietnam's Economy after Three Years of WTO Membership*, Hanoi.
- CIEM see Central Institute for Economic Management
- Delegation of the European Union to Vietnam (2016), *Guide to the EU–Vietnam Free Trade Agreement*, online: <https://eeas.europa.eu/delegations/vietnam/documents/eu_vietnam/evfta_guide.pdf> (12 October 2016).
- European Commission (2016), *Commission Proposal for Conclusion, Signature And Provisional Application of EU-Vietnam Free Trade Agreement*, online: <http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_046_fta_vietnam_en.pdf> (27 February 2017).
- European Union (2016a), *DG Trade 1*, online: <<http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>> (11 July 2016).
- European Union (2016b), *EU-Vietnam Free Trade Agreement: Agreed Text as of January 2016*, online: <<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437>> (23 August 2016).
- European Union (2015), *Press Statement by the President of the European Commission Jean-Claude Juncker, the President of the European Council Donald Tusk and the Prime Minister of Viet Nam Nguyen Tan Dung*, 2 December, online: <http://europa.eu/rapid/press-release_STATEMENT-15-6217_en.htm> (27 February 2017).
- Export Genius (2017), *Mobile Phone Export Report of Vietnam January – December*, online: <www.exportgenius.in/blog/mobile-phone-exports-in-vietnam-2017-report-infographic-189.php> (12 March 2018).
- Ferrantino, Michael J. (2006), *Policy Anchors: Do Free Trade Agreements and WTO Accessions Serve as Vehicles for Developing-Country Policy Reform?*, online: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=895272> (3 February 2017).

- General Statistics Office (n.y.), *Statistics*, online: <www.gso.gov.vn/default_en.aspx?tabid=780> (13 March 2018).
- Gilpin, Robert (1987), *The Political Economy of International Relations*, Princeton: Princeton University Press.
- GSO see General Statistics Office
- Hiep, Le Hong (2015), *The TPP's impact on Vietnam: A Preliminary Assessment*, ISEAS Perspective no 63, online: <www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2015_63.pdf> (13 October 2016).
- HSBC (2016), *Vietnam at a Glance. Cautiously Optimistic on Trade*, HSBC Global Research, Flashnote, 28 November.
- Jandl, Thomas (2018), *Vietnam's Diplomatic Acrobatics in the Post-American Era*, Contribution on East Asia Forum, 14 January, online: <www.eastasiaforum.org/2018/01/14/vietnams-diplomatic-acrobatics-in-the-post-american-era/> (7 March 2018).
- Jandl, Thomas (2017), *Another Pivot for Vietnam*, Contribution on East Asia Forum, 18 January, online: <www.eastasiaforum.org/2017/01/18/another-pivot-for-vietnam/> (9 February 2017).
- Jayasuriya, Kanishka (ed.) (2004), *Asian Regional Governance: Crisis and Change*, London: Routledge.
- Jayasuriya, Kanishka (2003), Embedded Mercantilism and Open Regionalism: The Crisis of a Regional Political Project, in: *Third World Quarterly*, 24, 2, 339–355.
- Jones, David M. (2015), *ASEAN and the Limits of Regionalism in Pacific Asia*, EUI Working Paper RSCAS 2015/16.
- Jones, William J. (2011), The ASEAN Economic Community and New Regionalism: A Neorealist Analysis, in: *ASIEN The German Journal on Contemporary Asia*, 119, April, 49–66, online: <http://asien.asienforschung.de/wp-content/uploads/sites/6/2014/04/ASIEN_119_RN_Jones.pdf#page=4> (17 February 2017).
- Kee-Cheok, Cheong et al. (2011), *From Low-income to Industrialized: Vietnam in the Next Decade and Beyond*, Hanoi (Vietnam): The Gioi Publishers.
- Lakatos, Csilla et al. (2016), *Potential Implications of the Trans-Pacific Partnership, Highlights from Chapter 4*, Global Economic Prospects, Washington: The World Bank, online: <<http://pubdocs.worldbank.org/en/287761451945044333/Global-Economic-Prospects-January-2016-Highlights-Trans-Pacific-Partnership.pdf>> (7 March 2018).
- Lamy, Pascal (2012), *WTO Accession as a Tool to Enhance Competitiveness*, speech delivered at the University of Adis Abeba on 11 May 2012, online: <www.wto.org/english/news_e/sppl_e/sppl227_e.htm> (3 February 2017).

