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Economic integration and national security in a strategic policymaking environment: The case of Viet Nam

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Chapter 8

Economic integration and national security in a strategic policymaking environment: The case of Viet Nam

Thanh Tri Vo and Duong Anh Nguyen¹

Introduction

Viet Nam's approach to strategic and economic policymaking has consistently married a deep engagement with regional processes of economic integration with a commitment to working with all major powers to ensure peace and stability.

Since Doi Moi, economic integration has been among the three key pillars of reforms in Viet Nam, together with market-oriented reforms and macroeconomic stabilisation. A vast amount of literature (Dinh et al. 2009; Central Institute for Economic Management [CIEM] 2013; Dinh et al. 2020) has shown that economic integration has been highly interactive with domestic economic reforms. Specifically, economic integration has broadened opportunities through access to foreign investment and foreign markets, adaptation to international trade rules and deeper participation in global value chains. Periods of progressive economic integration (i.e. 1989–96, 2000–07, 2014–19) also came with fundamental economic reforms, which led to significant socio-economic development and thus nurtured greater consensus towards economic integration.

After numerous wars, including for national unification, Viet Nam stresses the importance of protecting national security and, more broadly, a stable environment for socio-economic development to take place. Over time, the country has gradually become more open to the international dimensions of national security. In 2020, the country was elected as a non-permanent member of the United Nations Security Council (UNSC). During its Association of South-East Asian Nations (ASEAN) chairmanship in 2020, Viet Nam was able to coordinate efforts to enhance US–ASEAN collaboration. Within this context, the interaction between national security and economic integration in Viet Nam is no longer unidirectional. Instead, economic integration helps to strengthen cooperation between Viet Nam and its partners, which in turn leverages Viet Nam's capacity to protect national security.

Looking forward, Viet Nam will find the unfolding international environment challenging and highly uncertain. Trade tensions among major economies – namely the United States, China and those in the European Union (EU) – can induce shifts in global production and supply chain networks, creating both opportunities and challenges for Vietnamese enterprises. Non-traditional security issues, including the COVID-19 pandemic and threats to cyber security, are set to become more frequent. The COVID-19 pandemic necessitates a serious review of

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various dimensions of the development paradigm, including sustainable development, the role of the state and the emergence of the digital economy, all of which entail potentially increasing rivalry between superpowers. Even the initiation of new free trade agreements (FTAs) may weigh further upon trade diversion driven by geopolitical competition. Still, new opportunities are emerging. The Fourth Industrial Revolution (IR 4.0) has brought on various achievements across many sectors. Some studies (e.g. Pacific Economic Cooperation Council [PECC] 2018) show that developing and low-income countries will not necessarily lag behind in accessing and taking advantage of IR 4.0.

This chapter aims to discuss, through three selected case studies, Viet Nam's approach to economic integration and national security, and how ASEAN may complement and accommodate Viet Nam's efforts to strengthen and uphold both. The remainder of the chapter is structured as follows. Section 2 elaborates on some considerations of Viet Nam's approach to economic integration and national security. Section 3 discusses three case studies that illustrate Viet Nam's approach. Section 4 concludes the chapter with some remarks.

Viet Nam's approach to economic integration and national security: Some considerations

Economic integration efforts

Since Doi Moi, Viet Nam has embarked on an open door policy and parallel economic reforms. The 6th National Congress of the Communist Party of Viet Nam emphasised the importance of broadening opportunities and building capacity for all groups so as to promote economic development and improve living standards, among other objectives. Accordingly, Viet Nam made early and progressive efforts towards trade and investment liberalisation. The 1987 Foreign Investment Law in December laid the first legal foundations for foreign direct investment (FDI) activities in Viet Nam. Viet Nam then established relations with multilateral financial institutions such as the International Monetary Fund and World Bank, and re-established ties with the Asian Development Bank in 1993. The US lifted its embargo on Viet Nam in 1994 and the two countries normalised relations in 1995. That year, Viet Nam also signed the EU Framework Cooperation Agreement and acquired full membership of ASEAN. Viet Nam lodged its application for the World Trade Organization (WTO) membership in 1995 and applied for membership of the Asia-Pacific Economic Cooperation (APEC) forum in 1996.

During 1997–99, Viet Nam's trade reforms slowed due to the Asian financial crisis. The country imposed temporary import bans and restrictions on some consumer goods in 1997 to combat its sizeable current account deficit. In 1999, facing enormous risk of deflation, the Vietnamese Government implemented stimulus measures rather than accelerating structural reforms, to induce investment and growth.

From 2000 to 2020, Viet Nam implemented various policies related to investment, trade liberalisation and integration into the world economy. Viet Nam signed a bilateral trade agreement with the US in 2000, which took effect in 2001. Through the ASEAN community-

building process, Viet Nam was also a signatory to various FTAs of ASEAN and its partners (China, Korea, Japan, Australia, New Zealand and India). In January 2007, Viet Nam became the one-hundred and fiftieth member of the WTO. Since then, Viet Nam has deepened its international economic integration by internalising the rules and standards of the global economy and market. Viet Nam has gradually opened its economy and market through establishing bilateral relations in trade, investment and finance, and by participating in multilateral mechanisms in those areas. By the end of 2020, Viet Nam had become a member of all major international organisations, joining negotiations of various FTAs including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union – Vietnam Free Trade Agreement (EVFTA) and the Regional Comprehensive Economic Partnership Agreement (RCEP). Most notably, the CPTPP and RCEP overcame major hurdles at APEC in 2017 and ASEAN in 2020, both of which were hosted in Viet Nam.

