



The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



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Vietnam and the IPEF: Negotiating Prospects, Opportunities and Challenges

Linh H. DANG and Linh T. T. TRAN

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This paper provides an in-depth analysis of Vietnam's economic development and its potential participation in the Indo-Pacific Economic Framework for Prosperity (IPEF). Vietnam is an emerging economy in the Indo-Pacific, actively engaged in trade agreements and regional economic integration. Led by the United States (US), the IPEF aims to foster a connected, clean, fair, and resilient economy in the region, aligning with Vietnam's long-term economic policies. Participation in the IPEF offers promising prospects for addressing critical issues like supply chain diversification, technology innovation, climate change mitigation, and green development. Vietnam's active role in the Association of Southeast Asian Nations (ASEAN) enhances its leadership and influence in the region. The paper highlights potential benefits for Vietnam's resilient and clean economy, but challenges like low localisation rates and resource limitations need attention. Vietnam's participation in the IPEF can offer support for improving competitiveness and achieving sustainability goals. Overall, the paper provides insights into Vietnam's economic strengths, challenges, and the potential benefits of joining the IPEF for sustainable and inclusive economic growth.

List of Abbreviations

ACFTA	ASEAN-China Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BTA	Bilateral Trade Agreement
CHIPS	Creating helpful incentives to produce semiconductors
CIT	Corporate Income Tax
COP	Conference of the Parties
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DAV	Diplomatic Academy of Vietnam
EVFTA	European Union-Vietnam FTA
FDI	Foreign Direct Investment
FTAs	Free-Trade Agreements
G7	Group of Seven
GDI	Global Development Initiative
GDP	Gross Domestic Product
GSI	Global Security Initiative
IEA	International Energy Agency
IPEF	Indo-Pacific Economic Framework
IPS	Indo-Pacific Strategy
PGII	Partnership for Global Infrastructure and Investment
QUAD	Quadrilateral Security Dialogue
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
UKVFTA	Vietnam – UK FTA
UNFCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
US	United States
VND	Vietnamese Dong

Introduction

Vietnam has made substantial strides in economic development, establishing itself as one of the key emerging economies in the Indo-Pacific region. Its unwavering commitment to multilateralism has been demonstrated through active participation in various trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP).¹ These agreements signify Vietnam's dedication to regional economic integration, facilitating market access expansion, increased trade opportunities, and potential economic growth.

Vietnam's economic development perspective, as outlined in its 13th Party Congress, prioritises building a self-reliant economy by renewing the growth model and restructuring the economy; promoting qualified human resources; supporting agricultural enterprises; promoting research, technology transfer, fostering the digital economy and proactive international integration.² As President Nguyen Xuan Phuc said at the United Nations General Assembly (UNGA), Vietnam values multilateralism, international solidarity, and upholds principles of 'Partnership for sustainable peace', based on the UN Charter and international laws on the global stage.³

Aligning with the Indo-Pacific Economic Framework for Prosperity (IPEF) can be an opportunity for Vietnam to restructure, upgrade its economy, and address critical regional and global issues such as supply chain diversification, technology innovation, climate change mitigation, green development, tax matters and corruption. In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh emphasised the urgent need to adjust Vietnam's growth model and economic linkage to create a more sustainable and self-reliant economy that maximises internal resources while optimising external forces.⁴ The IPEF, led by the United States (US), can help in moulding a mechanism with regional and global influence. Any participating member can benefit from a common high-standard environment. In September 2022, Minister of Industry and Trade Nguyen Hong Dien confirmed at the Ministerial Meeting for IPEF members that Vietnam's participation in the IPEF is entirely possible, depending on further discussions to clarify the Initiative's role and alignment with Vietnam's multilateral economic foreign policies.⁵ At the Ministerial Meeting for IPEF partners in May 2023, he also highly appreciated the US' reception of opinions from member countries and stated that Vietnam will continue to work closely with the other IPEF countries, including those from the Association of Southeast Asian Nations (ASEAN) to complete basic negotiations of the Initiative this year.⁶

1 "Vietnam's FTAs as of May 2023", Center for WTO and International Trade, Vietnam Chamber of Commerce and Industry, 10 May 2023, <https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019>

2 'The 13th National Congress Resolution', *Communist Review*, No.959, https://www.tapchiconsan.org.vn/web/english/focus/detail/-/asset_publisher/FMhwM2oQCZEZ/content/the-13th-national-party-congress-resolutionp

3 "Speech of President Nguyen Xuan Phuc at the UN General Assembly", ASEAN Vietnam Portal, 23 September 2021, <https://aseanvietnam.vn/en/post/speech-of-president-nguyen-xuan-phuc-at-the-un-general-assembly>

4 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, <https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html>