- Malesky, Edmund, and Jonathan London (2014), The Political Economy of Development in China and Vietnam, in: *Annual Review of Political Science*, 17, 395–419, online: <www.annualreviews.org/doi/abs/10.1146/annurev-polisci-041811-150032> (8 February 2017).
- Menon, Jayant, and Anna C. Melendez (2017), (Re)realising the ASEAN Economic Community, in: *East Asia Forum*, 24 August, online: <www.eastasiaforum.org/2017/08/24/rerealising-the-asean-economic-community/> (6 March 2018).
- Menon, Jayant, and Anna C. Melendez (2015), *Realizing an ASEAN Economic Community: Progress and Remaining Challenges*, ADB Economic Working Paper Series no 432.
- Nesadurai, Helen (2003), *Globalisation, Domestic Politics, and Regionalism: The ASEAN Free Trade Area*, London: Routledge.
- Office of the United States Trade Representative (2015), *TPP Full Text*, online: <<https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>> (23 August 2016).
- Petri, Peter A., Michael G. Plummer, and Zhai Fan (2012), ASEAN Economic Community: A General Equilibrium Analysis, in: *Asian Economic Journal* 2012, 26, 2, 93–118.
- Pincus, Jonathan (2016), Vietnam: Building Capacity in a Fragmented, Commercialized State, background paper contributing to Viet Sinh, Cao et al., *Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy – Overview*, Washington, D.C.: World Bank Group, online: <www.researchgate.net/publication/311231412_Building_Capacity_in_a_Fragmented_Commercialized_State> (9 February 2017).
- Pincus, Jonathan (2015), Why Doesn't Vietnam Grow Faster? State Fragmentation and the Limits of Vent for Surplus Growth, in: *Journal of Southeast Asian Economies*, 32, 1, 26–51, online: <Users/deperso/Downloads/Why_Doesn't_Vietnam_Grow_Faster_State_Fragmentatio.pdf> (8 February 2017).
- Pincus, Jonathan et al. (2012), *Structural Reform for Growth, Equity and National Sovereignty*, A policy discussion paper prepared for the Vietnam executive leadership program (VELP), Cambridge (USA): Harvard Kennedy School.
- Plummer, Michael G. (2009), *ASEAN Economic Integration. Trade, Foreign Direct Investment, and Finance*, Advanced Research in Asian Economic Studies – vol.6; Singapore: World Scientific Publishing.
- Socio-Economic Development Plan (SEDP) 2011-2015
- Socio-Economic Development Plan (SEDP) 2016-2020

- Tangkitvanich, Somkiat, and Rattanakhamfu Saowaruj (2017), Assessing the ASEAN Economic Community, in: *East Asia Forum*, 21 March, online: <www.eastasiaforum.org/2017/03/21/assessing-the-asean-economic-community/> (6 March 2018).
- Thanh, Vo Tri (2012), Achieving an Efficient AEC by 2015: A Perspective from Vietnam, in: Das Sanchita B. (ed.), *Achieving the ASEAN Economic Community 2015, Challenges for Member Countries and Businesses*, Singapore: Institute of Southeast Asian Studies.
- The Economist* (2014), Getting in the Way, 17 May, online: <www.economist.com/news/asia/21602265-south-east-asia-finds-decorum-its-regional-club-rather-rudely-shattered-getting-way> (13 July 2016).
- The Economist Intelligence Unit (2014), *FTAs: Fantastic, Fine or Futile? Business Views on Trade Agreements in Asia*, online: <https://globalconnections.hsbc.com/downloads/ftas_fantastic_fine_or_futile.pdf> (12 July 2016).
- The White House (2017), *Joint Statement for Enhancing the Comprehensive Partnership between the United States of America and the Socialist Republic of Vietnam*, 31 May, online: <www.whitehouse.gov/briefings-statements/joint-statement-enhancing-comprehensive-partnership-united-states-america-socialist-republic-vietnam/> (7 March 2018).
- Tomiyama, Atsushi (2017), Why Vietnam is all in for TPP 11, in: *Nikkei Asia Review*, 24 May, online: <<https://asia.nikkei.com/Politics-Economy/International-Relations/Why-Vietnam-is-all-in-for-TPP11>> (8 March 2018).
- USTR see Office of the United States Trade Representative
- Van, Hoa Tran (2017), Can Vietnam Reform without the TPP?, in: *East Asia Forum*, 8 June, online: <www.eastasiaforum.org/2017/06/08/can-vietnam-reform-without-the-tpp/> (8 March 2018).
- Viet Nam News* (2018), Long-Awaited CPTPP Presents Opportunities and Pitfalls, 16 February, online: <<http://vietnamnews.vn/economy/422854/long-awaited-cptpp-presents-opportunities-and-pitfalls.html#sQULG4zA1zwK910i.97>> (8 March 2018).
- Viet Sinh, Cao et al. (2016), *Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy - Overview*, Washington, D.C.: World Bank Group, online: <<http://documents.worldbank.org/curated/en/936571467996735625/Vietnam-2035-toward-prosperity-creativity-equity-and-democracy-overview>> (6 October 2016).
- Viner, Jacob (1950), *The Customs Union Issue*, USA: Carnegie Endowment for International Peace.

- Vu Thanh, Tu Anh (2017), Does WTO Accession Help Domestic Reform? The Political Economy of SOE Reform Backsliding in Vietnam, in: *World Trade Review*, 16, 1, 85–109.
- Vu Thanh, Tu Anh et al. (2016), *A Retrospective on Past 30 Years of Development in Vietnam*, online: <www.scribd.com/document/319848986/A-Retrospective-on-Past-30-Years-of-Development-in-Vietnam> (5 October 2016).
- World Bank (n.y.), *Trade Indicators*, Washington, DC: World Bank, online: <<http://databank.worldbank.org/data/reports.aspx?source=2&series=NE.EXP.GNFS.ZS&country=>> (28 February 2018).
- World Trade Organisation (WTO) (2013), *Trade Policy Review Vietnam*, Geneva: World Trade Organisation, online: <www.wto.org/english/tratop_e/tpr_e/tp387_e.htm> (3 February 2017).