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RCEP as a Trade Shock Absorber under Global Fragmentation

Implications for FDI Resilience and Industrial Upgrading in Vietnam

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Economic Problem

Vietnam's Exposure to External Trade Shocks

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External shocks

US tariffs
Higher trade costs and market uncertainty.

Trade fragmentation
Changing trade patterns and supply chains.

Logistics disruptions
Higher transport costs and delays.

Vietnam's structural vulnerability

Export-dependent growth
Trade-to-GDP ratio 184% (OECD, 2025).

Reliance on imported components
Key sectors: electronics and electrical equipment.

FDI-led electronics and assembly
Exports 73% and imports 56% by foreign-owned firms (OECD, 2025).

Economic consequences

Reduced market access
Loss of competitiveness in key markets.

Higher input and transport costs
Increased production costs.

Weaker output, trade and welfare
Pressure on growth and household welfare.

Lower expected returns to investment
Greater policy uncertainty.

RCEP
A POTENTIAL SHOCK ABSORBER FOR VIETNAM

Can regional integration cushion these shocks?

- Trade channel
- Investment channel
- Economic resilience

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Why Vietnam?

The Research Gap and Context

What existing studies show

CGE studies
Measure the effects of trade on output, trade and welfare.

PTAs increase net FDI
But effects depend on market size and proximity.

Deeper disciplines
Support greenfield investment and value-chain integration.

Key references: Medvedev (2012); Laget et al. (2021); Larch & Yotov (2025).

Why Vietnam?

184% — **Trade/GDP (2022)** — OECD (2025)

73% — Exports by foreign-owned firms — OECD (2025)

56% — Imports by foreign-owned firms — OECD (2025)

93% — Electronics output by foreign firms — OECD (2026)

From the Research Gap to the Research Questions

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Trade fragmentation
under tariff and logistics shocks

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Higher-value FDI and upgrading
Strengthening resilience and long-term growth



NOT AUTOMATIC: | Agreement depth | Market potential | Firm heterogeneity | Domestic institutions

Key channels for upgrading

- **Technology content**
- **Domestic linkages**
- **Supplier development**
- **Local value added**

Three research questions

1. **Can RCEP offset US tariffs and trade fragmentation?**
2. How do firms and the economy adjust, and can trade performance support FDI?
3. Which policies can shift investment toward higher value and stronger local suppliers?

Methodology: Testing RCEP as a Shock Absorber

From the Research Gap to Scenario-based CGE Analysis

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Research gap
Vietnam's exposure to external trade shocks

Research questions
Can RCEP offset tariff and logistics shocks?

Methodology
Scenario-based CGE analysis using GTAP

1 Data inputs and preparation

GTAP 12 database
- 163 economies, 65 sectors
- Aggregate to 9 regions × 28 sectors

2023 applied tariffs
- WITS bilateral tariff data
- ALTERTAX recalibration

RCEP commitments
- Official schedules (2023–2042)
- Trade weights and concordance
- 2026 sector-specific tariff reductions

2 Harmonised GTAP benchmark

Aggregated & Updated GTAP benchmark

9 regions × 28 sectors

Current protection structure

Internally consistent CGE database

3 Exogenous policy shocks (scenarios)

S1 DEGLOBALIZATION
US tariff measures applied to imports from RCEP economies.

S2 TRADE FRAGMENTATION
S1 tariffs + 15% increase in international transport costs.

S3 RCEP RESILIENCE
S2 shocks + 2026 bilateral tariff reductions and lower NTM-related costs through TFP efficiency gains.

4 CGE simulation and resilience assessment

GTAP CGE model
Comparative-static analysis

- Real GDP
- Welfare
- Exports & imports
- Sectoral output and trade
- Factor returns
- Trade–investment conditions

Key research Question

Does RCEP offset the losses generated by tariff and logistics shocks?

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RCEP reverses Vietnam's macroeconomic losses

S1 tariffs deepen under logistics disruption; S3 shifts output, trade and welfare into positive territory

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Percent change (%) **Key macroeconomic and trade indicators**



Welfare (US$ million) **Equivalent variation for Vietnam**



S3 outcome for Vietnam

Real GDP	+0.73%
Welfare (EV)	+US$4.56 bn
Exports	+3.06%
Imports	+2.69%

RCEP more than offsets Vietnam's S2 losses in aggregate output, trade and welfare.

