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Foreign Direct Investment in Vietnam and the Comprehensive and Progressive Trans-Pacific Partnership agreement

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Thesis abstract

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The thesis concerns the theory of Foreign Direct Investment and how it applies to the economic situation of emerging Asia countries including Vietnam. Later, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) agreement, which is a newly signed Free Trade Agreement among 11 Trans-Pacific countries, will be discussed for its effects on country members. Finally, this thesis will introduce an empirical analysis of a textile company in Small and Medium size from Vietnam on how it react against the new CPTPP agreement.

Keywords: Foreign Direct Investment, ASEAN, CPTPP, Free Trade Agreement, Vietnam, Textile, Tariff, Import, Export, Emerging Asia, China

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Terms and Abbreviations

ASEAN	Association of Southeast Asian Nations
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EFTA	European Free Trade Association
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
ICT	Information and Communications Technology
Ltd	Limited Company
MRA	Mutual Recognition Agreement
OECD	The Organization for Economic Co-operation and Development
US	United States
USD	United States Dollar
EU	European Union

Tables, Figures and Pictures

1 INTRODUCTION

The industrial spotlight has been in Asia, especially in China, for long time but it is now shifting to South East Asia and other developing countries in the continent. This thesis is a combination of recent statistics and analyzes of this trend, aiming to provide knowledge by digging into Foreign Direct Investment theory and procedures. The recently signed Comprehensive and Progressive Trans Pacific Partnership agreement (CPTPP) and its impact on the economy will also be discussed from an objective view as well as subjective view of a company in Vietnam.

1.1 Background

Textile has been crucial part in Vietnam's history, culture and economy for thousands of years. Since the beginning of this country formation period, embroidery, weaving and sewing have been massively utilized throughout the country as a main source of income. Notably in recent years, textile in Vietnam has incredibly developed to surpass many regional competitors and reached top 5 textile and apparel export globally. In 2016, Vietnam ranked fourth in the list of the industry exporters worldwide and climb to rank third in 2018, behind China and Bangladesh (Textile Today, 2018). With the transition of economic trends and facilitation of collaborative agreement, Vietnamese economy and especially textile industry is developing gradually in a decent pace (International Trade Administration, 2016).

1.2 Aim of the thesis

This study has two main objectives. Firstly, it analyzes the theory and application of Foreign Direct Investment together with the current economic situation of emerging Asia countries including Vietnam. Secondly, this study will provide general and in depth knowledge of a newly signed agreement among Trans-Pacific countries including Vietnam.

This thesis provides most currently updated statistics and analyzes to give an accurate perception of the recent economic situation. A clear and detailed Strengths, Weaknesses, Opportunities, and Threats analysis will be provided on each main topic. This information will be beneficial for any entities including investors, international companies, and researchers due to its up-to-date characteristic.

For international companies, especially in textile industry, this study will offer many benefits of why putting production plants in mentioned countries will optimize productivity and profit.

For investors, markets in South East Asia and Trans Pacific countries are expanding rapidly with invisible opportunities and risks. This thesis can be used as a report to further understand the market and based on the knowledge to make more accurate decisions.

1.3 Research Method

Statistics and databases are regularly used in this thesis to support the main objective of analyzing and forecasting an economic development trend. Information gathering means will also include an interview from a Vietnamese manufacture manager. This method will provide greater insight and more subjective view from an experienced insider.

These are issues that will be addressed in the interview:

1. Overall situation of the economy in general and textile industry in specific in Vietnam at the moment

2. Pros and cons for international companies to manufacture their products in Vietnam

3. Analyze the risks and opportunities of the fast growing market in Vietnam

4. How does the CPTPP agreement affect the economy and textile industry of Vietnam?

5. Which partner countries will be more likely to take advantage of this agreement to co-operate with Vietnam?

6. Analyze most important clauses in the CPTPP agreement and their impacts

1.4 Case company: Quynh Giao Phat Ltd

Quynh Giao Phat Ltd is Small and Medium Enterprise in Vietnam operating in the textile industry. The company's main activity is to receive and manufacture outsourcing apparel products from foreign partners. Its main customers at the moment are from the United States and the United Kingdom.

Quynh Giao Phat Ltd has one factory in Ho Chi Minh city, the economically strongest city in Vietnam. Its facility is three thousand square meters in size and currently it employs around 300 employees. The company just expanded to a larger factory and now in maximal operation can hold up to 700 employees in total. The company can produce approximately 60,000 products monthly depending on the specification of the products.

The company is a typical SME model operating in textile industry in Vietnam and its current customer base is not in the CPTPP countries. Therefore, this is an excellent example to analyze effects and decisions made relating to the new agreement.

2 FOREIGN DIRECT INVESTMENT

2.1 Theoretical framework

This chapter consists of theories and frameworks concerning Foreign Direct Investment. The theory of international production by the John H. Dunning (1993) explains a pattern of three advantages that a company may possess in order to compete in a foreign market. Firstly, Ownership specific advantages or “O advantages” refer properties, technologies, know-how or any kind of profitable assets that a company possesses but their competitors do not or cannot approach. After already acquired O advantages, that company must be in charge of its own value adding activities such as production line, logistics or effective customer services… These are called International specific advantages, also known as “I advantage”. Finally, to decide to form its production line in a foreign country rather than in its home countries, there must be some advantages that the “away country” provides which add value to the product. These are called Locational specific advantages or “L advantages”. Altogether these three OLI advantages make up competitive advantages for foreign firms and also are requirements for companies which want to invest directly in other countries (Dunning 1993, p.3)

Since the business environment is always shifting, the characteristic of these advantages is its constantly change over time. These OLI advantages combined together create different categories of FDI activities including market seeking, natural resources seeking, strategic asset seeking, and efficiency seeking. These activities can co-exist and heavily depend on the host country business environment, the industry that it is working in and intra-company characteristics. Table 1 below are examples of above dependent factors.

	Country environment	Industry characteristics	Intra-company factors
Examples	• Government policies • Culture • Labor force • Infrastructure	• Natural resources policies • Competitive environment • Specific industrial requirement	• Business strategies • Size • International level • Company reputation

Table 1: Example of domestically dependent factors (Source: Dunning 1993, p.4)

2.2 Five stages of investment development

Five stages of investment development path indicate the positions of countries in direct investing relatively compared to those of other countries in the world. Gross National Product (GNP) will be used as an indicator since it determines the value of products a country can make internationally rather than domestically. The OLI characteristics are extremely important in these stages because they define and also directly affect both inward and outward direct investment of a country.