ASEAN integration remains highly important to Viet Nam for several reasons (Vo 2012). First, ASEAN was Viet Nam's first regional playing field for trade and investment liberalisation, which matches the relatively low level of development in Viet Nam. The gradualism of ASEAN integration also permits capacity building and involves less regulatory and economic costs. Second, ASEAN integration has become more comprehensive, covering not only trade and investment but also socio-economic cooperation, foreign affairs, security cooperation and non-traditional security issues. Third, ASEAN member states have been working together to reduce the intra-regional development gap, particularly between the CLMV (Cambodia, Laos, Myanmar, Vietnam) countries and other ASEAN member countries. Finally, ASEAN has been emerging in popularity in international and regional initiatives, such as the East Asia Summit and Asia–Europe Meeting. Thus, being a member of ASEAN has allowed Viet Nam to contribute to the various regional activities and dialogues that have helped promote further economic integration and sustainable development in South-East Asia.

[insert Figure 8.1]

Figure 8.1: Viet Nam's free trade agreements.

ASEAN (Association of South-East Asian Nations), CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), EFTA (European Free Trade Area), EU (European Union), Lao PDR (Lao People's Democratic Republic), RCEP (Regional Comprehensive Economic Partnership). Source: Tran et al. (2021).

Acknowledging that importance, Viet Nam is keen on respecting ASEAN centrality in regional issues, including those related to non-traditional security. In the pioneering Hanoi Plan of Action in 1998, Viet Nam and other ASEAN member countries recognised the need to facilitate regional economic recovery and regional economic integration after the Asian financial crisis. While engaging in strategic partnerships with other ASEAN members and other sub-ASEAN processes (such as Cambodia, Laos and Viet Nam triangular development, or Mekong Sub-Region development), Viet Nam duly supports the role of ASEAN in dialogues and in identifying measures to address common regional issues. As ASEAN chair in 2010, Viet Nam undertook various initiatives to strengthen relations with ASEAN's dialogue partners, the most notable of which was the engagement of the US and the Russian Federation at the East Asia Summit. Viet Nam also supported other ASEAN member countries and dialogue partners in coordinating the implementation of the Master Plan for ASEAN Connectivity, explicitly acknowledging the ownership of ASEAN in regional

connectivity initiatives.² As a non-permanent member of the UNSC during 2020–21, Viet Nam made efforts in 2020 to promote cooperation between the UN and ASEAN.

The second aspect of Viet Nam's economic integration is its WTO-plus approach. Despite depth and comprehensive coverage,³ WTO membership further consolidates Viet Nam's approach to multilateralism. The FTAs Viet Nam signed after 2007 reflect this approach, which aims to deepen trade and investment ties with key partners. Despite the events of 2020, Viet Nam remains committed to multilateralism. Viet Nam has cooperated with like-minded countries in efforts to revive international economic integration. Specifically, Viet Nam worked with other CPTPP partners to revive the agreement in its host year of APEC in 2017, after the US withdrew from the Trans-Pacific Partnership in January that year. Likewise, Viet Nam worked with ASEAN, China, Korea, Japan, Australia and New Zealand to conclude and sign RCEP in 2020 at the ASEAN Summit, after India withdrew from the agreement in 2019.

Viet Nam's approach to security issues

One of Viet Nam's top national interests is maintaining a peaceful and stable environment for socio-economic development, while protecting national sovereignty. Viet Nam has implemented a defence policy that is peaceful and focused on self-defence, as reflected in its unwillingness to use, or threaten the use of, force in international relations, resolving all disagreements and disputes with other countries by peaceful means. Viet Nam advocates addressing flashpoints and potential conflicts in the region through dialogue and peaceful negotiation.

Viet Nam advocates gradual modernisation of the military, increasing its defence capacity only to maintain military strength at the level necessary for self-defence. Viet Nam opposes arms race activities. Having fought in various wars for its independence and freedom, Viet Nam expresses its full respect for the independence, sovereignty, unity, territorial integrity and interests of other countries on the basis on international law and the principles of the United Nations Charter. In return, Viet Nam requires other states to recognise its own independence, sovereignty, unity, territorial integrity and national interests.

Viet Nam also advocates for the settlement of territorial disputes on land or sea by peaceful means on the basis of international law. Regarding the South China Sea territorial dispute, Viet Nam claims to have sufficient historical evidence and legal basis to prove undisputed sovereignty over the waters and islands, including Hoang Sa and Truong Sa archipelagos. Viet Nam remains willing to resolve disputes through peaceful negotiation based on the provisions of the 1982 United Nations Convention on the Law of the Sea (UNCLOS). While continuing to seek a long-term solution to this issue, Viet Nam advocates that all parties must exercise restraint and strictly implement the ASEAN–China Declaration on the Conduct of Parties in the South China Sea (DOC). Viet Nam advocates for a move towards building a Code of Conduct (CoC), and for achieving a fair and long-term solution to this complex problem so that the South China Sea remains a sea of peace, friendship and development.

² Noticeable examples are the public–private partnership-financed infrastructure projects in selected ASEAN countries, including Viet Nam.

³ See CIEM (2013).

Actively preventing and repelling threats of war is one of Viet Nam's key defence tasks in peacetime. Its optimal defence strategy is the protection of sovereignty, unification and territorial integrity and other national interests without waging war. Viet Nam advocates a defence strategy based on a range of political, economic, diplomatic, socio-cultural and military activities aimed at eliminating the causes of armed conflicts and war. In addition, Viet Nam's defence strategy uses integrated measures to maintain internal stability and prevent external interference threats.

Viet Nam opposes acts of terror in all forms and opposes activities that take advantage of counterterrorism to interfere in the internal affairs of other countries. Viet Nam works at home and abroad to prevent terrorist activities and activities that support terrorism in any form. Viet Nam believes anti-terrorism measures and international cooperation against terrorism must be carried out within the framework of the UN, in accordance with the basic principles of the UN Charter and international law. Viet Nam has signed eight out of 12 UN conventions on counterterrorism, and is considering joining the remaining conventions (Luong 2020).