5 "Vietnam willing to join efforts for CPTPP elevation, IPEF negotiations", *Vietnamplus*, May 29 2023, <https://en.vietnamplus.vn/vietnam-willing-to-join-efforts-for-cptpp-elevation-ipef-negotiations/253797.vnp>

6 *op. cit.*

Vietnam's prospects to participate in all four Pillars are promising, but they come with their respective challenges. Under the Supply Chains Pillar, despite Vietnam attracting significant Foreign Direct Investment (FDI) in recent years⁷ and demonstrating a strong export performance⁸, low localisation rates⁹ and a low-skill workforce¹⁰ remain crucial challenges. These issues need to be addressed through collaboration in the IPEF. In the Clean Economy Pillar, Vietnam has shown a strong commitment to reducing emissions, as reiterated in the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) (COP27).¹¹ But it faces capacity and resource challenges. Collaboration in the Clean Economy Pillar can help facilitate Vietnam's transformation and provide the necessary assistance. While progress has been made in fighting corruption, reforming the tax system, and improving institutional mechanisms,¹² there is still a long way to go for Vietnam. Among all Pillars, the one on Fair Economy may have the least potential for Vietnam to catch up with. Vietnam's active participation in Free Trade Agreements (FTAs) and the need to upgrade the Bilateral Trade Agreement (BTA), which went into effect in 2001,¹³ contribute to its prospects in the Trade Pillar.

As an active ASEAN member, Vietnam plays a crucial role in IPEF negotiations. Both US-led and China-led economic initiatives cannot exist as a whole without the support of ASEAN. Together with the other ASEAN members, Vietnam is upgrading the ASEAN-China Free Trade Agreement (ACFTA)¹⁴ and negotiating the Global Development Initiative (GDI)¹⁵ while maintaining a neutral stance and considering national interests.¹⁶ In this regard, at a high-level forum with US President Joe Biden in March 2023, General Secretary Nguyen Phu Trong emphasised Vietnam's welcome for the US support to ASEAN' centrality. Together with the US and the other ASEAN countries, the country aims to promote the ASEAN Vision for the Indo-Pacific.¹⁷

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- 7 "Vietnam's foreign direct investment powers economy into the future", TTWTO VCCI, 13 February 2023, <https://wtocenter.vn/chuyen-de/21346-vietnams-foreign-direct-investment-powers-economy-into-the-future#:~:text=In%202020%2C%20Vietnam%20was%20among,27.72%20billion%20USD%20in%202022>
 - 8 "Strong 2022 export results set to continue on front foot", *Vietnam Investment Review*, 15 February 2023, <https://vir.com.vn/strong-2022-export-results-set-to-continue-on-front-foot-99764.html>
 - 9 "Low localisation rate hindering progress", *VietNamNet News*, 17 March 2023, <https://vietnamnet.vn/en/low-localisation-rate-hindering-progress-2121255.html>
 - 10 "Vietnam ranks low in total workforce index ranking in 2022", *VietNamNet News*, 22 December 2022, <https://vietnamnet.vn/en/vietnam-ranks-low-in-total-workforce-index-ranking-in-2022-2093317.html>
 - 11 COP27: Viet Nam reiterates strong commitments to climate change, *en.baohinhphu.vn*, 9 November 2022 <https://en.baohinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm>
 - 12 Nguyen Khac Giang, "Vietnam's Anti-corruption Campaign: Economic and Political Impacts", ISEAS-Yusof Ishak Institute, 18 May 2023, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-41-vietnams-anti-corruption-campaign-economic-and-political-impacts-by-nguyen-khac-giang/>
 - 13 "Vietnam - Country Commercial Guide", International Trade Administration, 15 December 2022, <https://www.trade.gov/country-commercial-guides/vietnam-trade-agreements>
 - 14 "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", The ASEAN Secretariat, 12 April 2023, <https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/>
 - 15 "China and ASEAN join hands to bring the 'Asian moment' in global governance", Mission of the People's Republic of China to ASEAN, 23 November 2022, http://asean.china-mission.gov.cn/eng/stxw/202211/t20221123_10979831.htm
 - 16 Kasit Piromya, "Neutrality and Non-alignment Are the Way Forward For ASEAN", *The Diplomat*, 9 February 2023, <https://thediplomat.com/2023/02/neutrality-and-non-alignment-are-the-way-forward-for-asean/>
 - 17 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/>

The geopolitical and regional context

Currently, the world economy is at a significant turning point into a new era. This process is being driven by many trends including international realignment, energy transition to renewables and global supply chain restructuring.