For a company to supply to either domestic or foreign regions, it seriously depends on the firm's possession of 2 kinds of assets. The first are natural assets such as natural resources or labor force availability. The second are created assets which can be tangible, such as infrastructure, capital, real estate or intangible, for instance skills or technologies. A firm wishing to develop its competitive advantages must have the ability to gain access and manipulates its assets.

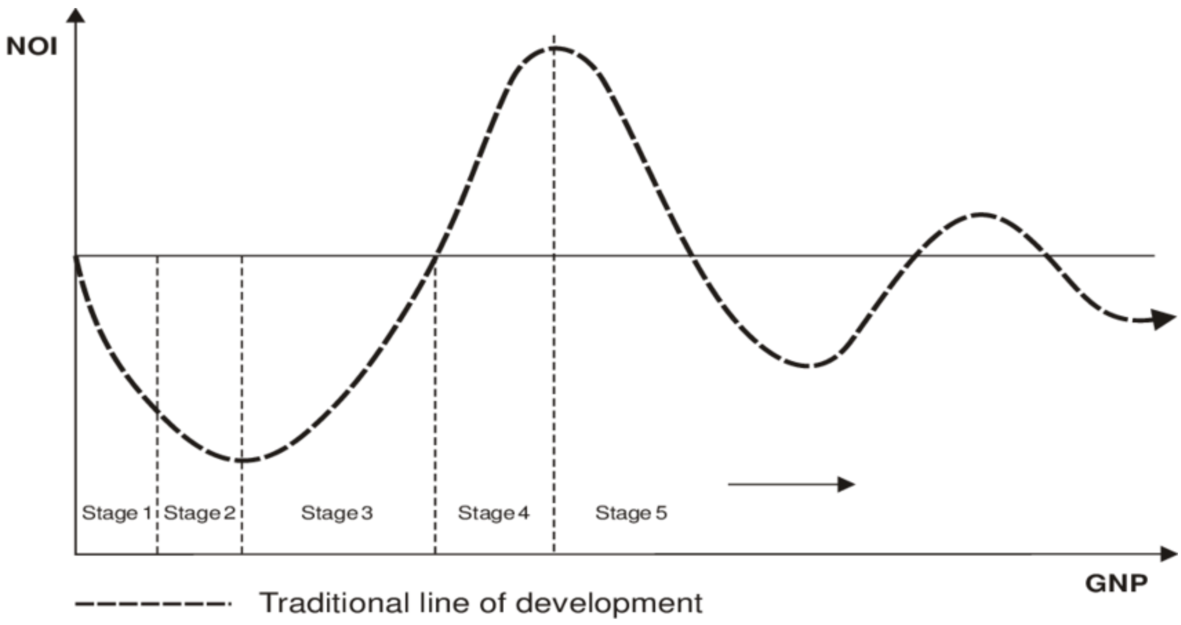


Figure 1: Investment development path (Source: Dunning, 1998a)

2.2.1 Stage 1: Underdeveloped Inward and Outward FDI

At the first stage, the country does not have the ability to create sufficient L advantages, leading to the lack of attention and investment from foreign investors as well as the underdevelopment of domestic market. The reason is closely related to the economic situation of the country and mainly due to authority and governmental reasons. The inadequacy of high quality human resource, insufficient infrastructure and unsupportive economic development policies leads to a dull market and the absence of motivation for companies to seek breakthroughs. As a result, the O and I advantages are subsequently deficient and altogether make the investing market unattractive to both foreign and domestic investors. At this stage, the government will try to tackle obstacles to the market and create more opportunities for companies, however, incoming FDI as well as outgoing FDI is still poor.

2.2.2 Stage 2: Inward FDI is rising rapidly

In stage 2, the low labor cost and abundant undiscovered natural resources is beginning to attract foreign companies which who want to open subsidiaries factories. The governmental decisions at this stage is incredibly important because the host country should be able to provide sufficient infrastructure and necessities in order to maintain the inflow of investment. L advantages of the country are essential at this stage and foreign companies with the need for natural resources may initiate light manufacturing to suit with the host country's infrastructure.

The inflow of investment which means interaction with more advanced technology certainly helps domestics companies to innovate their production line and increase productivity. Since the government already tried to stimulate investment at the first step and even more at this step, import, export and tariff policies are supporting domestic companies to expand their market to outer territory. In this early stage, the outward investment is mainly nearby nations for market seeking purpose or a strategic investment in a developed country for the sake of technology or knowledge acquisition. The level of outward direct investment depends heavily on the policies of the home country and the speed of innovation of companies.

2.2.3 Stage 3: Outward FDI takes off while Inward FDI slows down

In the third stage, inward FDI is still increasing but at a slower rate. Due to the insight and technological innovation of domestic companies, foreign investors are losing their O advantage, leading to the loss of interest from host country. Besides, the overall living quality of people has risen, demanding challenging competiveness as well as labor force wage increase. With the decrease of foreign investors' O advantage and the decline of host country I advantage, foreign direct investors may still compete in the market but some may move to another market at an earlier stage of development path. The fast pace of innovation and economy of scale will require domestic companies to intensively adapt and produce more added value to their products. As a result, foreign investors instead of mass producing substitute products will have to develop inventive products to catch up with the development speed of the host country market.

At this stage, also as a result of O advantage escalation, government will make less impact on industries that have developed rapidly and internationally. On the other hand, they will try to attract more investment to less grown sectors where L advantages are still not overshadowed by O advantages.

2.2.4 Stage 4: Outward FDI is dominant

Stage 4 marks the successful development of a country where its outward FDI has equaled or exceeded inward FDI. Domestic companies can competitively operate with foreign firms in the host market environment and at the same time invest directly outward to compete with companies in foreign countries. With developed technology and infrastructure, manual labor will be less utilized and L advantages will now be mostly created assets rather than natural resources as before. Inward investment at this stage will be mostly from other stage 4 countries with a small number of exceptions from countries with lower level in the development path. The O advantages will also shift toward “transaction” rather than “assets” (Dunning 1993a).

Outward FDI keep increasing as domestic firms are trying to manufacture in lower stage countries for lower cost and therefore able to compete with other companies. Due to the fast developing pace of the economy and similar O advantages among companies, production and trade within the industry are increasing rapidly as well (Dunning 1988a).

The government’s role at this stage is rather making industries operating more cost-wise and efficiently by cutting down slowing industry and promoting technology build-up in growing industries. Governments also need to be more precise in policies related to trade and foreign investment because of the competitiveness among developed countries.