Finally, Viet Nam is gradually adapting its approach to economic integration so as to make greater contributions to national security. Viet Nam expanded its outward approach from international economic integration to international integration. The 2013 Resolution 22-NQ/TW on International Integration of the Politburo emphasises that economic integration is the centre of international integration, and that integration in other areas contributes to enhancing economic integration. This is reiterated in the Politburo's 2016 Resolution 06-NQ/TW on effective economic integration upon implementation of a new-generation of FTAs. In other words, international cooperation in security also contributes to effective economic integration.

In fact, national security is incorporated in all of Viet Nam's strategies related to economic integration and international integration. For instance, the government's action plan towards effective and sustainable development after WTO accession (under Resolution 49/NQ-CP in 2014) identifies the need to combine economic development, national security and defence in marine, island and strategic locations. Viet Nam has started several initiatives that combine national security and international integration. The country has also joined several international activities related to security. For example, Viet Nam has deployed soldiers to international peacekeeping, most recently the second rotation of Military Level 2 Field Hospital to South Sudan in 2019. Viet Nam was also involved in the first US–ASEAN military exercise in 2019.

Viet Nam wants to become a reliable partner to all countries and territories. Thus, Viet Nam needs to approach regional geopolitical developments with careful consideration. Balancing relationships with major powers is now almost unavoidable, especially when such powers engage in more direct strategic competition. Viet Nam's three key principles – 'no military alliances', 'no aligning with one country against another' and 'no foreign military bases on Vietnamese soil' – was asserted in 2019. Since then, it has been extended into four key principles, with the addition of 'no using force or threatening to use force in international relations'. There are several grounds for these four principles. First, a history of complicated interactions with major powers has compelled Viet Nam to adopt a balanced approach to

international relations. Second, these principles are consistent with Viet Nam's objective to diversify and multilateralise cooperative relations. Third, Viet Nam perceives and supports the increasingly instrumental role of ASEAN in international issues (such as freedom of navigation and denuclearisation).

Finally, Viet Nam must now navigate both trade and investment relations and maritime and land border conflicts. In the context of increasing information availability due to the internet, it is getting harder to ignore the impacts of maritime and land border conflicts on public sentiment, and in turn on trade and investment relations with the associated countries. In 2014, for example, Viet Nam had to take measures to prevent and mitigate damages dealt by protestors to the production premises of foreign-invested enterprises.

In the face of increasingly complicated US–China rivalry that spans both economics and security, a naturally emerging question is whether Viet Nam can continue its combined approach to economic integration and national security. We argue that US–China rivalry is further consolidating Viet Nam's approach to economic integration and national security. More importantly, embracing the role of ASEAN in such an approach may help. This shall be the focus of the next section.

Selected cases

Case I: US–China trade war in 2018–19

During the months between June 2018 and 2019, trade tensions between the US and China became increasingly complicated and unpredictable. Both countries' behaviour had direct and indirect impacts on the world economy. The fall-out of the trade war between the US and China indirectly impacted Viet Nam, providing both opportunities and challenges for Vietnamese exporters.

Before analysing the evolution of Vietnam's response to the US–China trade dispute, it is worth briefly revisiting the timeline of events. During the presidential election in May 2016, Donald Trump emphasised the priority of addressing the US trade deficit with China. In April 2017, the United States Trade Representative started investigating the threat of imported steel and aluminium products to US national security. Its investigation into the regulations, policies and behaviour of the Chinese Government related to technology transfer, intellectual property and innovation was ongoing in August that year. In March 2018, the US imposed a 25 per cent tariff on all steel imports (except from Argentina, Australia, Brazil and South Korea) and 10 per cent tariff on all aluminium imports (except from Argentina and Australia). A week later, China imposed tariffs ranging from 15–25 per cent on 128 products from the US (worth about US\$3 billion).

US–China tensions escalated in June 2018, and bilateral negotiations did not result in an agreement. The trade war officially began in July 2018 as the US imposed an additional import tariff of 25 per cent on US\$34 billion of Chinese imports. China then imposed a retaliatory tariff of 25 per cent on US imports with the same estimated value. In August 2018, the US imposed an additional 25 per cent tariff on another US\$16 billion of imports from China. China retaliated by imposing 25 per cent tariffs on US\$16 billion worth of imports from

the US. China also lodged an official complaint to the WTO against the US for imposing import tariffs on its solar panels. In September 2018, the US imposed an additional tariff of 10 per cent on Chinese imports worth US\$200 billion (with a communicated plan to increase the rate to 25 per cent by 1 January 2019). China also imposed tariffs of 5–10 per cent on US\$60 billion of US imports. At the G20 Summit on 2 December 2018, the US and China agreed to suspend the escalation of tariffs for the trade negotiation for 90 days. After some meetings, by the end of February 2019, President Donald Trump extended this suspension and continued negotiation in an effort to reach a trade agreement.

The truce did not last. In May 2019, the US–China trade war escalated after negotiations failed to reach agreement. The US increased additional tariffs from 10 per cent to 25 per cent on Chinese imports worth US\$200 billion. Huawei, China’s major technology company, was banned from purchasing products from US companies. In response, China announced that it would increase additional tariffs of from 10–25 per cent on US imports worth US\$60 billion by specific groups (officially implemented from 1 June 2019). China’s Ministry of Commerce also published its ‘Unreliable Entity’ list. In early June 2019, China released a white paper on US trade talks. Just before the G20 Summit in June 2019 in Japan, China and the US made a truce and then restarted trade talks. Still, the talks progressed slowly until December 2019. Specifically, in August 2019, the US labelled China as a currency manipulator, while various threats to increase tariffs and products for tariff exemptions were made in parallel with bilateral trade talks during July–November 2019. It was only in December 2019, and just before a new round of tariff hikes, that the two countries agreed on the phase one trade deal.

