

People and Nature Reconciliation (PanNature)

POLICY SEMINAR

Hanoi, 27.05.2016

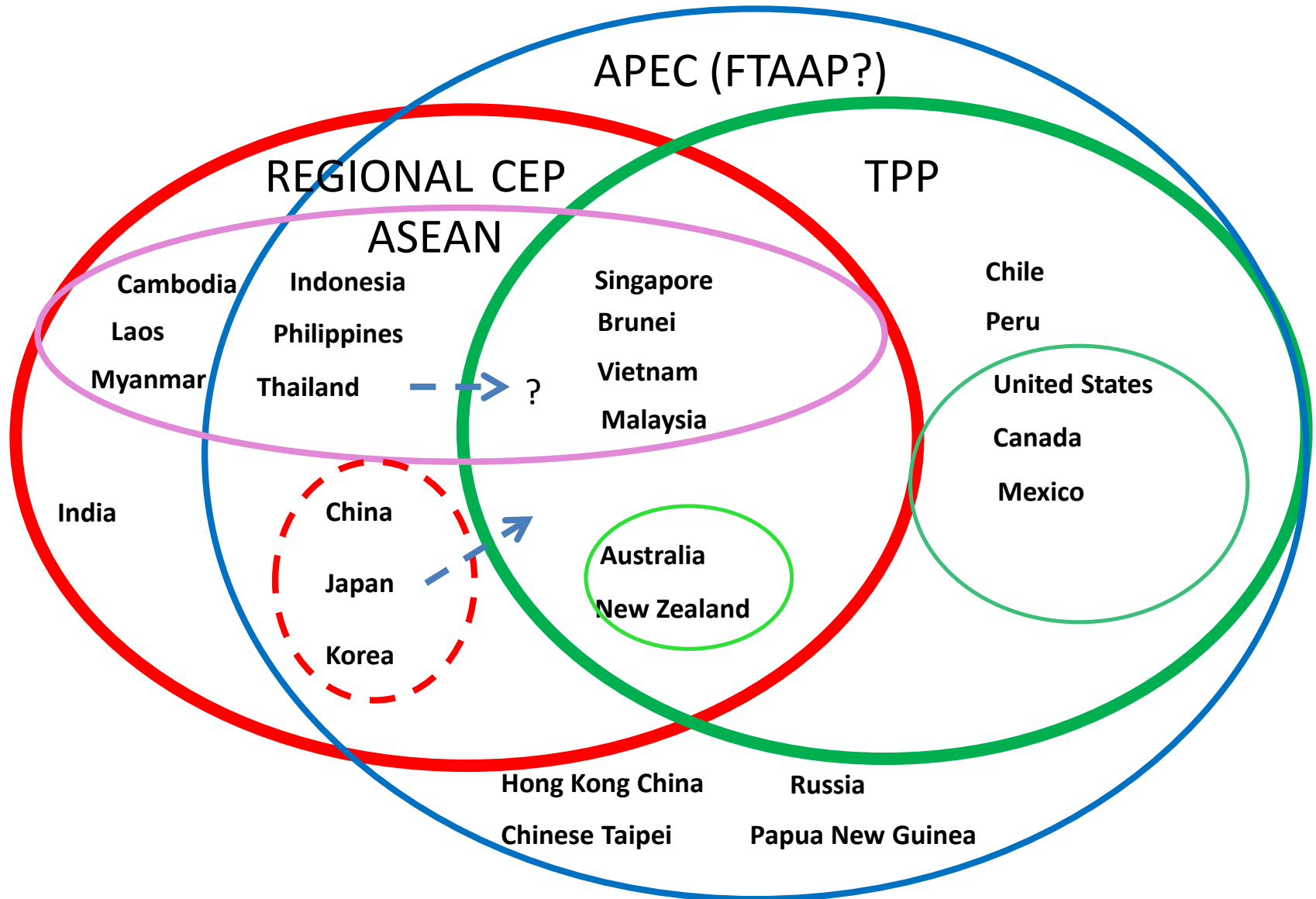
**Free Trade Agreements (FTA),
Foreign Direct Investment (FDI) and
Environmental Issues in Vietnam**