2.2.5 Stage 5: Equilibrium of Inward and Outward FDI

Figure 1 has shown the quality of inward and outward FDI at the final stage of the development path and there are two main reasons for this phenomena. First, international transactions are now preferably executed internally rather than externally in the market among Multi National Enterprises. Second, companies at this stage of development focus more on efficiency of operating and managing assets rather seeking and developing, therefore creating the easing balance of direct investment. This result is predictable (Dunning 1988a) and the trading goals have shifted from countries with completely different products to countries with similar products but in different hierarchy.

At this stage, countries' advantages will be less dependent on the natural resource pool but rather on the ability to gain assets, that is why no countries has complete power over any profitable assets. Furthermore, MNEs at this level of development are becoming a market themselves. To be more specific, enormous corporations have reach its maximum size where both physical and economical territory have expanded out of its original country. The Enterprise's interest may not be the same with its host country but instead for the best of its own profitability.

There also happen the phenomena of "catching-up" among countries from lower stage in the development path. An example is the extremely quick development and productivity of Japan and EFTA countries in the 70' and 80' to keep up with the United States (Dunning 1993). Countries with small globally engaged business show a better internationalization speed than other nations. Therefore, this transition quickly push leading countries to the Stage 5 of development, left behind the leading positions for other newcomers. Cantwell and Randaccio (1990) pointed out that lower developing countries has the intuition to imitates its more developed counterparts, thus creating a quick catch-up in development. According to Cantwell and Dunning (1991), the capability to increase efficiency in using human and technological resources is the key in developing further. However, this ability is translucent so it can be acknowledged and transferred among nations, therefore, creating an equally balanced investment profile is ultimately possible for every country. This possibility is, again, mainly depend on the government policies as proved in the example of Japan and United States in the 1980's.

At the final stage, inward and outward FDI will be elements of a fluctuating equilibrium since the advantages are shifting at all time, together with the different number of countries over times and each country domestic changes. The equilibrium could create a diversity of innovation or a strong corporation of innovation among countries.

To be drawn from the development path, GNP is not always the major indicator of a country's strength but it is instead the developing nature and rate. Furthermore, a mix equal inward and outward investment are necessary for the development of an economy (United Nations, 1993b) as utilizing O advantages must company with explore new ones to further evolve in the development path.

2.3 Overview of the economic situation in Asia

Asia has always been known for its labor force and its potential for economic growth. Even in the great recession in 2008, Asia was the only region with a positive Gross Domestic Product growth rate of approximately 4 percent. After the event, Asia continued to possess the highest GDP recover rate at proximately 50 percent in 2014 (Maria A. Arias, Yi Wen, 2015), still showing its leading economic developing ability. In addition, Foreign Direct Investment inflow of Asia remained globally peak at 527 billion USD in 2015, 9 percent higher than in 2014. However, FDI inflow declined by 15 percent in 2016 to 443 billion US dollar mostly due to the shift of China manufacturing industry from low cost into higher end (UNCTAD, 2017). This change eventually benefited other regions of Asia, especially South East Asia because the nature of this region is still low-cost based manufacture. Economics expert expect a solid growth with strong capital inflow for businesses in Asia in 2018 (Asia Economic Outlook 2018).

Annual percentage change

	2016	2017	2018-22 (average)	2011-15 (average)
ASEAN-5 countries				
Indonesia	5.0	5.0	5.4	5.5
Malaysia	4.2	5.5	4.9	5.3
Philippines	6.9	6.6	6.4	5.9
Thailand	3.2	3.8	3.6	2.9
Viet Nam	6.2	6.3	6.2	5.9
Brunei Darussalam and Singapore				
Brunei Darussalam	-2.5	0.0	0.5	-0.1
Singapore	2.0	3.2	2.3	4.1
CLM countries				
Cambodia	6.9	7.1	7.2	7.2
Lao PDR	7.0	6.9	7.1	7.9
Myanmar	5.9	7.2	7.4	7.3
China and India				
China	6.7	6.8	6.2	7.9
India	7.1	6.6	7.3	6.8
Average of ASEAN-10	4.8	5.1	5.2	5.1
Average of Emerging Asia	6.4	6.4	6.3	7.1

Table 2: Real GDP growth in ASEAN, China and India (OECD Development Centre, MPF-2018)

China

China’s economy is expected to slow down as China policies makers are prioritizing on risk control focusing on controllably and carefully slowdown the growth rates of the economy by. China has now targeted more on high quality product rather than just dominating quantity without standardized quality. The country’s financial market and capacity management are also too vulnerable to the current market. As a result, China GDP in 2018 is expected to decrease to 6.25% from 6.7% in last year, with exports playing a bigger role. Furthermore, inflation rate is also predicted to increase by 2.5% this year (Robert Mead, Tomoya Masanao, 2018).

India

India expects a solid GDP growth of 7% this year and an inflation rate of approximately 4-5%. The high rate is due to its expanding private consumption and open foreign participation in companies' owning. However, the Indian Rupee is possibly more unstable under the new monetary structure and taxation reform. High growth rate but with minor instability in currency might result in a slightly positive outcome for the Indian economy but it is not certain how investors would react.

South East Asia

The economic growth in South East Asia is also expected to be stable and gradual over the next four years with an average rate of 5.2%. Being at the early stage of the development path, members of the group are still investing in domestic resources and infrastructure. While Cambodia, Lao People's Democratic Republic, and Myanmar are expected to be the fastest growers of in the area, Vietnam and the Philippines are forecasted to stay ahead in the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Viet Nam).

Another key aspect which contributes to the rapid development speed of the region is its effort to accelerate trade integration. Countries are pushing further to meet the ASEAN Trade in Goods Agreement (ATIGA) by 2018 to increasingly reduce tariff and trade barriers. Results of these agreement have been seen in the business among ASEAN-6 and CLMV countries (Cambodia, Lao PDR, Myanmar, and Vietnam). Another ambitious goal of the ASEAN countries is the seamless trade within the region or so called "Single Window", which will liberate the exchange market of the region. That together with logistics freedom will stimulate trading at its highest capacity and drawn Foreign Direct Investment.

The growth rate of emerging Asia countries is approximately larger than those of Latin America with 1.1% and Africa's 3.4%. ASEAN and China' s growth rates are more inclining compared to previous years while India's is slight declining due to the tax and monetary transformation. However, China' economy is expected to decelerate at the medium term to estimated 6.2% while India persists at a promising rate of 7.3%. At the same time, SEA countries' growth rates in the next four years are expected to slight increase to 5.2%(only 0.1% rise from last period). Governments of South East Asia countries at the early step of development are still highly focusing on developing infrastructure and increase domestic production.