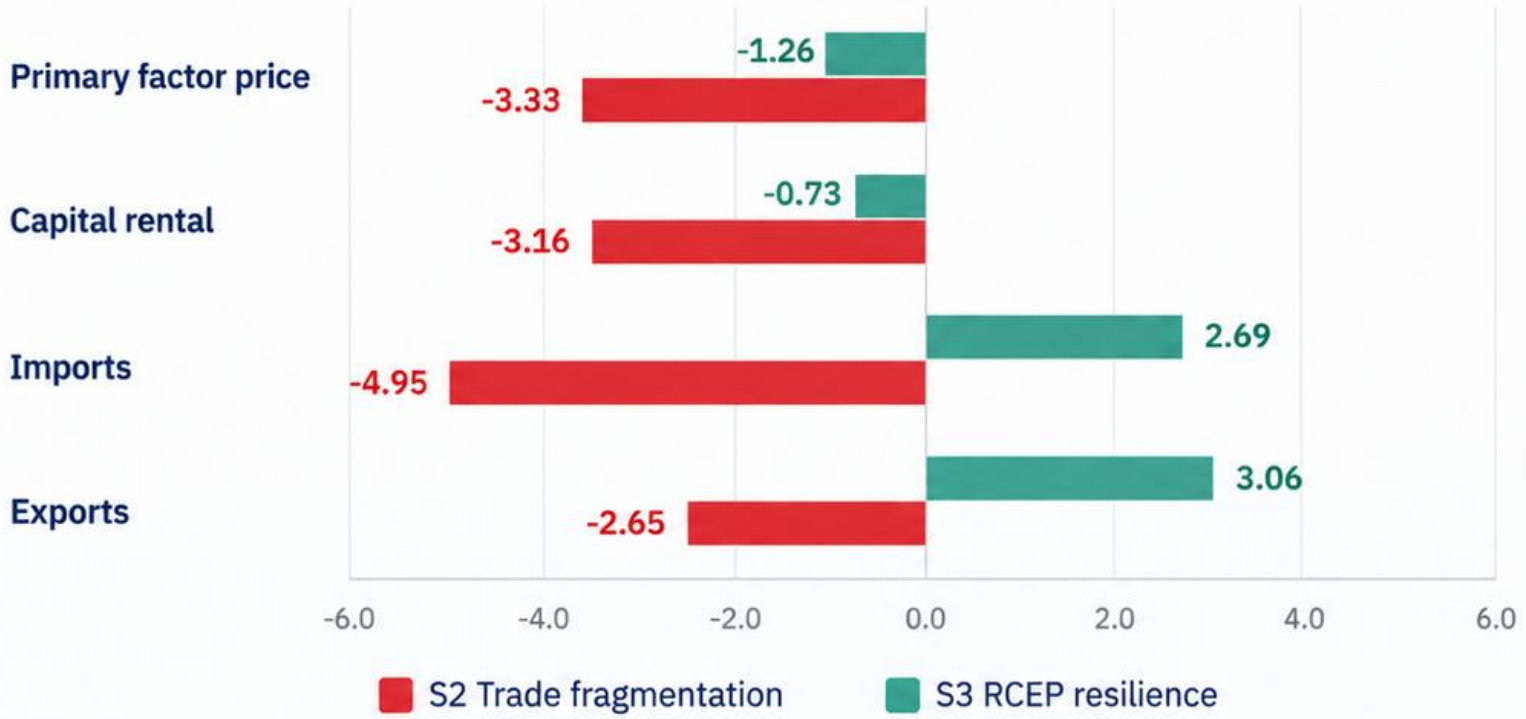
Source: Author calculations, Table 4.

RCEP restores trade and factor-market conditions

The largest recovery occurs in imported inputs and export capacity; factor returns remain below baseline but improve sharply

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Percentage change from baseline (%)



Key results: S3 compared to S2

Imports	+2.69%
Exports	+3.06%
Primary factor price	+2.07 p.p. (-3.33% → -1.26%)
Capital rental	+2.43 p.p. (-3.16% → -0.73%)

Trade creation

Imports and exports increase under S3 as lower tariffs improve access to imported inputs and expand export capacity.

Interpretation

The negative trade-balance ratio reflects productive import expansion, not weaker performance.

Source: Author calculations, Tables 6–8.