Impacts of the US–China trade war on Viet Nam

The rise in tensions between the two powers had a range of impacts – positive and negative – on third parties in the region. By the end of 2019, Viet Nam had managed to take advantage of the opportunities and manage the challenges stemming from the trade war. Despite Viet Nam’s ex-ante assessment of the impact, economic and export growth rates were still relatively high, and implemented FDI was increasing steadily. These positive developments likely occurred due to the tit-for-tat tariff barriers imposed by the US and China increasing export opportunities for developing countries, including Viet Nam. Increasing uncertainty surrounding the US–China trade war may also make major multinational companies consider shifting part or all of their existing manufacturing facilities in China to other countries like Viet Nam. The exchange rate has been more or less stable, thereby contributing to mitigating adverse impacts from these external events on the domestic macroeconomic environment. Quantitative assessments (e.g. Malesky and Mosley 2021; Petri and Plummer 2020) have so far been restricted to the impact of tariff measures by the US and China. These assessments indicated benefits to Viet Nam in the form of increasing national income, labour upgrading and so on.

Still, Viet Nam has suffered impacts from the US–China trade war. Vietnamese exports to China only grew by 0.1 per cent in 2019, significantly below the figure of 16.6 per cent in 2018. This was partly due to Vietnam’s participation in China-focused value chains: foreign investors decreased production in China, leading to weaker demand for imports from Viet Nam. The depreciation of the yuan during the trade war made Vietnamese goods less competitive in the Chinese market. Additionally, by the end of 2019, both the US and China

had already carried out actions and implemented policies that negatively affected Viet Nam's exports to these countries. China increased the standards and regulations applied to imported goods, including those from Vietnam. For instance, China has applied additional technical barriers on Vietnamese agricultural imports. This may have been in retaliation to Viet Nam enforcing stricter control over products imported from China to prevent origin circumvention. As for the US, the most remarkable action was in May 2019, when it included Viet Nam on the monitoring list for currency manipulation.

Various assessments undertaken in 2018–19 (CIEM 2019; CIEM 2020; Nguyen and Dinh 2018) agreed on the possibility that Chinese goods would be exported to Viet Nam before re-exporting to the US to circumvent American duties on Chinese exports. By June 2020, some circumvention probes were launched by the US. Import and export data may also raise concerns about the impact of trade diversion. Although export growth to China decelerated significantly from 16.6 per cent in 2018 to 0.1 per cent in 2019, Viet Nam saw its export growth to the US increase from 14.3 per cent to 29.1 per cent in the same period. Conversely, Viet Nam's imports from China increased by more than 15.2 per cent in 2019, faster than in 2018 (11.7 per cent).

Investment data also indicate significant FDI inflows from China into Viet Nam. In 2019, registered capital of FDI projects from China and Hong Kong amounted to US\$2.4 billion and US\$2.8 billion, respectively. China and Hong Kong were respectively the third and second largest sources of new FDI to Viet Nam in 2019, only after South Korea. A potential concern is that investors just moved temporarily to Viet Nam to shelter from the impacts of the trade war. Still, the implementation of the ASEAN – Hong Kong FTA in June 2019 may simply facilitate 'hot money' for capital contribution or purchasing shares from Hong Kong into Viet Nam, in the absence of adequate measures and screening policies.

Viet Nam's initial response to the trade war was closely aligned with its approach to economic integration – that is, working with all partners to improve trade management and facilitate trade without discrimination. Viet Nam also provided regular justification and clarifications to the US on issues related to the bilateral trade deficit, product origins and the exchange rate. Viet Nam engaged in frequent discussions with the US to address the issues related to the justification of Viet Nam's share in value added in exports, and its intention to buy more agricultural products from the US. Viet Nam also enhanced its cooperation with the US in investigating the origin of US exports. Apart from the bilateral working group meeting in June 2018, there has been no similar meeting for Viet Nam to justify its market economy to the US, and Viet Nam does not seem to be in a rush for more meetings. Regarding currency manipulation, even from early 2018, Viet Nam explicitly stated that it had not sought and would not seek to devalue the national currency to support exports. Viet Nam has continued to justify this approach even after the US included Viet Nam in the monitoring list of currency manipulation in May 2019.

At the same time, Viet Nam continues to improve trade with China. Viet Nam made efforts to build capacity for domestic companies to comply with the stricter standards of the Chinese market. In doing so, the explicit statement was that China had applied stricter standards for several years already – even before the trade war. Viet Nam continued to work with China, ASEAN and other partners to conclude the negotiation of RCEP in 2019 (and signed the agreement in 2020 even after the withdrawal of India). Viet Nam was one of the first ASEAN

member states to ratify the ASEAN – Hong Kong FTA, enabling the agreement to enter into force in June 2019.

Viet Nam has also attempted to increase the quality of its trade and investment relations. For instance, the Ministry of Industry and Trade requested tighter control by relevant authorities over certificates of origin to minimise trade fraud. Viet Nam also improved screening and selection of FDI projects via higher economic, social and environmental standards, under Resolution 50-NQ/TW of the Politburo on attracting FDI in August 2019. However, the country made it clear that these regulatory changes would be applied on a horizontal basis for its own development objectives, rather than trying to discriminate against any partners. More broadly, Viet Nam continued to work with ASEAN to express support for the multilateral trading system,⁴ including in specific areas like e-commerce.