ASEAN-5

Indonesia is expecting a growth rate of 5.4% from 2018 to 2022, a stable increase from the average of 5.1% in the last 10 years. This is mostly due to positive outcomes from governmental policies relating to fiscal footing and credit-rating, along with attempts to create an attractive investment environment.

Malaysia, on the other hand, may slow down on its development rate to 4.9% from its previous 5.5% in 2017. However, the huge wave of FDI for the country's L advantages in mining, manufacturing and finance since 2011 will secure Malaysia from further downfall.

Philippines is the country with highest growth rate in the ASEAN-5 group with an expected 6.4% in the next four years, a slightly decline compared to 2016's and 2017's. Crucial sources of capital are from Philippian in foreign countries, together with tremendous infrastructure planning and extensive growth of outsourcing industry. As a result, these elements support an outstanding 11.7% in fixed investment and 6.1% in consumption investment in the 2011-2016 period, a vital component of Philippines GDP growth.

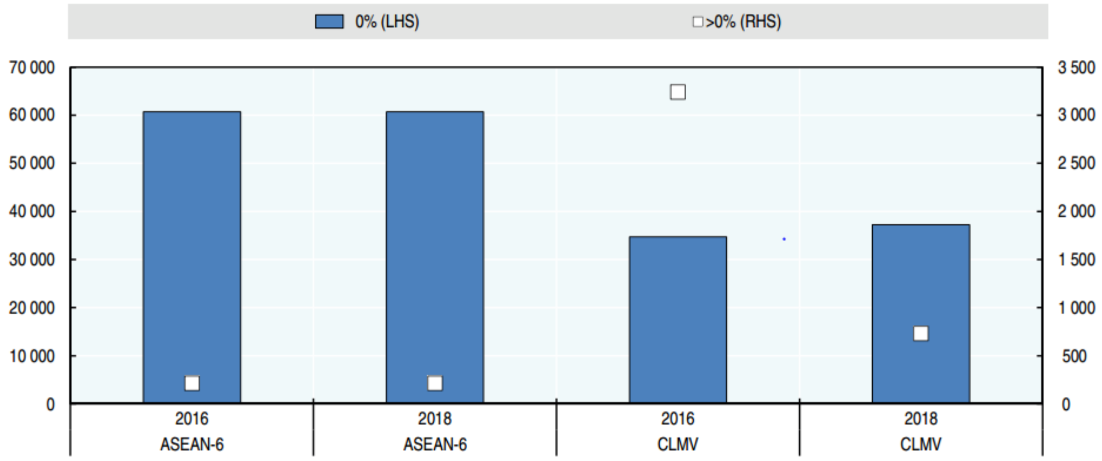
Thailand maintains a subtle growth of 3.6%, lower compared to other neighbour countries but higher than its previous 2.9% from 2011 to 2015. Thailand's most important GDP contributors are exporting activities, which comprising more than three quarter. Resilient trade support and tariff reduction policies are healing the country growth, plus the Eastern Economic Corridor adding more momentum to the bounce back.

Vietnam is forecasted with a promising growth rate of 6.2% until 2022, surpassing its already considerable 5.9% from 2011 to 2015. GDP growth remains depending on private consumption but export activities are estimated to grow rapidly due to the recovering world's economy and major trade agreements.

ASEAN

A Strategic Action Plan has been drawn by the ASEAN economic minister and the ASEAN economic council (AEC) to further assist trades in goods and service integration. The main target for these development plans will be Small and Medium Enterprises (SME) and focus is on technological innovation. A practical agreement that is settled by ASEAN countries is the ASEAN Trade in Goods Agreement (ATIGA). While each country is trying to follow the agreed terms and policies in the agreement, the process varies among all members. For instance, the CLMV countries have further reduced their tariff on many products in early 2017. Furthermore, the ASEAN Single Window Initiative represents a monumental jump in the process of trade integration among member countries. This Initiative attempts to combine of each National Single Windows to create a united system of data processing related to trading with the region. This will also foster the custom clearance process among members, and altogether create a more sufficient and simple trade mechanism (ASEAN, 2017). According to the Protocol to Amend the Common Effective Preferential Tariff (CEPT) Agreement for the Elimination of Import Duties, in 2018, the tariff reduction for some Sensitive and Highly Sensitive products will also be considered.

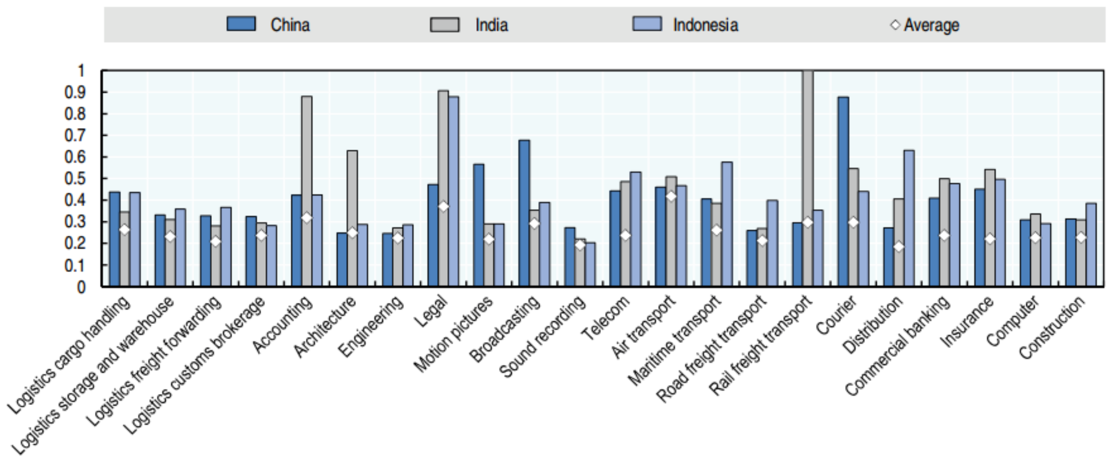
In the Figure 2 below, the number of no tariff items stay approximately the same from 2016 to 2018 in the ASEAN-6 countries (about 3000 items). However, in the CLMV group, the number of tariffed items has dropped from almost 3500 in 2016 to less than around 750 in 2018. The abundant number of items and their complexity is also a factor affecting the tariffs opening process of ASEAN members.



Note: The CLMV countries are Cambodia, Lao PDR, Myanmar and Viet Nam. ASEAN-6 comprises Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.
Source: ASEAN Secretariat.

