

CPTPP establishment and development¹

At the beginning, the Trans-Pacific Partnership Agreement saw participation of four countries, including Brunei Darussalam, Chile, New Zealand, and Singapore. Therefore, the Agreement was abbreviated as P4.

On 22 September 2008, the United States announced their interest in the P4 Agreement. However, they proposed that the parties start negotiating a new Agreement called the Trans-Pacific Partnership (TPP) instead of continuing with the then P4. Immediately after, Australia and Peru also announced their participation in the TPP Agreement.

Viet Nam joined TPP in 2009 as a special observer. On 13-14 November 2010, Viet Nam officially announced their participation in the negotiation process on the occasion of the APEC Summit in Yokohama, Japan.

Alongside the negotiation, TPP welcomed several new countries, namely Malaysia, Mexico, and Japan, bringing the total number of members to 12.

In October 2015, TPP countries basically concluded all contents in the Ministerial Conference in Atlanta, United States, after over 30 negotiations at the technical level and 10 negotiations at the ministerial level. On 4th December 2016, Trade Ministers of 12 TPP countries attended the signing ceremony to affirm the TPP Agreement text in Auckland, New Zealand.

On 30 January 2017, however, the United States announced their withdrawal from the TPP. The remaining TPP countries actively exchanged information to reach an agreement on how to proceed with the TPP under such circumstance.

In November 2017, the 11 remaining countries agreed to change the name of the Agreement from TPP to CPTPP in Da Nang, Viet Nam, retaining the fundamental contents.

On 8th March 2018, Ministers of 11 CPTPP countries officially signed the Agreement in San Diago, Chile.

What is CPTPP?

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (aka CPTPP) is a new generation free trade agreement (FTA) with 11 members, including Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam.

The Agreement was signed on 8 March 2018 in San Diago, Chile. It became effective on 30 December 2018 for the 6 countries that first finished the ratification process, including Mexico, Japan, Singapore, New Zealand, Canada, and Australia. In Viet Nam, CPTPP came into effect since 14 January 2019.

CPTPP fundamental contents

CPTPP consists of 07 Articles and 01 Appendix stipulating the relationship with the TPP signed by 12 countries on 6th February 2016 in New Zealand, including Australia, Brunei Darussalam,

¹ Original article: http://cptpp.moit.gov.vn/?page=overview&category_id=9040e56c-c3f5-4592-9fe7-baa47f75a7c0

Canada, Chile, the United States, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam. In addition, it provides information relating to the validity, withdrawal, or accession to the CPTPP.

CPTPP retains the core contents of the TPP (consisting of 30 chapters and 9 annexes); however, it allows member countries to defer the implementation of 20 commitment groups to ensure the balance of rights and obligations under the context of the United States' withdrawal. Among the 20 deferred commitment groups, 11 are associated with the Intellectual Property Chapter, 2 associated with the Government Procurement Chapter, and the remaining 7 associated with the following chapters: Customs Administration and Trade Facilitation, Investment, Cross-border Trade in Services, Financial Services, Telecommunication, Environment, and Transparency and Anti-Corruption. However, all TPP commitments on market access are retained in CPTPP.

What are the differences between CPTPP and TPP?

Regarding contents

CPTPP retains TPP's core commitments, especially those relating to market access. The main difference is that CPTPP allows member countries to defer the implementation of approximately 20 commitment groups in crucial areas such as intellectual property, investment, government procurement, and financial services.

Regarding number of members and population

CPTPP consists of 11 members, while TPP has 12 members, including 11 CPTPP members plus the United States.

Regarding contribution to global trade and GDP

TPP's contributions to global GDP and trade are 40% and 30% respectively, while those of CPTPP are 15% and 15% respectively.

Opportunities when joining CPTPP

Benefit of export

Vietnamese enterprises will enjoy highly preferential tariff reduction when exporting goods to CPTPP member countries. Specifically, the reduction of import tax to 0% for Vietnamese goods in major markets such as Japan and Canada will help boost export turnover.

Basically, right after the Agreement comes into effect, taxes shall be eliminated for Vietnam's crucial export goods such as agricultural, aquatic, electric, and electronic products. According to the Ministry of Planning and Investment, such level of commitment can increase Vietnam's export by 4.04% by 2035.