Case II: COVID-19 pandemic in 2020

The COVID-19 disease was first reported in late 2019 and quickly became a worldwide pandemic. By the end of 2020, the pandemic had spread to 218 countries and territories, resulting in over 82.4 million cases and about 1.8 million deaths.⁵ The number of new cases skyrocketed, particularly in late June 2020. Throughout 2020, the risk of a ‘second wave’ or ‘third wave’ of COVID-19 became increasingly evident in various countries.⁶

Given challenges facing the world economy before 2020,⁷ the COVID-19 pandemic has only further intensified global economic, political and social uncertainty and instability.

Unpredictability is reflected in the wideranging forecasts of global economic downturn and recession in 2020 by international organisations and policy research institutions. Debates on recovery scenarios for the global economy (following a V-, W-, L-, U-shaped, or ‘Swoosh’ model) have become more frequent, indicating the complexity and uncertainty in the COVID-19 context.

In response to the COVID-19 pandemic, many countries implemented unprecedented measures, including movement restrictions, border shutdowns, temporary suspension of business activities and non-essential services, social distancing and large-scale expansionary monetary-fiscal stimuli (see CIEM 2020; World Bank 2020). As the number of new COVID-19 infected cases gradually decreased in the second quarter of 2020, some countries relaxed social distancing measures in an effort to restart production and business activities.⁸

⁴ Demonstrated in leaders’ statements in October 2018 and June 2019.

⁵ According to [worldometers.info](https://www.worldometers.info/).

⁶ For instance, in China, the US and Japan. From 11 to 17 June 2020, more than 130 new cases of community infection were recorded in Beijing, forcing China to reimplement drastic measures such as isolation, blockades, school closures and flights suspensions. Between 18 and 30 June 2020, 254 new infection cases were reported in China. Tokyo also reported new community infection cases, the number soaring to more than 40 cases daily.

⁷ Such challenges include economic downturn, geopolitical tensions and conflicts, protectionism and extremism, risks for global trade and investment, and competition among major countries regarding IR 4.0 and the digital economy.

⁸ Most states in the US entered the first stage of relaxed COVID-19 measures during the second quarter of 2020. The stock exchange and Wall Street partially reopened on May 27. Japan relaxed social restrictions on 1 June 2020.

Viet Nam reported the first two cases of COVID-19 infection in late January 2020, and, by the end of 2020, had 1,465 cases (Ministry of Health 2020). The pattern of new cases was uneven across the year. Three major waves were recorded in the periods from early March to late April 2020, from late July to late August 2020 and in the second half of December 2020. Viet Nam declared the pandemic situation nationwide and implemented stringent movement restrictions and social distancing on 1 April 2020. These measures were relaxed during the second half of April 2020. During the latter waves, Viet Nam only implemented social distancing on a restricted basis (i.e. only in the areas with infected cases, rather than on a nationwide basis).

Economic policy responses of Viet Nam

Throughout 2020, Viet Nam focused on flexible and timely policy responses to the COVID-19 pandemic. Controlling the spread of the disease was the top priority, in order to consolidate social stability and instil public confidence. Viet Nam simultaneously paid close attention to businesses and communities facing economic hardship and undertook various measures to alleviate such difficulties. Specific measures included lowering interest rates,⁹ debt restructuring, preferential programs, deferral and rescheduling of tax payment and land rental, and reducing the prices of electricity, services, and oil and petrol for prioritised groups. Apart from continuing previous priorities to promote exports and FDI, Viet Nam made efforts to accelerate disbursement of public investment, and mobilise domestic investment and domestic consumption.¹⁰

The above policies allowed Viet Nam to effectively control and prevent the spread of disease and implement the appropriate responses to mitigate the consequences of COVID-19. Policy measures were based on actual situations, regularly updated scenarios and related analysis forecasts – this approach stemmed from Viet Nam’s experience with previous difficult times such as the US–China trade war. According to the COVID-19 Government Response Stringency Index,¹¹ Viet Nam’s responses were implemented much earlier than those of other countries around the world (see Figure 8.2). From late April 2020, travel restrictions gradually relaxed, allowing business and production operations as well as normal daily life to resume, provided the necessary precautions were in place.

[insert Figure 8.2]

⁹ From September 2019 to the end of May 2020, the State Bank of Vietnam cut key interest rates three times, with a total downward adjustment of 1.75 percentage points (annualised), reduced the ceiling of deposit rates by 0.8–1.25 percentage points (annualised), and lowered lending rates for some prioritised areas. Compared to other countries in the region, the reduction in Viet Nam was most significant (Thailand, Malaysia and Indonesia were down by 0.5 percentage points; the Philippines by 1.25 percentage points; China by 0.3 percentage points; and India by 0.75 percentage points).

¹⁰ In a conference with the business community in May 2020, the prime minister pointed out five ‘growth drivers’, including mobilising domestic investment, boosting exports, fostering public investment, promoting domestic consumption and attracting FDI.

¹¹ The COVID-19 Oxford Government Response Stringency Index is a composite measure that traces governments’ responses to the COVID-19 pandemic. The index collects available information on 17 indicators of government responses, including 08 policy indicators of containment and closure policy such as school closures, movement restrictions and blockade; 04 indicators of economic policies such as income support to citizens or provision of foreign aid; 05 indicators of health system policies such as testing regime, emergency investments into healthcare services and tracing contacts. The index takes the value from 0 to 100, of which 0 is the least strict and 100 is the strictest.

Figure 8.2: COVID-19 Government Response Stringency Index.

Source: Hale et al. (2020, cited in CIEM 2020). Note: the closer to 100, the redder the colour is. Graph displays data collected until 15 June 2020.