Le Dang Doanh

FTAs in effect and negotiation

- EU-Vietnam FTA (EVFTA) negotiations concluded on 2 Dec. 2015. However, it takes around 1 – 1.5 years for parliamentary approval. When the FTA takes effect, tariffs will be removed for 90% goods, total exports to EU will be increased by 30-40%, total imports will be increased by 20-25%. Agricultural products, seafood, apparels and footwear will benefit from EVFTA.
- Vietnam – South Korea FTA, signed on 5th May 2015 in Hanoi, approved by Korean Parliament, and entered into force on 20 Dec. 2015. Two economies will support each other, total bilateral trade reached 30 billion USD in 2014 and might increase to 70 billion USD by 2020. There are many opportunities for textile, leather – footwear, furniture, agriculture products; challenges for mechanical engineering sector.
- Vietnam – EAEU FTA which includes Russia, Kazakhstan-Belarus-Armenia-Kyrgyzstan and Vietnam was signed 29 May 2015, exports to Russia + 63%, to Belarus + 41%, to Kazakhstan +8%, total trade will be increased from 4 billion USD (2014) to 10 billion USD in the next 5 years.

Economic integration in the Asia-Pacific Region



TPP was concluded in Atlanta after 22 negotiation rounds

- 22nd negotiation round, on 30th Sept 2015 in Atlanta, concluded the TPP. 12 countries signed TPP on 4th Feb 2016 in Auckland. It will take around 2 years for approval from Parliaments of 12 countries. Malaysia already approved TPP. Vietnam National Assembly may approve TPP in July 2016. When all countries approve or at least 6 countries approve accounting for 85 percent of GDP, TPP will enter into force.
- Taiwan, Korea, China, and Indonesia have expressed their interest in TPP and may join in the future. U.S. Senate approved TPA on 18.06.15, U.S. House of Representatives approved TPA on 24.06.15 and President Obama signed TPA legislation.
- Some TPP requirements are also targets of Vietnam's reforming strategy such as labor rights, competitiveness, fair treatment for investors. However, these requirements are big challenges for state agencies and business communities in Vietnam.
- The TPP document (including 9 appendices) in English consist of 5544 pages, with complicated requirements.
- Strict technical barriers may make tariff removal become ineffective. Companies must consult lawyers .
- In practice, "free trade" is not "free" and "you cannot do whatever you want." TPP contains a lot of requirements, regulations, and standards. Tariff reduction is just allowed if companies are fully compliant with requirements (preferential trade, not free trade)

Chapter 2	National Treatment and Market Access
Chapter 3	Rules of Origin
Chapter 4	Textiles and Apparel
Chapter 5	Customs Administration and Trade Facilitation
Chapter 6	Trade Remedies
Chapter 7	Sanitary and Phytosanitary Measures
Chapter 8	Technical Barriers to Trade
Chapter 9	Investment
Chapter 10	Cross-Border Trade in Services
Chapter 11	Financial Services
Chapter 12	Temporary Entry for Business Persons
Chapter 13	Telecommunications
Chapter 14	Electronic Commerce
Chapter 15	Government Procurement
Chapter 16	Competition
Chapter 17	State-Owned Enterprises
Chapter 18	Intellectual Property
Chapter 19	Labor
Chapter 20	Environment
Chapter 21	Cooperation and Capacity Building
Chapter 22	Competitiveness and Business Facilitation
Chapter 23	Development
Chapter 24	Small and Medium-Sized Enterprises
Chapter 25	Regulatory Coherence
Chapter 26	Transparency and Anti-Corruption
Chapter 27	Administrative and Institutional Provisions
Chapter 28	Dispute Settlement
Chapter 29	Exceptions
Chapter 30	Final Provisions

Environment

- Commitments on international environmental treaties such as Montreal on Ozone Depleting Substances (CFCs, HCFCs, HFCs); MARPOL on Prevention of Pollution from Ships; CITES on International Trade in Endangered Species of Wild Fauna and Flora.
- Commitment on transparency and cooperation in environmental protection.
- Vietnam committed to reduce unsustainable fisheries subsidies (on-shore fishing)
- COP21 on environment in Paris.