Global competition among major countries has intensified, especially in safeguarding supply chains. After the US pledged US\$52 billion for the domestic semiconductor industry in August 2022 through its Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, in April 2023, the European Parliament passed the CHIPS Act for reducing dependencies on foreign suppliers.¹⁸ The trend of shifting from traditional energy to renewable energy for reducing climate change effects is becoming more and more obvious. The COVID-19 pandemic has caused a severe breakdown in global supply chains, causing production to stagnate and a host of companies to become non-functional and go bankrupt. Hence, the world has been taking 'resilience' as a major imperative for supply chains. Regardless of the causes, whether pandemic, natural disaster, or conflict, in an unstable world like today, the risk of supply chain disruption is significant. This has given rise to new trends including reshoring, nearshoring, and *friend-shoring*, for protecting supply chains.

Amid current trends, the Indo-Pacific region is a key area where major powers are implementing strategies to increase political and economic influences. The most notable strategic competition is between the US and China. While China's foreign policy is following the roadmap that progresses from economy to security, the US is deploying a roadmap to compete for influence with China, but in the opposite direction, shifting from defence and security to economics. China has reaped some success with the Belt and Road Initiative (BRI), which promotes the signing and implementation of the RCEP. It has also applied for accession to the CPTPP. In September 2021, President Xi Jinping announced the Global Development Initiative (GDI) at the UNGA, and the Global Security Initiative (GSI) a few months later, which aims to build a security architecture fostering balance, stability, and sustainability. According to the Ministry of Foreign Affairs of the People's Republic of China, more than 80 countries and international organisations have expressed their appreciation and support for the GSI.¹⁹ This shows that China's foreign policy orientation, from economy to security, is posing challenges to the US in its strategy of competing for influence in the region in the near future.

In contrast, on 11 February 2022, in order to restore 'leadership' and restructure the Asia-Pacific order, US President Joe Biden announced the new Indo-Pacific Strategy (IPS).²⁰ The US strategy in competing for influence with China involves shifting from defence and security to economy.

18 Susan Caminiti, "After the CHIPS Act: U.S. still has a long road ahead to rival Asia in semiconductor manufacturing", *CNBC*, 2 August 2022, <https://www.cnbc.com/2022/08/02/after-chips-act-us-has-long-road-to-rival-asia-in-semiconductors.html#:~:text=Technology%20Executive%20Council-,After%20the%20CHIPS%20Act%3A%20U.S.%20still%20has%20a%20long%20road,rival%20Asia%20in%20semiconductor%20manufacturing&text=After%20three%20years%20of%20stops,and%20improve%20competitiveness%20with%20China>; "Chips Act: Council and European Parliament strike provisional deal", Council of the European Union, 18 April 2023, <https://www.consilium.europa.eu/en/press/press-releases/2023/04/18/chips-act-council-and-european-parliament-strike-provisional-deal/>

19 "Global Security Initiative: China's Proposal for Solving Security Challenges", Ministry of Foreign Affairs of the People's Republic of China, 3 April 2023, https://www.fmprc.gov.cn/eng/wjwb_663304/zwjg_665342/zwb_d_665378/202304/t20230410_11056912.html

20 "Indo-Pacific Strategy of the United States", The White House, February 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>

This was evident from announcement of economic initiatives, such as the Partnership for Global Infrastructure and Investment (PGII), during the 48th Meeting of the Group of Seven (G-7) held at Schloss Elmau in Germany in June 2022. As part of this initiative, the G-7 aims to mobilise approximately US\$600 billion to invest in infrastructure projects in developing countries over the next five years (until 2027).²¹

The IPEF is the US' instrument for increasing its economic influence in the Indo-Pacific region. With President Donald Trump's withdrawal from the Trans-Pacific Partnership (TPP), the US' economic presence in the region is no longer significant. The challenge facing the US today is to reach a high-standard economic agreement that supports its domestic economy and is also appealing enough for attracting partners in the Indo-Pacific. The IPEF is different in that it is not following the path of creating a traditional multilateral trade agreement framework for the region, but instead focusing on establishing overarching regional rules for economics and trade. The biggest drawback of the IPEF so far is that, while it aims to establish standards, principles, and obligations to shape an economy under four Pillars, there is a lack of US market access for member countries.

Both the US and China will engage in competition focusing on ASEAN through the implementation of the IPEF and the GDI. In the long term, the competition will expand to cover the entire Indo-Pacific region. For China, ASEAN is not only geographically close but also its largest global trading partner. The maintenance and promotion of stable economic, trade, and geopolitical relations between China and the ASEAN contribute to the development of both ASEAN and China. To further enhance their partnership, ASEAN and China have conducted initial consultations for upgrading the ASEAN-China FTA in February 2023.²² These negotiations cover various areas such as trade, investment, digital, and green economy, aiming to build a more comprehensive, modern, and inclusive ASEAN-China FTA that benefits both sides. The content of the ASEAN-China FTA and the GDI align closely with the objectives of the IPEF.

