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Global economic integration at all costs?

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Bonn, 27 July 2015. The Trans-Pacific Partnership (TPP) is on the home straight. Following several days of bargaining by the Chief Negotiators, the Trade Ministers will meet in Hawaii as of tomorrow. There are several indications that the negotiations between the United States, Vietnam and ten other Pacific Rim countries will be concluded successfully. If it had not already been evident that TPP was a foreign policy priority in Washington and Hanoi, then the visit by Vietnam's Communist Party chief to the United States in early July certainly provided clarity on this front. Additionally, the US Congress recently granted Trade Promotion Authority (TPA) to President Obama, removing a key barrier to negotiations. This fast-track authority enables the President to act swiftly with regard to the free trade agreement. Congress can only accept or reject the final agreement in its entirety; it is no longer able to request changes. This was a prerequisite for the other negotiating parties to put their best offers on the table. So far, TPP and the Transatlantic Trade and Investment Partnership (TTIP) have been discussed from a very limited, national perspective. But what does the signing of these mega regionals mean for developing countries such as Vietnam?

The new generation of mega-regional agreements

The world trade system is at a turning point; the central role of the World Trade Organization (WTO) is being undermined and a series of regional blocs are being formed. Frustrated by over a decade of fruitless negotiation at the WTO, the United States and the EU are pushing ahead with two mega-regional free trade projects at transatlantic and transpacific level that are intended to provide a blueprint for future agreements. These agreements go beyond the dismantling of tariff barriers, increasingly seeking to promote investment, protect intellectual property rights, ensure the competitive neutrality of state enterprises, open up public procurement markets and establish social and environmental standards. The list could go on and on. The key point is that these regulations have far-reaching consequences for the countries involved and require painful political and economic reforms on the part of developing countries such as Vietnam. Against this backdrop, it is surprising to see Hanoi simultaneously negotiating a whole range of free trade agreements with the United States, the EU, Russia and others, deepening its economic relationships

around the globe. There is barely another developing country currently pursuing such deep integration into the global trade system as Vietnam.

What is prompting Hanoi to engage so vigorously in trade policy negotiations?

To answer this question, it is necessary to take a look over Vietnam's northern border. Vietnam's economy is heavily dependent on China's increasingly uncertain economic development. Pursuing economic integration with Europe and North America is a way of managing this risk and tapping new export markets for Vietnamese products, especially textiles. TPP in particular allows Vietnam to become a key export platform for foreign businesses. Geopolitics is also a factor, as Beijing's threatening overtures in the territorial conflict over the South China Sea will certainly have done nothing to calm nerves in Hanoi.

Another reason cited unanimously by Vietnamese experts is the desire to promote economic reforms. The last major reform projects in this country, which oscillates between Communist ideology and unchecked market economics, were implemented in the course of its accession to the WTO in 2007. Since then, reform efforts have stagnated, not least as a result of resistance from the dominant state enterprises. Consequently, it is hoped that TPP and the Free Trade Agreement with the EU will not only boost exports, but also import pressure for reforms. In the absence of such pressure, the Communist leadership appears unable to shed the remnants of its old planned economy to allow it to strengthen market-economy structures and make Vietnam more competitive.

In order to highlight the opportunities and risks of this strategy, Vietnamese experts keep using the following analogy: before opening all the windows to let fresh air into the house, a father should remember to put warm clothes on his children. Translated into 21st century trade policy jargon, this means that, while developing countries can use mega regionals as a means of integrating themselves into global value chains, this strategy will only pay off if they strengthen their domestic industries to enable them to seize the opportunities offered by the agreements in the first place. It is precisely because the new generation of free trade agreements has such fundamental implications for economic and political systems that frank, peer-to-peer dialogue with all stakeholders is essential.