Viet Nam's fight against the pandemic instilled a high level of confidence across communities and in businesses, particularly in light of its 'dual target' of containing the pandemic and boosting economic recovery. Regular information on the COVID-19 pandemic and the various policy measures undertaken by government was conveyed in a transparent and diversified manner, and was accompanied by wide policy consultation. Viet Nam arguably turned the tide of public distrust, which had been somewhat eroded as a consequence of the Formosa disaster in 2016, enabling it to gain strong public support thanks to its 'ability to manage problems clearly and smoothly' (Clark 2020).

More importantly, Viet Nam has retained macroeconomic policy space to respond to adverse developments (if any) in the future. According to the World Bank, Viet Nam's balance of payments, budget deficit and the financial sector – major transmission channels of external shocks to the domestic economy – remained relatively positive. As a note, prudent fiscal management measures during the period 2016–19 improved policy space for the government in carrying out fiscal-monetary support in 2020 (CIEM 2020).

Opportunities and challenges for Viet Nam in the context of COVID-19

Despite the consequences of COVID-19, the pandemic has arguably brought about important opportunities, even turning points, for the development of many countries, including Viet Nam. One remarkable impact is that the COVID-19 pandemic has accelerated a partial shift in global supply chains, accompanied by the inflows of FDI. However, the CIEM (2020) contends that the shift of supply chains away from China (China Plus One) began prior to the COVID-19 pandemic due to economic downturn and increasing labour costs in China, the US–China trade war, and competition from ASEAN and India. However, in the context of the pandemic, the shift was reinforced not only by enterprises' own benefit calculations, but also by various countries' national policies that were aimed at reducing dependence on the Chinese market and lessening the adverse impacts of supply chain disruptions in the future.¹²

Viet Nam had appealed to foreign investors long before the COVID-19 pandemic struck. This was thanks to drastic reforms of its domestic business environment (in particular, from 2014) and Viet Nam's important FTAs (e.g. CPTPP, RCEP and EVFTA). The pandemic has not weakened or disrupted these factors. Instead, Viet Nam's relatively effective response to COVID-19 has strengthened the confidence of its foreign investors. For instance, the implementation of EVFTA and expedited ratification of the European Union – Vietnam Investment Protection Agreement by EU members may benefit EU investors who are considering moving investment out of China.

¹² The US, EU and Japan initiated plans to encourage and provide financial support for enterprises to shift their production operations out of China. About 30–40 enterprises from the US and EU expressed their intention to move a portion of their business activities out of China. A survey by Nikkei Asian Review (end of May 2020) revealed that more than 70 per cent of respondents wanted to diversify supply chains to reduce dependence on China.

The COVID-19 pandemic did not shift Viet Nam's focus away from the digital economy. Instead, the disruption of economic operations based on traditional platforms forced Vietnamese agencies and enterprises to be more active in utilising digital platforms for management, production and business operations. This includes implementing online delivery systems, introducing e-payments and online-learning. Both the Vietnamese Government and private enterprises have embraced these new economic models and methods. Applications of the digital economy and e-government development have accelerated since 2018–19.¹³ The COVID-19 pandemic has also built greater consensus within Viet Nam on the adoption of 5G technology, which is now seen as inevitable. Discussions of 5G adoption no longer refer to the risk of a 'digital divide', which was more commonplace during the time of US–China trade tensions in 2019. Viet Nam has sought measures to improve access to 5G technology, including through the development of hardware by domestic firms.

COVID-19 has undermined strategic trust among the world's major economies. Confidence levels during the pandemic are influenced by a variety of factors: how well a country has managed to control the spread of infections, official statistics related to COVID-19, whether a country supports multilateral mechanisms in tackling COVID-19 and so on. As the 2020 ASEAN chair, Viet Nam sought to promote regional cooperation and bilateral and multilateral relations in fighting COVID-19 (see Box 8.1). Viet Nam's 'COVID diplomacy' was strengthened in both bilateral and multilateral frameworks with key partners, particularly through the Special ASEAN and ASEAN+3 summits on COVID-19, the Special ASEAN Foreign Ministers' Meeting on COVID-19, and the Special ASEAN Economic Ministers Virtual Conference Meeting on COVID-19, as well as through donating medical supplies to countries around the region.

Box 8.1: Some results of the Special ASEAN and ASEAN+3 summits on COVID-19 in April 2020

On April 14 2020, as ASEAN Chair, Viet Nam held virtual Special ASEAN and ASEAN+3 Summits on COVID-19. The Joint Declaration of the Special ASEAN Summit emphasized ASEAN's solidarity in responding to COVID-19 in the spirit of a 'Cohesive and Responsive ASEAN'. ASEAN Leaders agreed: (i) to further strengthen public health cooperation to contain the pandemic and protect people; (ii) to promote the exchange of information and experience sharing, technical assistance and scientific and technological cooperation in containing and preventing the transmission of the disease; (iii) to discuss and develop a post-pandemic recovery plan, including liberalizing markets for trade and investment, recovery and development of regional supply chains, and strengthening food security; and (iv) to underscore the importance of a multi-stakeholder, multi-sectoral and comprehensive approach by ASEAN to effectively respond to COVID-19 and future health emergencies. The Summit led to numerous initiatives, including to encourage the development of regional reserves of medical supplies; to consider formulating a standard ASEAN response to public health emergencies; to develop ASEAN guidelines on the provision of emergency assistance by ASEAN missions in developing countries to nationals of ASEAN member countries in crisis situations; and to propose the establishment of the COVID-19 ASEAN response fund.

¹³ According to the Ministry of Information and Communication (2020), before COVID-19, about 40 ministries and provinces had connected to national data integration and sharing platforms, which increased to 70 per cent more recently. About 50 per cent of ministries, line ministries and provinces developed data integration and sharing platforms at the ministerial and provincial level (27 per cent in 2019).