Having FTA relations with CPTPP member countries will provide opportunity for Viet Nam to restructure the import and export market in a more balanced fashion. According to a research released by the World Bank in March 2018, Viet Nam's exports to CPTPP member countries are anticipated to increase from 54 billion USD to 80 billion USD, accounting for 25% of total exports.

Benefit of joining regional and global supply chain

CPTPP countries account for 13.5% of global GDP with a total trade turnover of more than 10.000 billion USD, and comprising of a number of major markets, namely Canada, Japan, and Australia. A lot of opportunities will be opened up when a new supply chain takes shape. This trend will grow stronger and stronger when being part of the CPTPP, and is a significant condition to enhance economic growth, increase labor productivity, reduce assembly workload, and participate in production stages with higher added value. Accordingly, sectors such as electronics, high-tech, and green agriculture will reach a new development stage. For such reasons, this is a great opportunity to enhance the Vietnamese economy in the next 5-10 years.

Benefit of industries

Industries which are expected to observe the largest growth rate include foods and beverage, cigarettes, textile, chemicals, leather and plastic products, transportation facilities, machinery, and several manufacturing and services sub-sectors. According to the Ministry of Planning and Investment, light industries and other labor-intensive industries may grow at the rate of 4-5% on average, and the increase in export may be 8.7%-9.6%.

Benefit of institutional reforms

Like WTO accession, participating in CPTPP, a new generation FTA, provides Viet Nam precious opportunity to continue improving legal and economic institutions, particularly the market economy mechanism with socialist orientation, which is one of the three strategic breakthroughs that our country's ruling Party has identified. This, in turn, will support the reform process of our development model as well as economic restructuring, and help improve the business environment in a more open, transparent, and predictable fashion. Such closer access to the international standards is a strong leverage to promote both foreign and domestic investment.

Benefit of income and employment

Becoming a CPTPP member will create opportunities to help increase growth. In terms of social aspect, it means that more jobs will be created, which in turn increases income and contributes to poverty alleviation. According to the Ministry of Planning and Investment, CPTPP can increase the total number of jobs by about 20,000-26,000 per year on average. As for poverty alleviation, a World Bank study estimates that CPTPP will help reduce 0.6 million people at the poverty line of US\$ 5.5 per day. All income groups are anticipated to get benefits from CPTPP.

Economic growth will also provide resources to improve labor force quality and public healthcare. CPTPP country members' economies are more advanced than that of Viet Nam and are complementary to the Vietnamese economy; therefore, a majority of imports from CPTPP countries which have yet to sign a free trade deal with Viet Nam are not directly competitive. Therefore, potential issues arising as a result of joining CPTPP can be resolved through a reasonable tariff reduction schedule and consolidation of the social security system. In addition, CPTPP includes commitments on environmental protection; hence the process of global integration, trade liberation, and investment attraction will be undertaken in a more environmentally friendly manner, making the Vietnamese economy grow more sustainably.

Expected challenges when joining CPTPP

Economic challenges

In terms of commodities, Viet Nam is able to produce some strong export products of several CPTPP countries such as pork and chicken, however its competitiveness is still weak. Due to the

United States' withdrawal, however, competitiveness might not be critical in this case. In addition, Viet Nam has reserved a relatively long tariff reduction schedule for these two commodities (ie. more than 10 years for a number of chicken types). This market access roadmap is much longer than Viet Nam's commitment in ASEAN, which is also highly competitive in producing several types of meat.

Several industrial products which are the strength of some CPTPP countries can cause difficulties for the Vietnamese production, for example paper, steel, and automobile. However, it can be reasonably argued that the competitive pressure would not be significant. This is because the Vietnamese products will be targeted mainly at the average market segment for at least 10-15 years from now, while those of other CPTPP countries are often targeted at high-end market segment.

In order to overcome this challenge, especially in the field of agriculture – husbandry, Vietnamese government has recently issued three Decrees orienting in restructuring agriculture, reorganizing production, piloting several advanced production models, promoting application of science and technology, and providing supports for farmers and enterprises in agricultural and business activities, etc., so as to increase productivity and quality of agricultural products, and become competitive enough at the domestic market and beyond. At the moment, a lot of large Vietnamese corporations are interested in investing in the agricultural sector using internationally advanced production and management technologies. As such, it is reasonable to argue that products made by those corporations will be competitive at the local market. Also, market access in some agricultural areas, according to negotiation outcomes, will be implemented through an appropriate roadmap as a way of supporting the restructuring process.