Sectoral resilience: Vietnam reorients exports toward RCEP markets

S3 retains US tariffs and transport-cost disruption and adds RCEP trade reforms

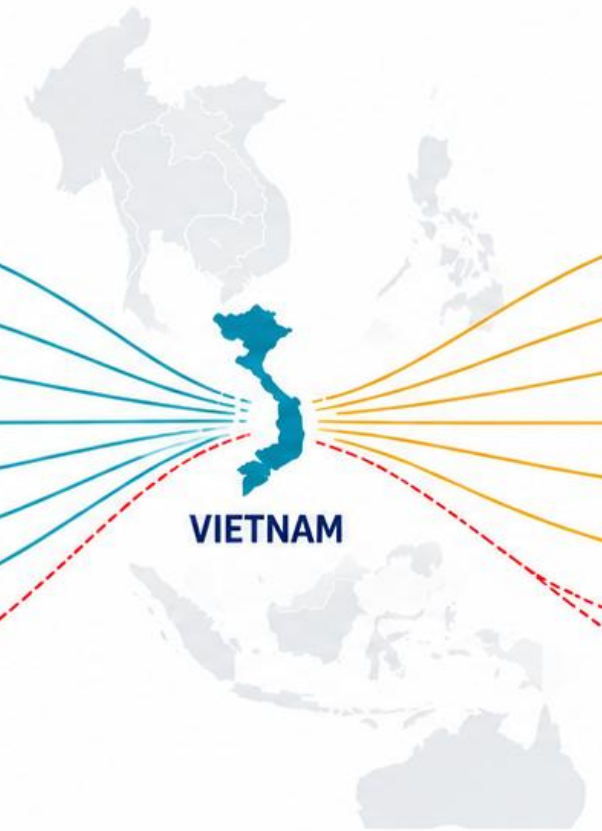
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Optical products

Higher demand across RCEP markets

(S3 vs S2, % change in exports)

South Korea	+31%
China	+25%
New Zealand	+18%
Australia	+15%
Rest of ASEAN	+13%
Japan	+12%
Rest of World	+19%
United States	–40%



Electrical equipment

Expanding opportunities in RCEP markets

(S3 vs S2, % change in exports)

South Korea	+39%
Australia	+36%
China	+30%
New Zealand	+22%
Rest of ASEAN	+6%
Rest of World	+17%
Japan	–0.4%
United States	–44%

RCEP shifts Vietnam's exports towards regional markets and reduces reliance on the United States, supporting sectoral resilience.

Source: Author calculations, Annex Table A1.

From Trade Resilience to Improved Investment Conditions

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Stage 1
Input: Trade Metrics

- **Capital rental rate:** Rebounds from -5.16% to -0.73%
- **Primary factor price:** Rebounds from -5.03% to -1.26%

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Stage 2
Transmission: Factor Market Adjustment

Smaller declines in resource returns indicate a less adverse profitability environment.

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Stage 3
Output: Investment Conditions

Efficiency-seeking:
Lowers coordination costs across networks.

Market-seeking:
Expands potential sales base in RCEP.

Export-oriented:
Reduces regional supply-chain risk.

Core Insight: The CGE model does not mandate cross-border capital flows.
It shows that **RCEP** creates the risk-adjusted commercial environment required for **multinational investment.**

Market access does not automatically guarantee domestic market value

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RCEP guarantees market access,
but it cannot guarantee domestic market value.
Trade resilience is a shield;
FDI upgrading must be the engine.

Gross export sophistication coexists with shallow domestic production linkages.

Vietnam's vulnerability lies not in a lack of FDI volume, but in the structural quality of that investment.