Figure 2: Number of items with 0% tariffs and those with more than 0% tariffs

Trade facilitation has always been the main target of the Association. ASEAN Single Window Initiative has been promoted and operated in some countries such as Indonesia, Malaysia, Singapore, and Vietnam. This remains the main approach to a simple and efficient trade portal among members. By using a single platform, also a big issue when planning this method since the information is transparent and public to many parties. Another goal of trade integration is a free logistics system, which is one main ambition of the AFAS ninth package. The target of this package is to get obtain 70% of equity participation from all members, and this number has been an objective from the fifth package in 2005. A new Mutual Recognitions Arrangement (MRA) for medicinal products is recently executed for a better drugs flow inside ASEAN. More MRAs concerning automotive, food, and construction material are also being considered for future plans (Appendix 1). Figure 3 is an example of Trade restrictiveness in emerging Asia countries.



Note: "Average" refers to the sample average of 44 countries, including 35 OECD member countries and nine non-member countries: Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, the Russian Federation and South Africa.

Source: OECD (2016), *Services Trade Restrictiveness Index* (database), www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm.

Figure 3: Services Trade Restrictiveness Index by sectors in 2016 (Source: OECD, 2016)

Skilled worker mobility is a side-policy which is not monumental but also important to facilitate integration. It is also a part of the AFAS program but has not seen much progress due to the fact that legal aspects have not been liberated enough to fully meet the possibility. The ASEAN Capital Market Forum (ACMF) is also a supporter of professionals' mobility within the region. An efficient mobility program will promote trade and the capital market identity of ASEAN. The Movement of Natural Persons Agreement is a newly signed arrangement to boost the movement, however, the result is fairly positive since countries are facing many challenges to adapt to a new mechanism.

Digitalization is also a new but important issue when countries attempt to optimize cooperation. An optimistic trend of the internet and digital use is a good sign for the emerging Asia especially in the 4.0 industry generation. Lowest e-mail utilization is in Lao PDR with 18.9% in manufacturing and 25.6% in services, while Vietnam has an impressive 91.2% in manufacturing and 91.5% in service. There are still bright opportunities for further development in the region (Appendix 2).

2018 is considered the explosive year of digital industrialization and machine learning. Therefore, digitalization plays an important part in growing of emerging Asia countries. In the period of 2012 to 2016, greenfield FDI in Information and

Communication Technology (ICT) has grown exceptionally in Vietnam (26.5%), China (22.3%), Malaysia (20.4%) and Philippines (12.4%). However, innovation in ICT also come with the underdeveloped industrial infrastructure of emerging Asia, therefore, the capacity has not been fulfilled (Appendix 3).

3 THE COMPREHENSIVE AND PROGRESSIVE TRANS-PACIFIC PARTNERSHIP (CPTPP) AGREEMENT

3.1 Overview

The Comprehensive and Progressive Trans-Pacific Partnership is an agreement to foster free trade among eleven Pacific country members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The agreement was signed on March 8, 2018 and planned to take effect at the beginning of next year. This is the biggest Free Trade Agreement in Asia at the moment and anticipated to attract more members in the future too (Asian Trade Center, 2018).

The total GDP of country members is approximately 9.5 trillion USD, which accounts for nearly 13.5% of the total global GDP. The agreement is estimated to remove tariffs on 95% of goods trade among CPTPP and covers a market of 495 million people. A successful execution of the agreement is expected to save 10 trillion USD (Ernst and Young, 2018). (Appendix 4)

Among the member countries there is already a Free Trade Agreement called Trans-Pacific Agreement (TPP), but the new CPTPP agreement will be superior because of its up-to-date arrangements, new FTA relationships and new networks between Asia and the Americas (UPS, Asian Trade Center, 2018). Due to the lack of the United States of America, the total scale of the agreement drops significantly from 40% of GDP, 30% of global trade, and a market of more than 800 million people. The withdrawal of the United States raises the suggestion that countries will be more attracted to trade with China but the CPTPP agreement begs the difference. Countries are now forming partnership without participation and dependence on any certain market, partners will benefit from each other rather than from United States market as before (Yen Pham, 2018).

3.2 Benefits of CPTPP agreement

The newly signed agreement will definitely bring many benefits to its partner countries in term of trades and significantly improve countries' GDP.

(From Ten Benefits of the Comprehensive and Progressive Trans-Pacific Partnership, Asian Trade Center, UPS, Asia Business Trade Association)

New Markets

While the CPTPP agreement is implemented, most of trading goods' tariffs will be excluded and the remaining tariffs are also expected to be canceled over time. Below are examples of significant tariffs reduction in partner countries:

- Agriculture: Beef into Japan will be lessened by 30% to only 9% after implementation, the same with farm products into Canada and Mexico with more than 200% tariff before reduction.

- Automotive: The extremely high tariff in Vietnam for cars let to unaffordable car prices in Vietnam will be reduced.

- Textile: Vietnam is a huge outsourcing partner of many countries in apparel and footwear industry. Therefore, with possibly zero tariff after implementation, Textile industry will be a huge beneficiary from the agreement.

- ICT products: As many Component and Outsourcing factories are placed in Vietnam, this is also a great chance to allure more partners into Vietnam.

Integration of Production

For highly complicated and dedicated products such as smart phones or computers, the CPTPP countries have now agreed on the same quality qualification. Therefore, the members can collect components from every partners rather than just from only one as in bilateral agreements.

Border clearance upgrade

This is a massive step in supply chain optimization and e-commerce. The CPTPP agreement will facilitate cost-saving and transparent cross-border shipment by many methods. First, instead of the required Certificate of Origin issued by Chamber of Commerce which is expensive and abundant, traders can now self-certificate that they have met the requirement from Origin. Second, an Advanced Rulings system will assist companies to classify and evaluate their products more accurately, hence, reduce significantly time on borders. Finally, CPTPP countries can now process pre-arrival goods to reduce the transit time of express items.

Service and Investment facilitation

While trade for goods will obviously increase because of tariffs reduction, this will also lead to the increase in services related to trade such as banking, finance, logistics, tourism… CPTPP agreement also decides to include investment insurance, which will pursue to protects investors on the risks of foreign market. New courts for investment dispute will be available as well as a compensation program for investors.

3.3 Vietnam as a raising market

The CPTPP agreement brings Vietnam many opportunities in FTA as well as challenges since Vietnam has to innovate and upgrade its own infrastructure to meet the standard of others. Moreover, the Free Trade Agreement will also put a higher pressure on Vietnam domestic products for competing with foreign investor companies. However, challenging the requirements are, Vietnam will have a dynamic and systematic change in the economy and it is a good sign (Yen Pham, 2018).