The main solution to other commodities is also to extend the tariff reduction schedule to allow time for restructuring domestic production, promoting large-scale investment, and applying high-tech to gradually increase competitiveness. This schedule therefore needs to be adopted in a proactive and effective manner. An over-dependence on tariff reduction roadmap can cause stagnation of innovation, thereby results in passiveness and confusion when dealing with challenges. Moreover, it is critical to renovate and strengthen advocacy and dissemination activities so that all enterprises are aware of the opportunities and challenges brought by the international economic integration process as well as new generation FTAs generally and CPTPP particularly.

Challenge of consolidating legal and institutional framework

In order to implement CPTPP commitments, it is a must to adjust and amend a number of regulations on trade, customs, intellectual property, labor, trade union, and so on. The pressure to change the legal system to comply with the Agreement's new standards is present; however, it can be overcome for three reasons. Firstly, the commitments that are the most difficult and require large enforcement resources (such as in the field of intellectual property) have been deferred after the withdrawal of the United States. Secondly, many commitments, though new, are fully compatible with our ruling Party's guidelines and policies as well as the state laws (such as in the fields of government procurement, environmental protection, state-own enterprises, and SMEs). As such, the pressure to change the legal system becomes unsubstantial.

Furthermore, as shown by WTO accession experience, our country can succeed in implementing this task, especially given that we are entitled to follow a schedule, once we put high efforts and make good preparations. Right after the signing of the Agreement, our Government instructed ministries and sectors to coordinate with the Ministry of Justice to urgently review current provisions under their own management, thereby proposing potential adjustment, amendments, or any appropriate adoption in order to ensure compliance with CPTPP requirements. Also, the Prime Minister issued the Government's Plan of Implementing CPTPP, which assigns specific tasks for each ministry and associated agency, so as to ensure full and effective implementation of the Agreement.

Social challenges

Increased competition when joining CPTPP may cause difficulties, including bankruptcy, for some enterprises, especially those which still depend on state subsidies and have outdated production and business technologies. This, in turn, will result in unemployment for a group of labor force. However, such influence is expected to be insignificant and to last within a short period, except few certain agricultural products, since a majority of CPTPP economies do not directly compete with Viet Nam.

With the new chances brought by CPTPP, we will have conditions to create more jobs, moving the economic structure in a direction towards sectors which are our comparative edges. The production structure will also be adjusted as time goes by, together with an increase in both foreign and domestic investments as well as availability of choices.

In order to help enterprises, especially small and medium ones, to take full advantage of the opportunities brought by the Agreement as well as minimize the challenges during its implementation, ministries and associated agencies have been continuing advocacy and information dissemination, raising enterprises' awareness about CPTPP's commitments and regulations. Besides, they are proactively conducting researches and adopting technical barriers or trade defense measures, which comply with Viet Nam's commitments in international agreements generally and in CPTPP particularly, so as to legitimately protect the interests of domestic industries from the competition of foreign products. In addition, the Government will take measures to assist enterprises to proactively address the potentially negative impacts, including re-organizing the labor force.

Challenge of state budget revenue

The decrease and elimination of import tax as committed in the Agreement will reduce the state budget revenue; however, the impact will not be unexpected because Viet Nam has already had FTA with 7 out of 10 CPTPP partner countries. For the 3 CPTPP countries that have yet to sign a free trade deal with Viet Nam (namely Canada, Mexico, and Peru), the bilateral trade volume is until now rather modest. To respond to the impact of global integration on budget revenue, the Political Bureau issued Resolution No. 07-NQ/TW dated 18 November 2016 on orientation and solutions to restructure the state budget, including consolidation of the legal system on state budget and public debt management. As instructed in this Resolution, the Ministry of Finance has been taking actions to restructure the state budget, including consolidation of the legal system on tax policies, tax administration, and customs policies, with the aim to improve business and investment environment, expand tax base, and increase domestic revenue, thereby ensure sustainability for the state budget and financial security at the national level.

Viet Nam maintain export tax for a number of products generating large revenue such as crude oil and minerals, therefore, revenue reduction is insignificant.

With the benefits brought by CPTPP, foreign and domestic enterprises will be provided a lot of opportunities to improve their production and business activities, contributing further to the state budget through domestic tax revenues such as corporate income tax. This will somehow help balance the revenue and expenditure sources of the national budget.