On the other hand, if the US is not supported by ASEAN, both the IPS and the IPEF will have significant gaps. The global strategic focus of the US is in the Indo-Pacific region, particularly Southeast Asia, where its biggest long-term strategic competitor, China, is located. As a key member of ASEAN, Vietnam believes that the IPEF "should be based on open, comprehensive and transparent principles in line with international law, while ensuring ASEAN's central role and supplementing existing economic links", stated Foreign Ministry Spokesperson Le Thi Thu Hang.²³ These links also include the upgraded ASEAN-China FTA.

Vietnam plays a significant role in the Indo-Pacific region due to its extensive economic engagement, supply chain restructuring, geopolitical significance, balancing act, and critical leadership role in ASEAN. With rapid economic growth and active participation in initiatives like the CPTPP and the RCEP, Vietnam promotes trade liberalisation and economic cooperation. As a manufacturing hub attracting foreign investments, it diversifies supply chains and deepens integration into the global supply chain network. Geographically located in Southeast Asia with land borders with China and

21 "The G7 stands united alongside Ukraine", *G7 Germany*, 27 June 2022, <https://www.g7germany.de/g7-en/g7-summit>

22 See "ASEAN and China meet to upgrade ASEAN-China Free Trade Area", Association of Southeast Asian Nations, 12 April 2023, <https://asean.org/asean-and-china-meet-to-upgrade-asean-china-free-trade-area/>

23 "IPEF should be based on open, inclusive, transparent principles: Spokesperson", *The World and Viet Nam Report*, 26 May 2022, <https://en.baoquocte.vn/ipef-should-be-based-on-open-inclusive-transparent-principles-spokesperson-185086.html>

a coastline along the South China Sea, Vietnam actively addresses regional security concerns while maintaining stability. Its foreign policy emphasises maintaining friendly relations with major powers, leveraging its position in the ever-evolving regional dynamics. Vietnam's leadership in ASEAN further showcases its commitment to regional economic integration and inclusive growth through active involvement in ASEAN-centred initiatives.

Brief Overview of Vietnam's Economy

The year 1975 was an important historical milestone when North and South Vietnam were unified, officially ending the war in this country. Thereafter, the country embarked on building a closed and self-sufficient economy; however, the government soon realised the weaknesses of this model. During the 'Renewal period' that began in the mid-1980s, Vietnam implemented various economic policies to transition from a centrally-planned economy to a 'Socialist-oriented market economy'. Since then, Vietnam has consistently adopted a multilateral viewpoint at all levels of international integration, particularly economic, with the goal of constructing an independent and autonomous regional economy, actively engaging and cooperating with the world.

The above points are important in shaping the core views of the economic policies of the Vietnamese government, leading to strategies, plans and actions. Currently, Vietnam is heading towards an open, integrational, and autonomous economy. The spirit of independence is deeply ingrained in the Vietnamese people. The Vietnamese government understands the value of peace and independence, and therefore adopts a multilateral stance at all levels of international integration. Vietnam's difficulties during its period as a closed economy motivates the goal of eradicating poverty and fostering strong cooperation. This spirit encourages the country to welcome opportunities that have benefits for all.

The Vietnamese economy's openness is demonstrated by its participation in numerous bilateral and multilateral economic cooperation mechanisms in the region and around the world. To date, it has signed 15 FTAs covering more than 60 countries and territories, including some of the largest markets globally,²⁴ the latest being an FTA with Israel in April 2023.²⁵ Three more FTA talks are on with a group of four countries in Europe (Switzerland, Norway, Iceland, and Liechtenstein), Canada and the UAE. Two important FTAs in the Indo-Pacific that Vietnam has joined are the CPTPP and the RCEP. Additionally, Vietnam is now one of the 14 countries participating in the negotiations on the IPEF. Becoming a member of two mega FTAs like the RCEP and the CPTPP demonstrates Vietnam's strong commitment to regional economic integration and free trade. These agreements provide Vietnam with expanded market access, increased trade opportunities, and the potential for greater economic growth. By joining these regional trade agreements, Vietnam enhances its attractiveness as a foreign investment destination in the Asia-Pacific.

Vietnam's viewpoint when participating in any multilateral cooperation mechanism is maintaining an independent and objective stance without choosing sides. This is also reflected in the economic development perspective of Vietnam's 13th Party Congress: Building a self-reliant economy based on technological advances, proactive integration, market diversification, and enhancing the adaptability of the economy.²⁶ However, there are still untapped potentials, including human

24 *op. cit.*

25 "Vietnam's FTAs as of August 2023", WTO Center, 10 August 2023, <https://wtocenter.vn/thong-ke/13814-vietnams-ftas-summary-as-of-april-2019>

26 *op. cit.*

and natural resources as well as obstacles related to technological advancement, labour skills, infrastructure, and financial capacity.

