

Vietnam looks for reform and investment boost from TPP deal

Ben Bland in Hong Kong and Shawn Donnan in Washington

Vietnam is hoping for a double boost from the newly struck Trans-Pacific Partnership as better access to the US market helps it lure more global manufacturers and the trade deal drives reforms to its inefficient and corruption-riddled economy.

A nation of 90m people, Vietnam has emerged from a drawn-out banking crisis to become Southeast Asia's fastest-growing economy by attracting a range of global manufacturers, from technology group Samsung to suppliers for fashion brands Nike and Uniqlo.

Facing rapid wage rises in China, the world's main manufacturing hub, factories have been enticed by Vietnam's lower labour costs – around half the Chinese level – and its location in the heart of Asia.

Industrial expansion helped Vietnam's economy grow by an annualised 6.5 per cent in the first nine months of the year, the quickest pace since 2010, while disbursement of foreign direct investment increased by 8 per cent in same period to \$9.7bn.

The TPP and a recently concluded trade agreement with the EU will help Vietnam to burnish its exporting credentials further and bring in even more foreign investment, according to economists and manufacturers.

Reform-minded officials in Vietnam's Communist government see the trade deals as "Trojan horses" that can be used to promote the liberalisation of an economy still held back by infrastructure bottlenecks, graft and inefficient state-owned companies.

But the TPP's requirement for the 11 participating nations, which include the US, Japan and Australia, to open their economies to greater foreign competition and enforce stringent labour and environmental standards will be difficult for Vietnam to implement and carries political and economic risks.

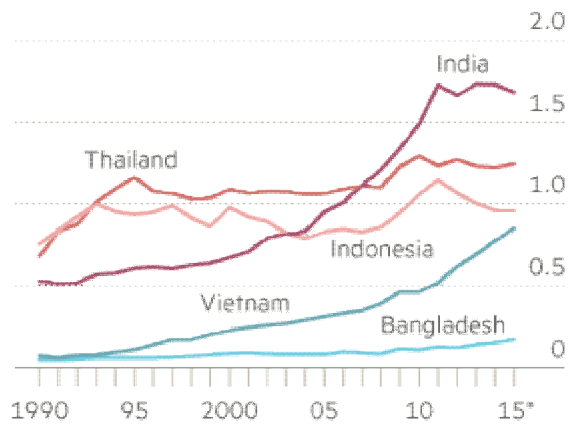
"Vietnam has already made huge gains in garment and footwear production, and these deals will help boost its comparative advantage as factories look to relocate from China, promoting more job creation and technology transfer," said Johanna Chua, an economist at Citigroup.

Other Asian countries that are not part of the TPP, such as Cambodia, Indonesia, Myanmar and Thailand, could lose out in the battle to attract international manufacturers, she warns.

Crystal Group, one of the world's biggest garment exporters by revenue, employs 17,000 people in Vietnam making clothes for brands such as Gap, Marks & Spencer and Uniqlo.

Vietnam's growing manufacturing prowess

Share of world exports (%)



*Year-to-date

Sources: Haver; IMF; Citi

FT

The Hong Kong-based company was already planning to expand its workforce in the country as it reduced its reliance on China over time, but the TPP agreement would provide added impetus, said Andrew Lo, its chief executive.

Bosco Law of Lawsgroup, another Hong Kong-based garment producer expanding in Vietnam, said TPP would "definitely boost foreign investment", but added that companies "have to see the details" before they could assess the benefits.

Frederic Neumann, an economist at HSBC, is confident TPP will deliver measurable gains to manufacturers in Vietnam and the other low-cost countries in the grouping, Mexico and Peru.

"Sectors like car parts are still highly protected in the US," he said. "Thailand has made a good run of its car industry, but not being in the TPP will allow Vietnam and/or Mexico to make inroads."

But the benefits of the TPP for Vietnam are not without challenges. Among the biggest is fulfilling the strict terms of the TPP's labour chapter, which for the first time would make any country's violations of International Labour Organisation standards subject to trade penalties.

Vietnam will have to amend its Communist party-controlled labour union system to allow workers to form independent unions – a tough ask, according to US officials.

The south-east Asian nation needs to meet the conditions before the TPP goes into effect, which could be difficult at a time when Vietnam's leadership is entering a transition period ahead of the five-yearly Communist party congress next year.

Vu Huy Hoang, Vietnam's trade and industry minister, told a press conference on Monday that Hanoi was prepared to meet the standards. "These are the conditions of the ILO and Vietnam is a member of the International Labour Organisation," he said.

But verbal commitments are unlikely to be enough. The US push for strong labour standards was driven in part by politics and the desire of President Barack Obama to win over many of the Democrats who have opposed the TPP and his broader trade agenda.

Vietnam is therefore likely to face intense scrutiny, particularly as the deal includes a provision for an independent commission of experts to monitor its progress on labour reforms for at least the first 10 years after the TPP goes into effect