The agreement will help Vietnam to decentralize its import-export target from Asia and more into the Americas, to avoid the dependent risks and also open up a new market. Furthermore, as becoming a part of the CPTPP supply chain, this will boost Vietnam manufacturing industry by having better and more economical partners.

“Even under conservative assumptions, the report estimates that CPTPP would increase Vietnam’s GDP by 1.1 percent by 2030. Assuming a modest boost to productivity, the estimated increase of GDP would amount to 3.5 percent from CPTPP,” according to Ousmane Dione, World Bank Country Director for Vietnam. Specifically, export will grow more than 4%, equivalent to 4.09 billion USD, while import benefit about 3.8%-4.6%, or 4.93 billion USD worth (Appendix 5). The most beneficial sector will be light and labor-intensive industries with the growth rate of 4-5% and export growth rate of almost 10% (Yen Pham, 2018).

4 CPTPP and Textile industry in Vietnam

4.1 General Situation

This portion of the thesis will include information from interviews with Quynh Giao Phat Ltd representative, Mr. Tony Tran. He is the Operation Manager of the company and is in charge of the company Supply Chain operations as well as Logistics partnership. Mr. Tran will be a key decision maker when the new agreement is in effect as the Logistics system will certainly be innovated and need to adapt to the new environment. Strategies for the CPTPP agreement have been unified and acknowledged in every departments of Quynh Giao Phat Ltd.

At the moment Vietnam is a member of the emerging Asia as well as the CPTPP agreement, which signals an outburst of economic development in the near future. Vietnam is showing a positive and stable GDP over the last four years as well as been forecasted in the next four years (around 6.3%). With the slowing down of China and recent political issues in China, South East Asia is becoming a bright candidate for leading growth as a region. According to the WTO Reports World Textile and Apparel Trade in 2016, Vietnam was the fourth biggest exporter of clothing with 25 billion USD worth, behind China, the EU, and Bangladesh. However, Vietnam and Bangladesh had a high Annual percentage change of 5% and 6% respectively while China had a negative 7% growth rate (Appendix 6).

The biggest benefit of investing in manufacturing in Vietnam is its low wages for worker. Vietnam manufacturing labor cost is in average 2.73 USD per hour while in the case of China is 5.51 USD which is double the amount (Appendix 7). Vietnam also have a robust economy with a high and steady GDP growth rate, placing in the top leaders of South East Asia economy. At the moment, Vietnam is having many Free Trade Agreements whether it is bilateral or in an area. Therefore, invest in Vietnam is a way to take advantage of the linkage that the country has to largely reduce the cost of production.

The drawback of manufacturing in Vietnam is its lack of sufficient infrastructure. As a developing country, Vietnam still lacks a standardized quality of roads, ports, and even factories. To keep up with the partners in its Trade agreements, Vietnam must upgrade and synchronize the quality of its infrastructure. Beside physical aspects, human resources are also a problem, the Vietnamese education system is not practical enough for the industry, together with corruption they make the qualified human resource not available to suffice the demand.

Quynh Giao Phat Ltd and Vietnam textile industry in general will be the biggest beneficiaries from the newly signed CPTPP agreement. Since the agreement facilitates trades of goods by creating no tariffs trading areas, Vietnam can get access to a large number of new market. With an already strong position and advantages in garment manufacturing, Vietnam can now even confidently enter a new market with the assistant of cost-reduction policies from partner countries. Aside from United States, Europe, and China, Vietnam can now replace with Canada and Mexico, or New Zealand and Australia. Apart from export aspect, Vietnam is now more available for FDI from developed countries who are seeking for resources for example Canada or Australia.

On the list of tariff schedule of Vietnam, most of the material used in clothing production is excluded from tariff in the first year of the agreement, which means 2019. For example, cotton, wools, animal hair, and many types of fiber… are all scheduled to be 0% in tariff in the first year at the base rate of 12%. Other components and machineries are still under tariff in the first three years, in the fourth year, all duties will be dropped. For instance, sewing machine, belts, pedals, needles… can be imported with 7.5% or 18.7% tariff. However, this remains a positive outcome for all parties taking part in these trade. While material and components are receiving no or less tariffs, production price will reduce and enhance the O competitive advantage of Vietnam.

4.2 Specific actions

The CPTPP agreement is expected to bring significant changes in the business environment, which includes both market opportunities and competitive challenges. Quynh Giao Phat Ltd has to response to these changes in all of its business departments and requires immense coordination within the company. Mr.

Tran has provided some example methods that the company takes in each department.

Marketing

Market research has been a focus for the last few months since Vietnam will soon be totally opened for Canadian, Mexican, Australian, New Zealand. These markets were restricted before, especially the Americans, but can now provide more options for Quynh Giao Phat Ltd to achieve larger profit margin. With its current size and productivity, the company decides to mainly focus on small or medium size apparel partners. As low to medium price and mass production have always been Quynh Giao Phat’s objective, new partners in the same categories will also be preferred. These new target partners are mostly clothes brand in large supermarket chains or online low price sites. After the recent renovation, Quynh Giao Phat also strives for the Intertek quality compliance Audit program, making the company globally known as well as quality-compatible with global partners. Websites and standard profiles are being worked on to prove Quynh Giao Phat’s professionalism, thus, further attract foreign partners.

Operation

Vietnam has a vast amount of textile products which receive zero duties from importing and exporting consisting of fabric, clothes, and accessories. Most of fabric, which is the product that Quynh Giao Phat has to import, has a base rate of less than 10% and will receive zero tariff on the first year. Clothing products such as shirts or dresses, which are Quynh Giao Phat’s main exports, will also receive 0% tariff on the first year with the current base rate of 20%. As a result, the company production input will be lower and also the output products for customers. Logistics and supply chain system will significantly change, leading to new arrangement and paperwork. This is one of the biggest challenges that Quynh Giao Phat has to face, eventhough, adaptation is a required characteristic to success in current market. However, CPTPP agreement also offers assistances by border-clearance programs such as self-certification, advanced Ruling, and pre-arrival processing. Therefore, overwhelmed as it may seem in first interactions with advanced system, efficiency in the long run will be much greater.

Human Resource

Interaction with totally new mechanism requires Quynh Giao Phat to get access to much more dynamic and adaptable employees. Beside experienced personnel needed as always, the company needs young and energetic juniors having sufficient International Business background with essential linguistic and computational skills.