The Prospect of Vietnam Joining the IPEF

The IPEF aligns with current global trends and Vietnam's long-term foreign economic policies. When the idea of the IPEF was first announced, it was assessed that while the Framework creates obligations, it falls short in delivering the benefits to its member countries.²⁷ However, as mentioned, at the Ministerial Meeting for IPEF partners in May 2023, Minister of Industry and Trade Nguyen Hong Dien underscored Vietnam's positive perspective on the IPEF.²⁸

In May 2022, during the announcement ceremony to kick off the discussion on the IPEF, Prime Minister Pham Minh Chinh stressed the importance of upholding multilateralism and strengthening international solidarity based on sincerity, trust, and responsibility.²⁹ In this regard, the IPEF can create a platform for initiating and promoting collaboration among countries in the Indo-Pacific. Through active exchanges and discussions, members can join forces to address significant regional and global issues. These include the diversification and sustainability of supply chains, fostering technology innovation, driving digital transformation, promoting e-commerce, combating climate change, reducing emissions, advancing green development, addressing tax matters, and combating corruption. The Ministry of Foreign Affairs of Vietnam believes that the IPEF will promote a positive and efficient economic environment, benefitting people and contributing to regional and global security and peace. Ministry spokesperson Hang Le reaffirmed that the country's participation in the IPEF will depend on the outcomes of the discussions among the parties.³⁰

The attitude and level of participation of seven ASEAN nations, including Vietnam, that are members of the IPEF will determine its progress. These ASEAN countries, along with the remaining three ASEAN member states, are discussing upgrading of the ASEAN-China FTA and negotiating the GDI on the basis of conformity with their national interests, without setting out the principle of choosing sides. General Secretary Nguyen Phu Trong has emphasised that Vietnam welcomes the US to support ASEAN's central role, and together with the ASEAN countries promote the ASEAN Vision for the Indo-Pacific.³¹

The IPEF negotiations are advancing intensively and several outcomes have been achieved,

27 Anh T. Nguyen, "Khuôn khổ kinh tế Ấn Độ Dương - Thái Bình Dương vì thịnh vượng: Xu hướng liên kết kinh tế mới trong khu vực", *Communist Review*, 12 April 2023, <https://www.tapchiconsan.org.vn/web/guest/the-gioi-van-de-su-kien/-/2018/827256/khuon-kho-kinh-te-an-do-duong---thai-binh-duong-vi-thinh-vuong--xu-huong-lien-ket-kinh-te-moi-trong-khu-vuc.aspx>

28 *op. cit.*

29 "Vietnam premier attends launching ceremony of Indo-Pacific Economic Framework for Prosperity", *Tuoi Tre News*, 24 May 2022, <https://tuoitrenews.vn/news/politics/20220524/vietnam-premier-attends-launching-ceremony-of-indopacific-economic-framework-for-prosperity/67282.html>

30 "Discussion outcomes will determine Vietnam's accession to Indo-Pacific economic initiative: Ministry of Foreign Affairs", *Vietnam Law & Legal Forum*, 27 May 2022, <https://vietnamlawmagazine.vn/discussion-outcomes-will-determine-vietnams-accession-to-indo-pacific-economic-initiative-ministry-of-foreign-affairs-48635.html>

31 "Readout of President Joe Biden's call with General Secretary Trong of Vietnam", The White House, 29 March 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/29/readout-of-president-joe-bidens-call-with-general-secretary-trong-of-vietnam/>

especially the Supply Chain agreement.^{32 33} Speaking at the Ministerial Meeting for IPEF members in 2023, Minister of Industry and Trade Nguyen Hong Dien mentioned that Vietnam supports the shared goal of the IPEF to conclude negotiations on the remaining Pillars as soon as possible and aims for positive outcomes by the end of this year. Vietnam values the US' efforts in coordinating and organising discussions, and respects the opinions of member countries to achieve commitments and regulations that are high-standard, balanced, and considerate of institutional differences and levels of development among nations.

Vietnam's expectations for the IPEF reflect its commitment to promoting regional cooperation and sustainable development. Its leadership has stressed the importance of creating a framework that benefits the people, ensures peace and security for the region and the world. This requires an open, inclusive, and a balanced process that is responsive to the justifiable interests of stakeholders and in alignment with international law. Vietnam values the importance of working together with other nations to address common challenges and achieve shared objectives. This approach is reflected in its participation in various regional and international frameworks and by being one of the negotiating members of the IPEF from the beginning.

Vietnam also recognises the importance of leveraging digital technologies to boost economic growth and improve the well-being of its citizens. The country has made significant progress in this regard in recent years, but there is much work to be done. By joining the IPEF and sharing experiences and sustainable solutions with other members, Vietnam hopes to achieve a sustainable digital society. Indeed, with resilient Supply Chains and Clean Economy emerging as the two primary Pillars, the IPEF holds the potential to digitally empower Vietnam and achieve sustainable development goals.