The Special ASEAN+3 Summit acknowledged the value of regional cooperation mechanisms in responding to disease emergencies. New mechanisms include national risk assessments, periodic reports on the Risk Assessment on the International Dissemination of COVID-19 in the ASEAN region, the virtual ASEAN+3 Senior Officials Meeting on Health Development, and the implementation of the International Health Regulations. Pre-existing regional cooperation mechanisms include the ASEAN Emergency Operations Center Network for public health emergencies, the ASEAN BioDiaspora Virtual Centre, and the ASEAN+3 Field Epidemiology Training Network.

The Special Summit Joint Statement reaffirms that ASEAN+3 is willing to share experience, policy responses, treatment methods, epidemiological research and clinical treatments; to provide medical supplies; and to promote cooperation on the production of COVID-19 vaccines. ASEAN+3 leaders also agreed on timely support for ASEAN+3 nationals (vulnerable groups in particular) in accessing healthcare services and returning to their home countries. In addition, ASEAN+3 leaders established an ASEAN+3 task force on responding to epidemics; requested China, the Republic of Korea and Japan to assist in building financial, technological and professional capacity of public health systems; proposed the establishment of an ASEAN+3 reserve of essential medical supplies; made a proposal on enhancing the role of the ASEAN+3 Macroeconomic Research Office (AMRO) in planning economic recovery and development post-COVID-19; utilised existing mechanisms that ensure economic and financial stability and food security such as the Chiang Mai Initiative Multilateralization (CMIM) and ASEAN+3 Emergency Rice Reserve.

Source: CIEM (2020).

Still, the COVID-19 pandemic poses challenges and obstacles for Viet Nam. First, promoting exports of high-demand products like medical supplies is no easy task, because under-developed domestic industries may lead to potential input shortages. Second, without sufficient monitoring, the shift of global supply chains may force Viet Nam to become the destination for the production of low-tech and environmentally unfriendly goods. Finally, the COVID-19 pandemic reinforces both traditional and non-traditional challenges to Viet Nam's security. For instance, cybercrime and cyber attacks have increased drastically amid the unfolding pandemic and rising demand for online platforms.¹⁴

Strategic competition amongst major countries intensified after COVID-19, posing new challenges for Viet Nam's foreign economic relations. Confrontation between the US and China and strategic gatherings around the world have become increasingly complicated and unpredictable. This can pressure countries like Viet Nam to 'choose a side' in certain key areas such as technology, medical supplies and supply chains. Therefore, rushed decision-making in this uncertain environment will only involve Viet Nam in geopolitical competition with major countries, rather than improve its resilience (CIEM 2020).

¹⁴ In May 2020, the Viet Nam Cyber Security Center reported 439 attacks into the cyber networks of Viet Nam (an increase of 16.3 per cent compared to April 2020). More instances of fraud and cheating in online applications were detected using sophisticated methods (e.g. pretending to be staff and officials of legal enforcement authorities or governmental bodies; sending messages of winning prizes; applying for jobs or working abroad; 'arranging' projects; applying for loans; calling for investment, aid and multi-level marketing; virtual money; establishing fake websites of banks to collect users' data; seeking support for pandemic containment; etc.), leading to great loss of assets and reputation for victims.

Facing a mixture of both new and old opportunities and challenges, Viet Nam's response to the COVID-19 pandemic in 2020 had some important implications. First, the conduct of policies should be associated with regular updates and assessments of growth scenarios.

Such scenarios should not be narrowly defined with respect to the evolution of the COVID-19 pandemic alone but should instead cover aspects of strategic actions by major economies as trade investment partners of Viet Nam. Second, the government of Viet Nam should retain policy space to respond to post-COVID-19 scenarios. Accordingly, macroeconomic stability remains fundamental to strengthen the confidence of enterprises and consumers as well as consensus on reforms and restructuring initiatives. Third, business environment reform should be promoted on the basis of the remarkable achievements during the period 2014–19. Thus, Viet Nam should renew reforms to attract foreign investors, and, at the same time, improve the growth potential of the economy (which in turn will increase appeal to foreign investors). These policies were identified before the COVID-19 pandemic, and should be accelerated to adapt to the new context. In Viet Nam's view, the consequences of the COVID-19 pandemic have spread beyond the borders of individual countries. Thus, it is necessary to have a comprehensive, closely coordinated approach to recovery at regional and international levels. Effective international cooperation remains a pillar for development and economic restructuring.

Concerns about the geopolitical implications of RCEP in the COVID-19 context are legitimate but must be addressed on the principles of supporting ASEAN centrality and adhering to Viet Nam's long-term approach to economic integration. In this regard, Viet Nam and ASEAN may work with external partners to set a good example of more friendly economic policies on some products – including medical supplies and rice – that may have a direct contribution to international cooperation after COVID-19.

Case III: South China Sea

The South China Sea (known as the East Sea in Viet Nam) is a geopolitically important location. Sixty per cent of seaborne trade passes through Asia, and the South China Sea accounts for one-third of global shipping (China Power Team 2017). This maritime area is also rich in resources, with an abundance of islands, fisheries, oil and gas deposits. In 2013, the US Energy Information Administration estimated that the South China Sea had an oil reserve of 11 billion barrels and a natural gas reserve of 190 trillion cubic feet.

[insert Figure 8.3]

Figure 8.3: Exports through the South China Sea.
Source: CSIS (2021).

According to the EU–Asia Centre (2013), the South China Sea is arguably one the most disputed areas in South-East Asia. Viet Nam, China, Taiwan, the Philippines, Indonesia, Malaysia and Brunei Darussalam have made overlapping territorial claims to the South China Sea waters, and to some islands and rocky outcrops in them (such as the Paracels and the Spratly Islands). Meanwhile, disputes over the South China Sea involve a body of international laws that are both contested and difficult to interpret (Poling 2013). Incidents of small naval confrontations between official vessels and fishing boats of various countries in

the South China Sea are not rare. While claims to natural resources like oil, natural gas, minerals and fish exacerbate these disputes (EU–Asia Centre 2013), protecting sovereignty over the territory and waters is also the highest priority for concerned countries, including Viet Nam.