TPP Impacts on Key Economic Indicators

TPP Impacts on Key Economic Sectors

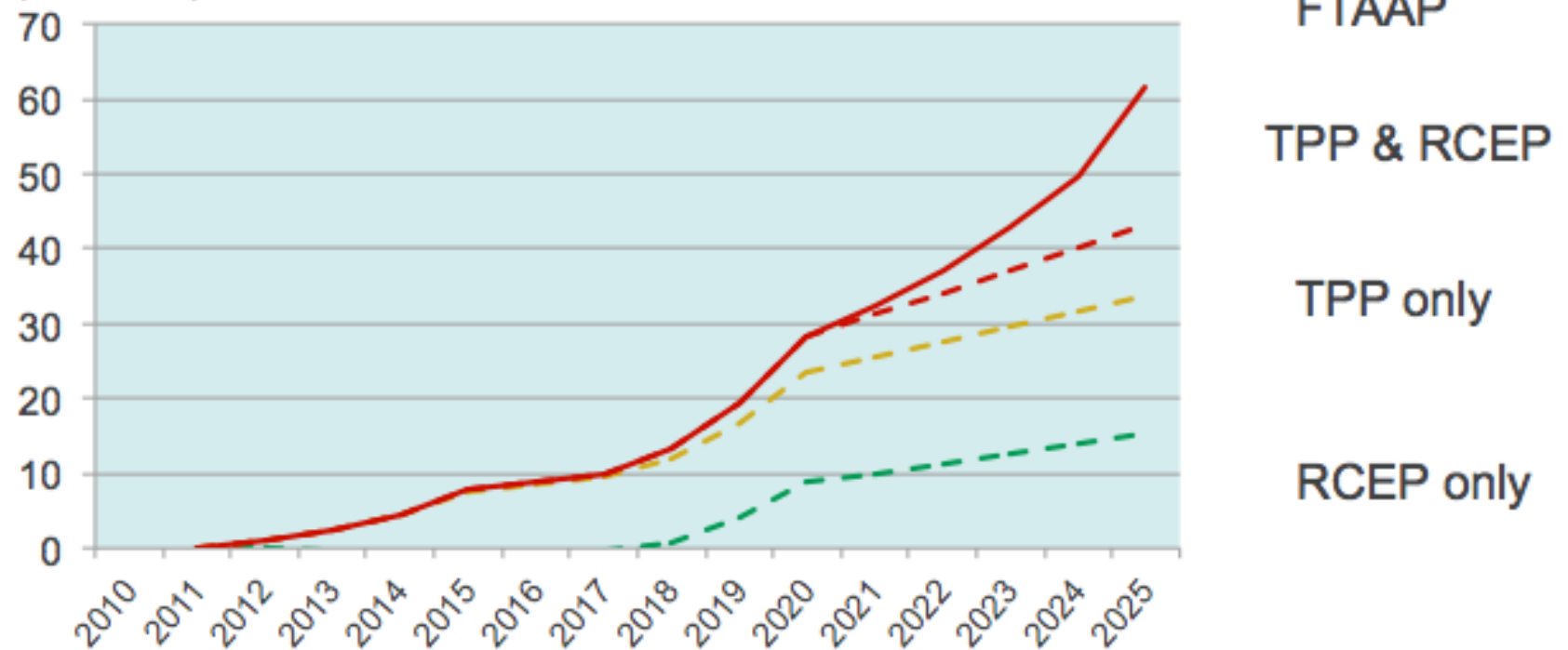
	2020	2025	2030	2035
GDP	3.6	6.8	8.2	8.1
Exports	5.0	13.4	16.8	17.1
Imports	7.6	15.7	16	14.2
Investment	13.6	21.3	15	6.3
Capital	3.1	9.3	12.9	11.9
Change in Trade Balance (million US\$)	-4,941	-9,148	-6,051	-169

Source: Minor et al., 2015; Note: Cumulative percent change relative to mid-growth baseline.