Finance and Accounting

Quynh Giao Phat is spending immensely on the company infrastructure to meet the requirement from Intertek Audit for quality compliance. Factorial site, safety requirements, employees' working environment are main investments the company has to take. However, these are long term investments that will yield high returns since they will provide higher productivity as well as attract more sizable customers.

Besides, Quynh Giao Phat will update its bookkeeping and documentation to an international standard. The transparency of procedures is a vital requirement in the Auditing process.

To conclude, these changes require extensive investment in time, personnel, and capital. Quynh Giao Phat has practiced these methods already and acknowledged that fully applying all strategies takes a huge amount of resources from the company. As decided in the board meeting, however, these investments will bring the company to an international level and return significant profit in the long run, making it a vital step in the company's development.

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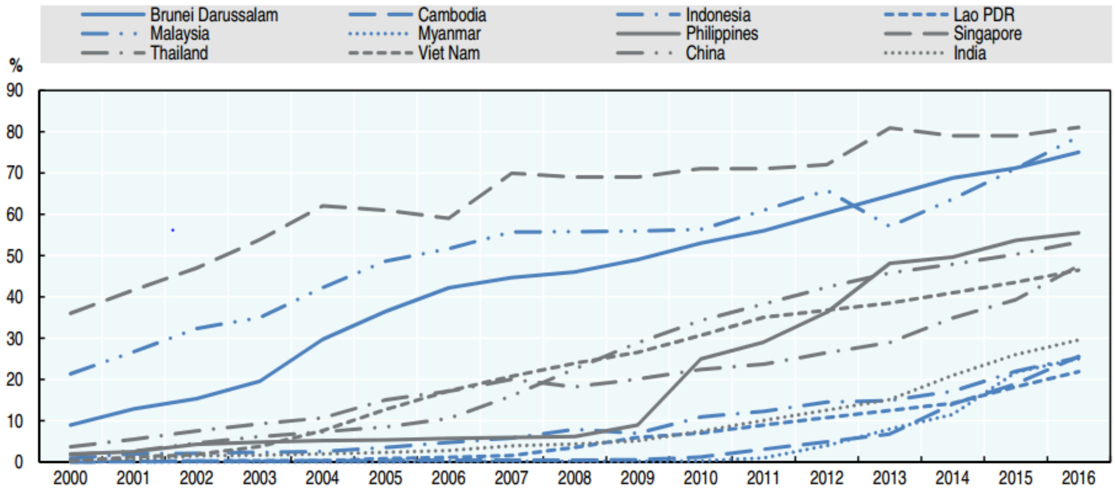
APPENDICES

APPENDIX 1. Timeline of ASEAN MRAs

Type of MRA	Date	Status
ASEAN MRA on Engineering Services	9 December 2005	Signed
ASEAN MRA on Nursing Services	8 December 2006	Signed
ASEAN MRA on Architectural Services	19 November 2007	Signed
ASEAN Framework Arrangement for the Mutual Recognition of Surveying Qualifications	19 November 2007	Signed
ASEAN MRA Framework on Accountancy Services	26 February 2009	Signed
ASEAN MRA on Medical Practitioners	26 February 2009	Signed
ASEAN MRA on Dental Practitioners	26 February 2009	Signed
ASEAN MRA on Tourism Professionals	9 November 2012	Signed
ASEAN MRA for Bio-Equivalence (BE) Study Reports of Generic Medicinal Products	Mid-2016	Finalised
ASEAN MRA for Automotive Products	Ongoing	Under negotiation
ASEAN MRA for Processed Food Products	Ongoing	Under negotiation
ASEAN MRA for Building and Construction Materials	Ongoing	Under negotiation

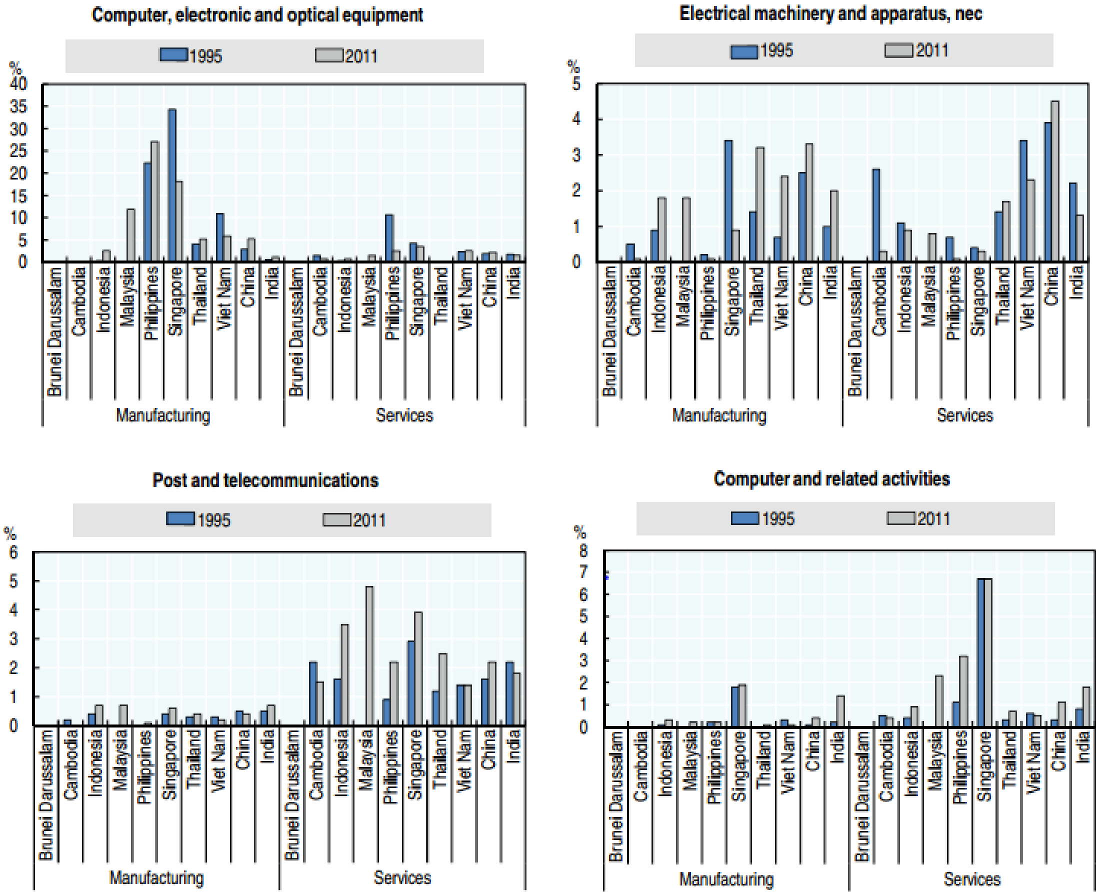
Source: OECD Development Centre compilation, based on ASEAN Secretariat.