The Supply Chain Pillar

Vietnam is considered a rising star in the global supply chain network due to several key factors.

First, it has attracted significant FDI and is undergoing a shift in its industrial structure. In 2022, the country received US\$17,889.9 million, ranking third after Singapore (US\$141,181.2) and Indonesia (US\$21,968.2).³⁴ Additionally, there has been a noticeable transition in FDI inflow away from traditional industries like garments and towards hi-tech manufacturing sectors such as computers, electronic equipment, and information/communication.³⁵ This shift reflects Vietnam's growing capabilities and attractiveness in higher-value manufacturing.

Secondly, Vietnam has demonstrated robust export performance compared to other Southeast Asian countries. In 2022, the country's total trade (import and export) was US\$732.5 billion, representing a 9.5 per cent increase from the previous year. Vietnam's commodity exports have positioned it as the second-highest in ASEAN-6, surpassing countries like Malaysia, Indonesia,

32 "Press Statement for the Trade Pillar, Clean Economy Pillar, and Fair Economy Pillar", US Department of Commerce, 27 May 2023, <https://www.commerce.gov/news/press-releases/2023/05/press-statement-trade-pillar-clean-economy-pillar-and-fair-economy>

33 "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement", US Department of Commerce, 27 May 2023, <https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain>

34 "Flows of Inward Foreign Direct Investment (FDI) to ASEAN Countries (in million US\$)", ASEANStatsDataPortal, <https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF>

35 "FDI Firms Continue to Recover and Shift into High-tech Industries", Vietnam Chamber of Commerce and Industry, 15 May 2023, <https://vccinews.com/news/49233/fdi-firms-continue-to-recover-and-shift-into-high-tech-industries.html>

Thailand, and the Philippines. Its total exports of US\$371.5 billion exceeded the combined exports of Thailand (US\$287.07 billion) and the Philippines (US\$78.84 billion).³⁶ The strong export performance marks its ability to capture large shares of the global markets and its growing integration into the global supply chain. Vietnam benefits from its strategic geographic location with easy access to international shipping routes. This makes it an appealing destination for global businesses seeking to diversify their supply chains and optimise logistics operations. Vietnam has also displayed a welcoming attitude towards trade and investment, significantly reducing policy restrictions on FDI over the past decade.

Nevertheless, Vietnam still faces challenges, particularly in terms of localisation rates.³⁷ The Vietnam Association of Supporting Industry Enterprises' data shows that the localisation rate supporting industry products of Vietnamese enterprises is quite low. Currently, Vietnam has only about 500 enterprises engaged in supporting industry production, accounting for more than 0.2 per cent of the total of nearly 1 million enterprises.³⁸ Improving the localisation rate is crucial to enhance the competitiveness of Vietnamese enterprises on the global stage. To achieve this, Vietnam must prioritise improving the quality of its human resources and preparing its workforce for the digital economy. This requires a focus on digital transformation and equipping many workers with the necessary skills. When participating in the IPEF, through an initiative led by a technologically advanced country like the US, Vietnam can gain access to various benefits, including expertise, technology, education, and legal frameworks, which can help enhance Vietnamese labour skills and technological capabilities. As a result, Vietnamese businesses can maintain their competitive edge and achieve sustainable economic growth.

The Supply Chain Pillar of the IPEF can provide Vietnam with vital support in improving its localisation rate and preparing its workforce for the digital economy. It would enhance the competitiveness of Vietnamese enterprises and ensure that it remains an attractive destination for foreign investors seeking to diversify their supply chains. Ultimately, these efforts will contribute to Vietnam's pursuit of sustainable and inclusive economic growth, aligning with its ambitious goal of becoming a high-income economy by 2045.

The Clean Economy Pillar

In recent years, Vietnam has made significant progress, in transitioning from one of the world's poorest countries to a dynamic emerging market. But environmental challenges remain a serious threat to its economic development. According to the World Bank, Vietnam will need to invest approximately 6.8 per cent of its Gross Domestic Product (GDP) each year, amounting to US\$368 billion, during 2022 – 40, for building resilience and achieving decarbonisation.³⁹

36 Thái Bình/Quynhlan, "Reaching US \$ 700 billion, Vietnam's import and export surpassed Thailand and Indonesia, ranking 2nd in ASEAN", *Customs News*, 21 December 2022, <https://english.haiquanonline.com.vn/reaching-us-700-billion-vietnams-import-and-export-surpassed-thailand-and-indonesia-ranking-2nd-in-asean-24848.html>