GDP growth with FTAs

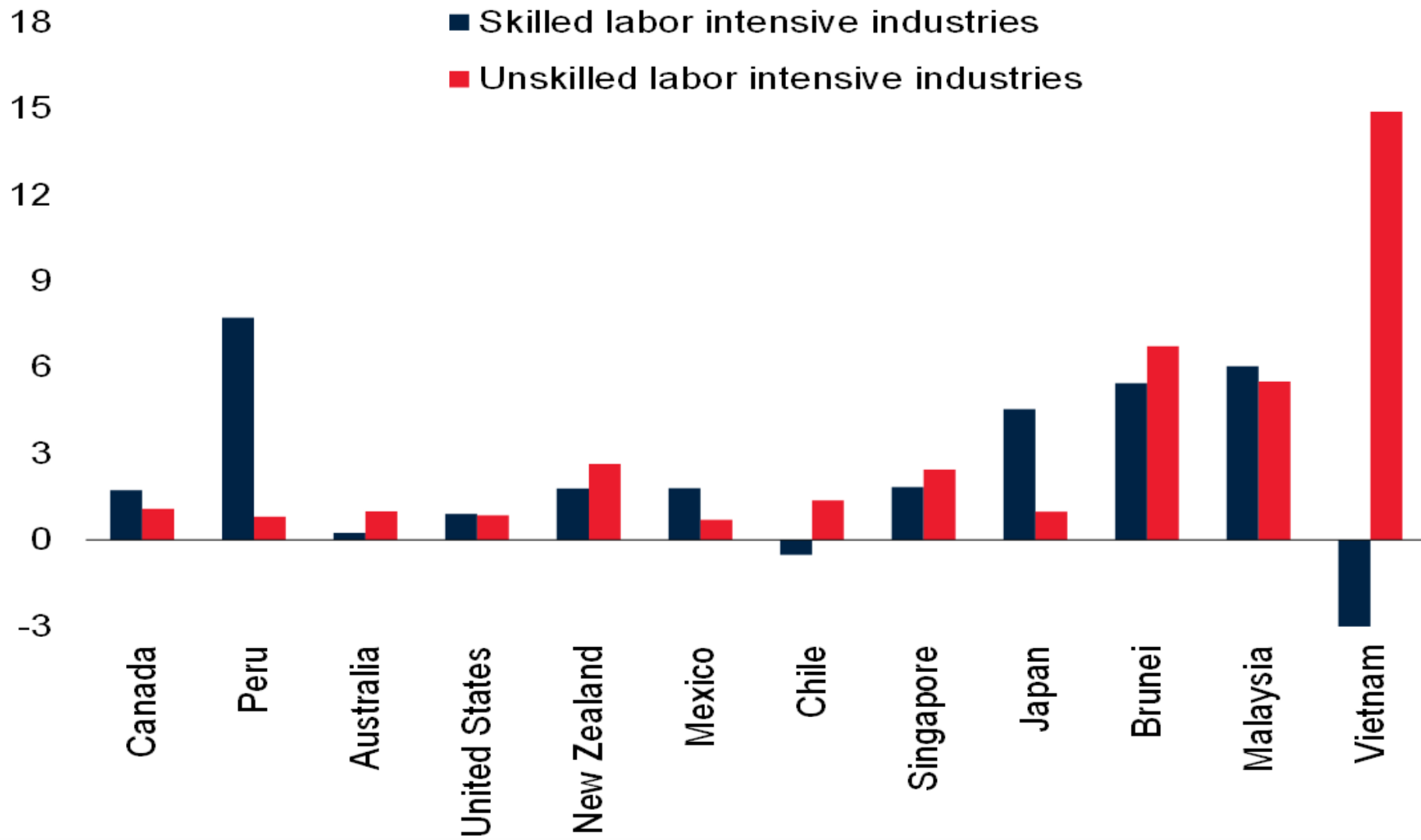
Vietnam: income gains

(US\$ bill.)