Viet Nam has consistently emphasised that peace, stability, cooperation and development in the South China Sea are common desires and goals of all countries in the region and the broader international community. Viet Nam underscores the importance of respect for international law, respect for legal order at sea and full and responsible enforcement of UNCLOS 1982. In line with this, Viet Nam consistently welcomes efforts from all countries to maintain peace, stability and cooperation in the South China Sea, and encourages countries to settle disputes via dialogue and other peaceful measures in accordance with international laws.

Viet Nam has consistently claimed to have sufficient historical evidence and legal basis to prove undisputed sovereignty over the waters and islands in the South China Sea, including the Hoang Sa and Truong Sa archipelagos. The Law of the Sea of Viet Nam –passed during the third session of the 13th National Assembly on 21 June 2012 and effective since 1 January 2013 – declared that Viet Nam has sovereignty and jurisdiction over the Paracel and Spratly Islands (National Assembly 2012). In addition, Viet Nam has devised legal and propaganda strategies about its rights over its territories in the South China Sea.

Vietnamese authorities frequently disseminate information about the historical evidence and legal basis for Viet Nam’s sovereignty. Viet Nam actively engages in various workshops to present the historical evidence and legal basis for such claims.

Viet Nam remains willing to use peaceful negotiation to resolve disputes based on the provisions of UNCLOS 1982. The country has engaged in both bilateral and multilateral negotiations to resolve the South China Sea dispute. Bilateral negotiations involve Viet Nam and another party, while multilateral negotiations are reserved for issues concerning Viet Nam and more than one other party. In official meetings between Viet Nam and China, the issues and differences concerning the South China Sea were raised and discussed frankly. Viet Nam supported putting the issue of the South China Sea on the agenda of an ASEAN-centred multilateral dialogue framework (Shoji 2012).

Viet Nam attaches great importance to ASEAN’s South China Sea policy. ASEAN and China signed the Declaration on the Conduct of Parties in the South China Seas (DOC) in November 2002 and adopted guidelines to implement it on 21 July 2011. The Joint Statement of the Foreign Ministers of ASEAN Member States and China on the Full and Effective Implementation of DOC was endorsed on 25 July 2016. At their meeting on 6 August 2017 in Manila, the foreign ministers of ASEAN member states and China adopted the framework of the CoC. At the twentieth ASEAN–China Summit in November 2017, ASEAN member states and China officially announced the launch of negotiation of the CoC, which was proposed by China to be complete by 2021 (ASEAN 2020). Throughout this process, while continuing to seek a long-term solution to the South China Sea issue, Viet Nam has advocated that all parties must exercise restraint and strictly implement the DOC, towards building a CoC.

Finally, Viet Nam actively participates in other mechanisms of ASEAN on security issues related to the South China Sea. ASEAN and China have been cooperating under the

ASEAN Defence Ministers Meeting Plus (ADMM-Plus) since it was established in 2010. Similarly, Viet Nam also participated in the ASEAN Regional Forum, which reflects its ASEAN-derived approach to cooperative security, seeking to:

Create a regional order based on: (i) transparency in strategic intent and threat perception; (ii) mutual trust and confidence with regard to the member states' military capabilities and deployment; and (iii) habit of cooperation which will facilitate the resolution of existing and future conflicts. (Cruz de Castro 2017, 35).

While the ability to realise such a goal is open to question, the adoption of a gradual approach (i.e. the 'ASEAN Way') has been relevant to Viet Nam.

Conclusions

Viet Nam's strategy for pursuing an economic integration strategy in conjunction with other strategic goals since its accession to the WTO in 2007 yields several insights. First, notwithstanding efforts to diversify export markets and export products, Viet Nam continues to attach importance to trade with major partners. Times of global uncertainty and volatility have not reduced Viet Nam's attention to these markets. Vietnam's increasing export competitiveness is reflected in growing trade and investment flows. Its approach to trade policy has evolved from unilateral and comprehensive liberalisation in the pre-WTO period to a more selective, partner-based and WTO-plus liberalisation arrangement, which has helped to improve and leverage export competitiveness. FDI inflows continue to have positive impacts on Viet Nam's export growth, even in the context of the COVID-19 pandemic.

ASEAN played an important role, both as an entity undertaking ongoing community-building initiatives, and as a playground in which Viet Nam could learn and adopt measures to enhance its economic integration. Given recent geopolitical developments, Viet Nam views the need to balance relationships with major powers as unavoidable. Its approach to economic integration undergirds how Viet Nam has adapted its approach to security, and this has contributed to ASEAN's mechanisms towards peace, stability and development of the region. This kind of approach is consistent with the association's gradualism: the 'ASEAN Way'. While outcomes may be path-dependent and the set of choices may vary at times, it is in Viet Nam's long-term strategic interest to retain its commitment to economic integration and to address security policy within this context, notably by respecting ASEAN's centrality in regional issues.

Drastic contextual changes like geopolitical competition and non-traditional security issues are driving Viet Nam's integration into the global and regional economy. While economic integration remains the focus, international cooperation in other areas has been promoted to support economic integration. Viet Nam has also signed various agreements and strategic partnerships, most with key trade and/or investment partners. In return, expanded investment and trade relations contribute to improving Viet Nam's economic and regulatory capacity, which in turn improves the country's contributions to international and regional institution-building processes. The three case studies in this chapter clearly portray such interactions between Viet Nam's economic integration and security policies.

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