37 Localisation rate or local content rate is defined as percentage of "added value" of products processed domestically.

38 Tran Thuy, "Vietnam's supporting industry needs a revolution", *Vietnamnet Global*, 7 February 2022, <https://vietnamnet.vn/en/vietnams-supporting-industry-needs-a-revolution-813801.html>

39 "Key Highlights: Country Climate and Development Report for Vietnam", World Bank, 1 July 2022, <https://www.worldbank.org/en/country/vietnam/brief/key-highlights-country-climate-and-development-report-for-vietnam>

Vietnam's commitment to cut emissions to net zero by 2050, as announced in COP26 and reaffirmed in COP27 by Minister of Natural Resources and Environment Tran Hong Ha, shows the high determination of the country in pursuing sustainable economic development.⁴⁰ The 13th Party Congress of Vietnam has also emphasised the need to build a green economy, protect biodiversity and ecosystems, and eliminate projects causing environmental pollution.⁴¹ The commitment is quite ambitious considering Vietnam's current capacity in terms of technology, labour skills, infrastructure, and finance. Therefore, Clean Economy might be the Pillar that draws much attention of the Vietnamese government. The IPEF can generate a good opportunity for Vietnam in its decarbonisation efforts as it is led by the US, a global leader in advanced technology and financial capacity.

To support decarbonisation goals, Vietnam has passed several laws and policies in 2022, including the Law on Environmental Protection,⁴² which outlines the responsibilities of businesses, organisations, and individuals in reducing greenhouse gas emissions and combating climate change. However, a close and synchronous linkage between the central and local levels of the government is still lacking, which poses a significant challenge for foreign donors and investors.

The concern over negative effects of artificial materials in food such as additives, preservatives, colourings, flavourings, and other synthetic substances is growing among Vietnam's consumers. A survey by Nielsen Vietnam found that approximately 80 per cent of consumers are willing to spend more on clean and green products produced from environmentally friendly ingredients.⁴³ This trend indicates that awareness and actions towards green growth and a green economy are spreading throughout Vietnam's economy, from governmental policies to business execution and consumer behaviours. Vietnam's strong emphasis on building a clean economy, combined with its recognition of the importance of international cooperation, makes it an active participant in the Clean Economy Pillar of the IPEF.

Vietnam and the Fair Economy Pillar

The Fair Economy Pillar of the IPEF presents challenges for Vietnam due to necessary commitments, including effective tax systems and anti-corruption mechanisms.

Corporate Income Tax (CIT) Incentives are considered one of the most attractive features of the Vietnamese business landscape. The two main CITs are preferential tax rates, which are reduced tax rates and tax holidays, which are tax exemptions.⁴⁴ However, businesses and individuals face

40 "COP27: Viet Nam reiterates strong commitments to climate change", *Social Public of Viet Nam Government News*, 9 November 2022, <https://en.baohinhphu.vn/cop27-viet-nam-reiterates-strong-commitments-to-climate-change-111221109161831911.htm>

41 "Major Breakthroughs and Orientations of the Socio - Economic Development Strategy for the Period of 2021 – 2030", National Institute for Finance, The Ministry of Finance of the Socialist Republic of Vietnam https://mof.gov.vn/webcenter/portal/vclvcstcen/pages_r/!detailnews?dDocName=MOFUCM199333

42 "Law on Environmental Protection and Decree No 08/2022/ND-CP", Winrock International, 2022, <https://winrock.org/document/law-on-environmental-protection-and-decree-no-08-2022-nd-cp/#:~:text=2022%2FND%2D%20CP-,Law%20on%20Environmental%20Protection%20and,08%2F2022%2FND%2D%20CP&text=The%20project%20is%20implemented%20for,through%20a%20collective%20impact%20approach>

43 "Green consumption – key for plastic waste reduction", *Vietnam Plus*, 16 September 2022, <https://en.vietnamplus.vn/green-consumption-key-for-plastic-waste-reduction/237439.vnp>

44 "Vietnam - Corporate - Tax credits and incentives", PwC, 3 April 2023, <https://taxsummaries.pwc.com/vietnam/corporate/tax-credits-and-incentives>

many difficulties in paying taxes. Even though the country has made efforts to simplify the tax system by approving tax system reform strategy up to 2030,⁴⁵ its efficiency is doubtful. According to the World Bank, it takes businesses 384 hours to pay taxes in Vietnam compared to 64 hours in Singapore, 174 hours in Malaysia and 191 hours in Indonesia.⁴⁶

Tax evasion is another big challenge for the Vietnamese tax system. According to Nguyen Thi Thu Huong, senior governance program manager of Oxfam in Vietnam, tax evasion and avoidance practices led to annual losses of up to VND20.7 trillion (US\$872.3 million) to Vietnam's tax revenue in 2013.⁴⁷

Participating in the IPEF offers several opportunities for Vietnam such as enhanced transparency, exchange of information, capacity building, and technical assistance. It can also support international tax reform efforts. However, implementing and complying with the Framework's provisions, coordinating with other members, and assessing the impact on domestic tax policies pose challenges. Vietnam must balance its participation in global tax initiatives while maintaining a competitive and attractive tax system for investment.