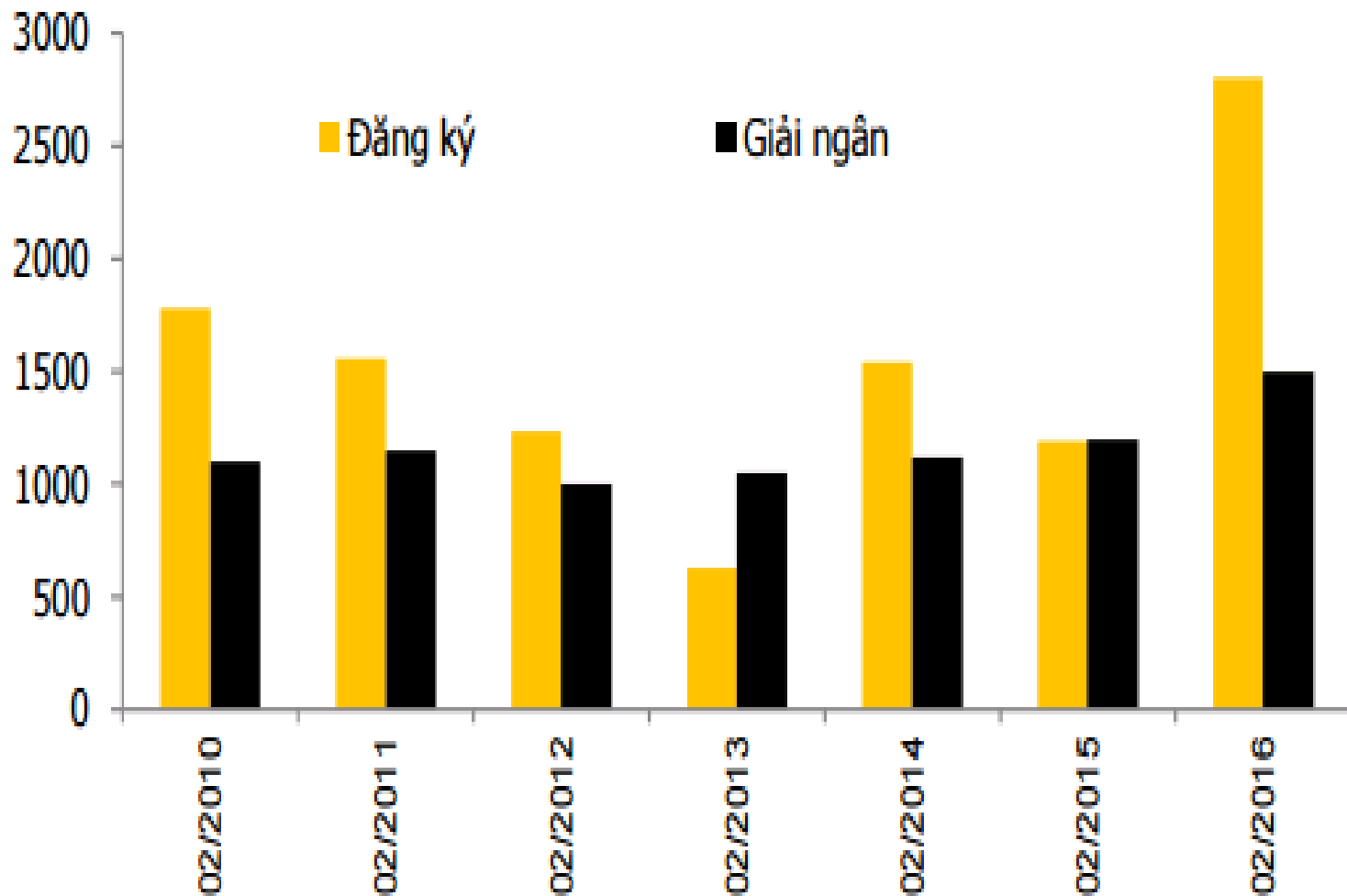


Impacts on economic sectors

Percent



Registered and Implemented FDI (million USD)