APPENDIX 2. Internet use in Emerging Asia countries 2000-2016 (percentage of total population)



Note: Data on Internet use in Myanmar is not available for the year 2000.
Source: World Bank (2017a), *World Development Indicators*, World Bank, Washington, DC.

APPENDIX 3: Share of intermediate inputs in manufacturing and services in selected sectors, 1995 and 2011.



Notes: Compiled from national input-output tables. Data were not available for Lao PDR and Myanmar. Manufacturing is defined as sectors 15-37 and services as sectors 40-93 (ISI Rev. 3).

Source: Compiled by OECD Development Centre, using OECD (2017a), *OECD.Stat* (database), OECD, Paris.

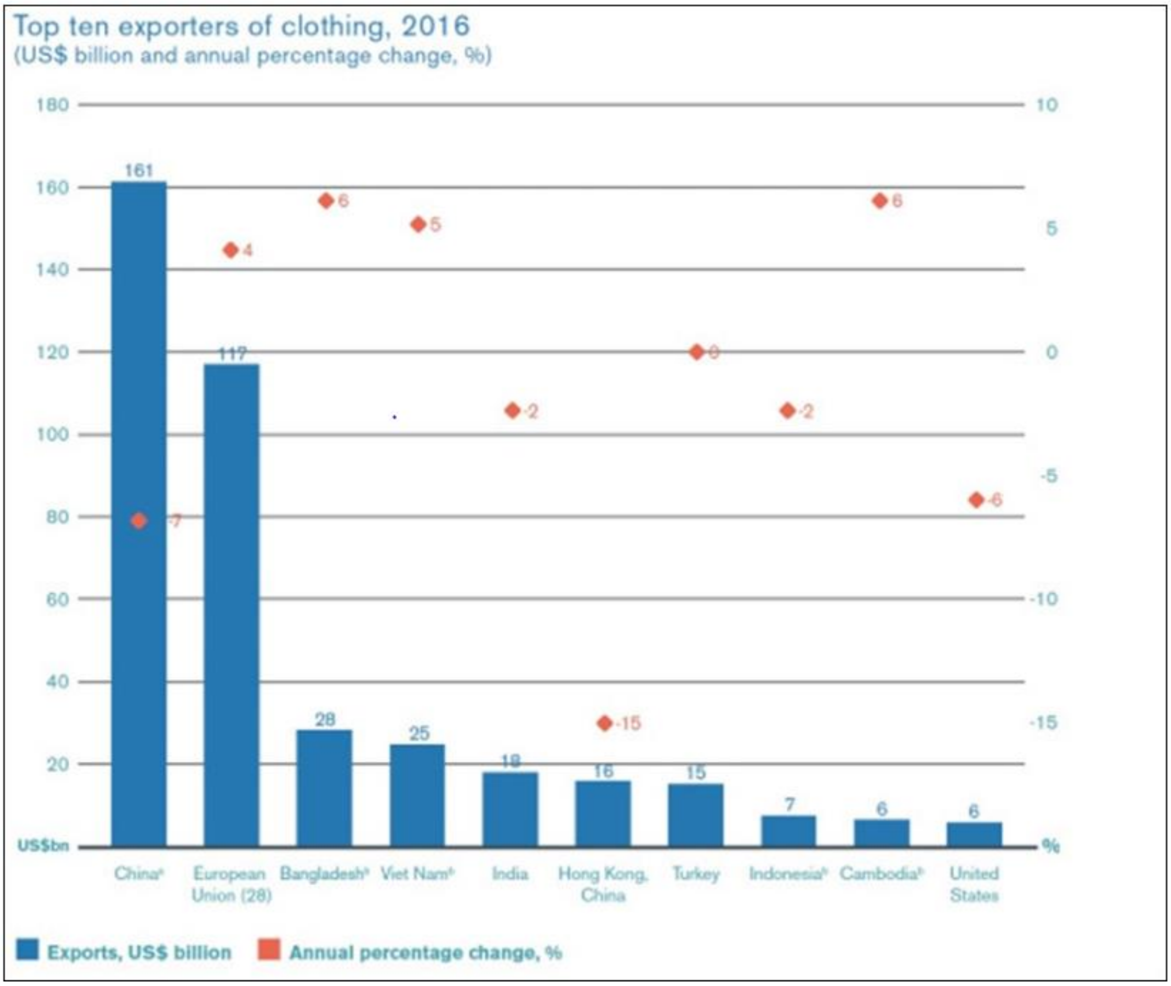
APPENDIX 4: GDP and population of CPTPP countries (Source: IMF report 2016)

	GDP			GDP/person		Population (million people)
	Current price (billion US$)	Calculated according to PPP (billion US$)	*Share in CPTPP (%)*	Current price (US$)	Calculated according to PPP	
Australia	1.225,29	1.140,62	*12,98*	51.181	47.644	23,9
Brunei	12,93	33,17	*0,14*	30.993	79.508	0,4
Canada	1.550,54	1.633,70	*16,42*	43.280	45.602	35,8
Chile	240,23	423,29	*2,54*	13.342	23.507	18
Japan	4.124,21	4.843,27	*43,68*	32.479	38.142	127
Malaysia	296,28	817,43	*3,14*	9.501	26.211	31,2
Mexico	1.143,80	2.230,14	*12,11*	9.452	18.430	121
New Zealand	172,26	167,93	*1,82*	37.066	36.136	4,6
Peru	192,11	389,92	*2,03*	6.168	12.518	31,1
Singapore	292,73	472,59	*3,10*	52.888	85.382	5,5
Vietnam	191,45	553,42	*2,03*	2.088	6.037	91,7
CPTPP	***9.441,84***	***12.705,47***	***100,00***	***19.261***	***25.919***	***490,0***

APPENDIX 5: Impact of CPTPP on Vietnam (Source: Ministry of Planning and Investment team, 2017)

	Tariff reduction	Tariff reductions + services liberalization
Increased GDP	1,32%	2.01%
Increased export	4,04%	4.74%
Increased import	3,80%	4.64%

APPENDIX 6: Top ten exporters of clothing, 2016 (Source: WTO Reports World Textile and Apparel Trade in 2016)



APPENDIX 7: Manufacturing labor costs per hour for China, Vietnam, Mexico from 2016 to 2020 (in U.S. dollars) (Source: Statista 2018)