While the Vietnamese people desire to combat bribery and corruption, progress in this area has been slow. General Secretary Nguyen Phu Trong's anti-corruption campaign, known as the 'burning furnace' has achieved some success.⁴⁸ However, rumours about the General Secretary's health and his potential term extension until 2026 could undermine the campaign's continuity and impact.

Vietnam also faces sensitivity towards certain sub-themes within the Fair Economy Pillar and government officials may hesitate to engage in dialogues on anti-corruption measures. In 2022, Vietnam intensified its fight against corruption, resulting in significant progress. The focus was on personnel management, strict handling of violations, and dismissals of officials in line with party and state regulations. Institutional mechanisms were improved, and various resolutions and regulations were implemented to strengthen party building and combat corruption.⁴⁹

Vietnam's stable political system provides a safe environment for foreign investors. It needs to continue making progress in implementing effective tax systems, anti-money laundering measures, and anti-corruption mechanisms by engaging actively in the Fair Economy Pillar.

Vietnam and the Trade Pillar

45 Tax system reform strategy up to 2030 approved, PwC, 9 May 2022, <https://www.pwc.com/vn/en/publications/news-brief/220509-tax-reform.html>

46 "Vietnam: Doing Business 2020, Challenges and Solutions", World Bank, 8 January 2020, <https://www.worldbank.org/en/news/speech/2020/01/08/speech-by-ousmane-dione-world-bank-country-director-for-vietnam-at-the-event-vietnam-doing-business-2020-challenges-and-solutions>

47 "Tax evasion causes annual losses to US\$900 million in Vietnam's tax revenue", *Hanoitimes*, 28 April 2020, <https://hanoitimes.vn/tax-evasion-causes-annual-losses-to-us900-million-in-vietnams-tax-revenue-311914.html>

48 "Vietnam's Institutional Corruption: Why Nguyen Phu Trong's "Blazing Furnace" Will Be Meaningless In The Long Term", *The Vietnamese Magazine*, 21 April 2021, <https://www.thevietnamese.org/2021/04/vietnams-institutional-corruption-why-nguyen-phu-trongs-blazing-furnace-will-be-meaningless-in-the-long-term/>

49 "Hundreds of Party members disciplined for corruption and wrongdoings in 2022", *Vietnam News*, 12 January 2023, <https://vietnamnews.vn/politics-laws/1449269/hundreds-of-party-members-disciplined-for-corruption-and-wrongdoings-in-2022.html>

Vietnam's strengths lie in the expansive free markets and reduced trade barriers created by its FTAs, particularly the newer generation agreements such as the European Union-Vietnam FTA (EVFTA) and the Vietnam – UK FTA (UKVFTA). However, it is important to note that even though the US is Vietnam's largest export market with exports of US\$109.1 billion in 2022,⁵⁰ it does not have any FTA with the US, which represents a significant gap in its FTA network. A BTA was signed in 2000 between Vietnam and the US but the terms and conditions have not been upgraded since then. The IPEF presents a good opportunity for Vietnam to upgrade its trading network and potentially establish a cooperative agreement with the US.

Working in the Trade Pillar will align with Vietnam's active participation in FTAs and its commitment to high-standard, inclusive, free, fair, and open trade commitments. Vietnam can benefit from the flexibilities, technical assistance, and capacity building support offered by the Trade Pillar partners, which can help address specific challenges that the country may face in meeting the high-ambition commitments. Vietnam's involvement in the Trade Pillar will also expand opportunities for workers, companies, and people in other markets. It would offer a platform to boost trade and investment flows, enhance standards, and reduce trade barriers, which would contribute to the country's economic growth and development.

To ensure that Vietnam and the other members stay well engaged in the Trade Pillar, the US and other major members of the IPEF must be proactive. The US, being a key player in the international economic landscape, should take the initiative to engage with Vietnam and the other members.

Overall, by actively engaging in the IPEF, Vietnam stands to harness opportunities for economic resilience, environmental sustainability, and regional leadership, while addressing inherent challenges such as localisation rates and resource constraints. Embracing the IPEF signifies a promising path towards sustainable and inclusive growth, while aligning with Vietnam's long-term economic vision.

50 Pham Huan, "The US is Vietnam's largest export market in 2022", *VOV World*, 31 December 2022, <https://vovworld.vn/en-US/news/the-us-is-vietnams-largest-export-market-in-2022-1164819.vov>

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