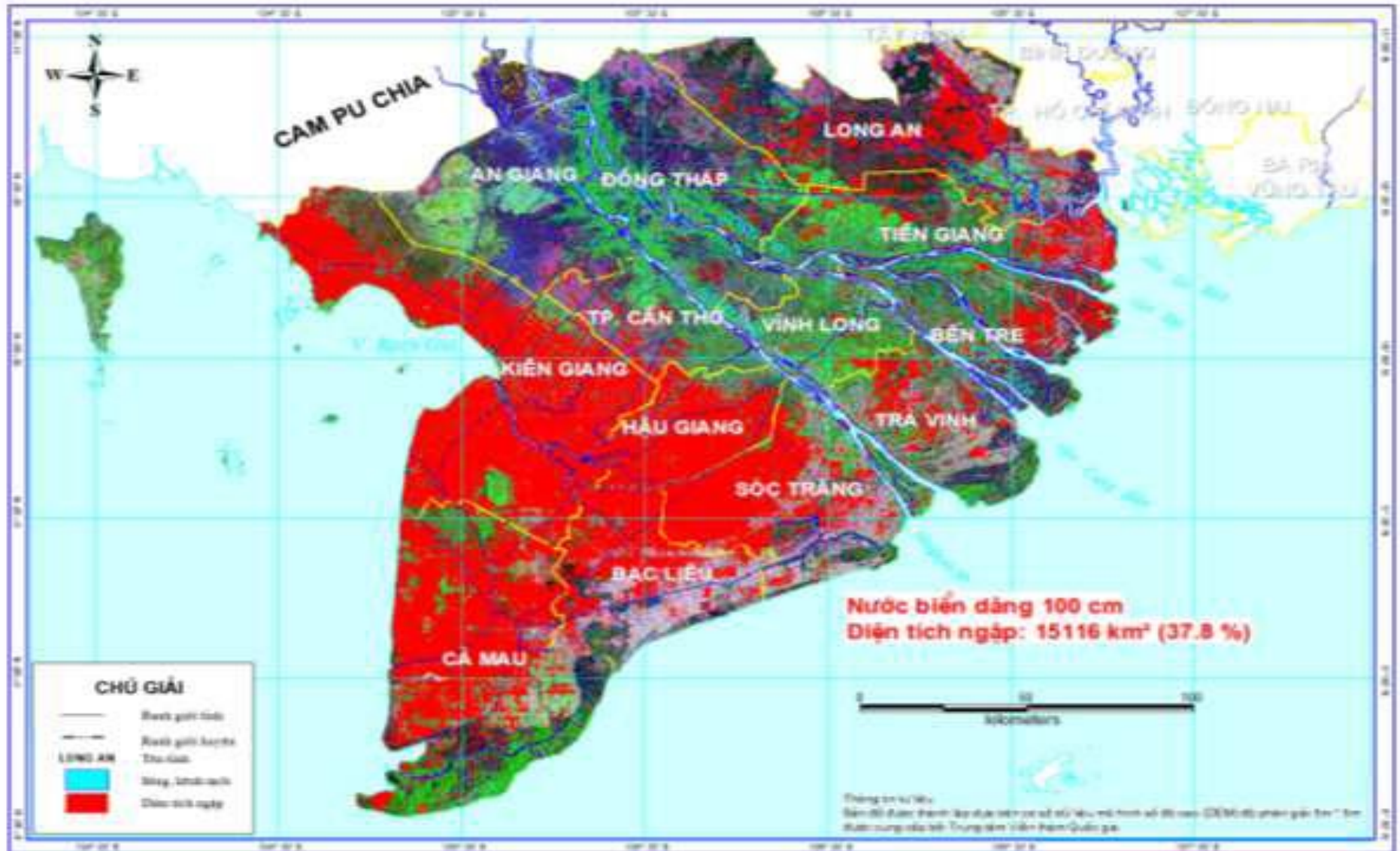


Nguồn: GSO, MBKE tổng hợp

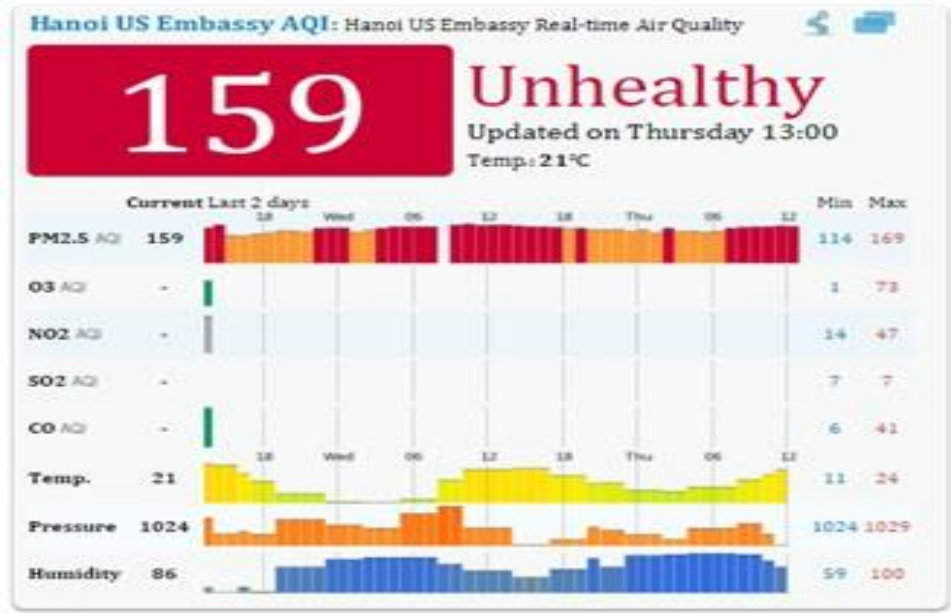
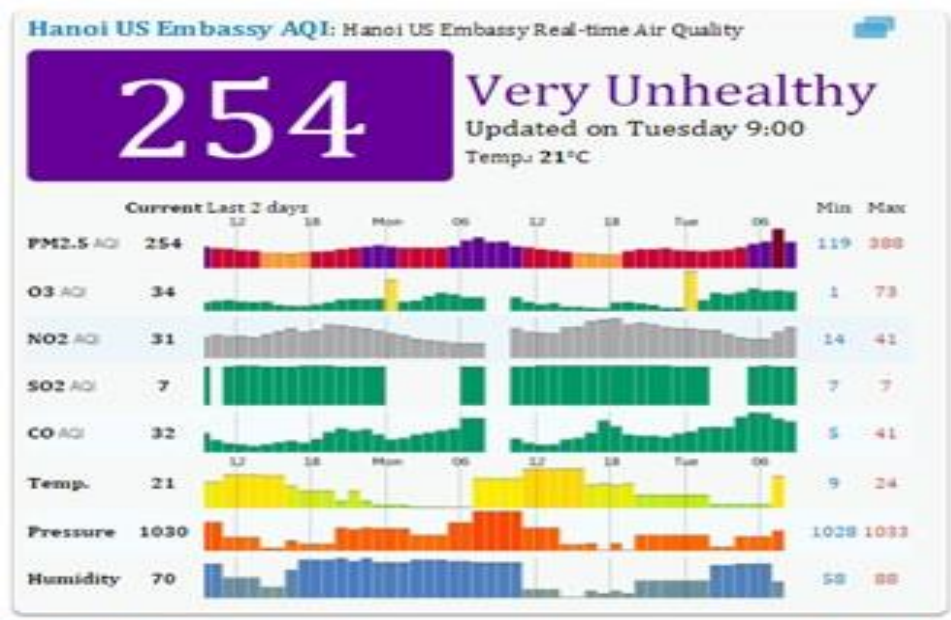
Climate change and serious impacts in Vietnam

- Sea level rise: Flooding and salt intrusion. In the past 50 years, sea level has risen 2 cm/10 years. At the end of this century, sea level will raise 100 cm, 38% area in Mekong Delta will be flooded under sea water
- Global warming: Drought, epidemic. Average temperature will annually increase 0.5°C

Impacts of sea level rise on Mekong Delta



Serious air pollution in Hanoi



Drought, salt intrusion in the South, dead fish in the Central 2016: Red alert on environmental degradation

- Drought in Mekong Delta caused the loss of 6,400 billion VND (287 million USD) and water shortage for 2 million people.
- In the Central: Dead fish and heavy metal pollution are causing long term impacts on the environment and people. Management failure in the case of Formosa: Allowed Formosa to directly discharge wastewater into the sea without independent control system. The Government response to the incident has been too slow.
- Serious impacts on the environment, economic and living conditions of people.

Violations of FDI and state management weakness

- Many environmental violations such as Vedan (Dong Nai), Tung Kuang (Phu Tho), and Chinfong Cement (Hai Phong) were revealed very late.
- Formosa (Ha Tinh) monitored wastewater quality by themselves and provided monthly results for Ha Tinh DONRE. Only after dead fish phenomenon was an automatic monitoring system installed.

FDI using natural resources and cheap labor

- In order to achieve strong GDP growth and industrialization performance, provincial governments accept FDI without consideration of environmental aspects; they provide incentives with land, water and resources for FDI attraction.
- Currently in Vietnam, 67% FDI companies are investing in low value added industries; only 5% companies are using high technology such as telecommunication and communication; only 5% companies are providing science and technological services; only 3.5% working in insurance and finance with high management capacity.
- According to data provided by Foreign Investment Department, Vietnam has only received 28 FDI projects in the environmental sector among 13,530 FDI projects, accounting for only 0.2%

Recommendations for FDI

- Replace GDP growth rate by a system of indicators for sustainable development such as GNI ($GNI = GDP + \text{income receipts from the rest of the world} - \text{income payments to the rest of the world}$).
- Revise investment incentive policies which are attracting FDI through cheap resources (fee on land, fee on environment, tax incentives ...)
- Improve state monitoring system for environmental policy compliance in FDI sector.
- Minimize the risks of becoming technological waste dump site