Strong Exports Mask Structural Vulnerabilities

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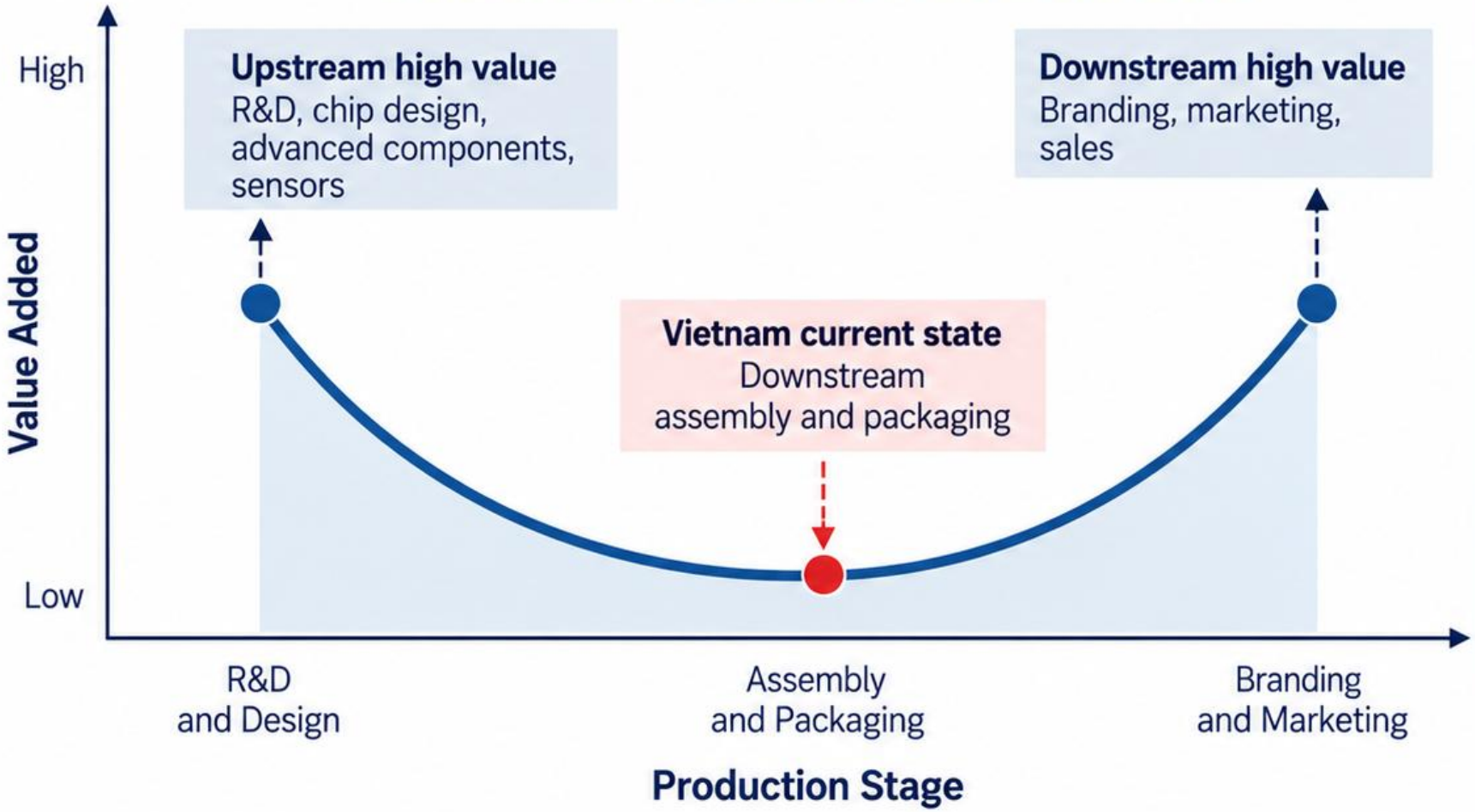
	The Headline Picture (Statistical Illusion)	The Underlying Reality (Structural Vulnerability)
Output	• 93% of electronics output is foreign-owned. • High-tech products account for 44% of manufacturing exports (vs. ~22% OECD average).	• Domestic localization rate is only 5–10%. • Production is highly reliant on imported intermediate inputs, mainly from China.
Employment	• Samsung employs about 112,000 workers in Vietnam. • Total investment of around US$22 billion.	• Around 3 out of 4 jobs are in assembly and basic production. • Very limited participation of domestic Tier-1 suppliers in final products.
Value Chain	• Vietnam participates in 18% of the global electronics value chain (GVC).	• Only about 12% of firms are SMEs. • Limited domestic supplier capabilities, and constraints in management, certification, and access to finance.

Conclusion: Reproducing import-dependent downstream assembly does not build lasting economic resilience. RCEP can support trade resilience, but deeper structural transformation and stronger domestic supplier participation are needed to reduce underlying vulnerabilities.

Upgrading requires shifting investment from assembly to applied engineering

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Smile Curve of Vietnam's Electronics GVC



The Semiconductor Gap

- Vietnam possesses **26,000** semiconductor engineers and 50 chip-design firms, representing massive potential.
- Yet, it recorded a **US$25 billion** semiconductor trade deficit in 2022 with **zero domestic fabrication facilities**.

Redefining FDI quality: From high-volume extraction to domestic embeddedness

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Current State FDI

Downstream Assembly & Import-Dependent

Imported inputs → Assembly (mainly for export) → Exported goods

- High reliance on imported inputs
- Limited domestic value added
- Concentrated in final assembly

Target FDI Resilience

Upstream Design & Domestically Embedded

R&D and design → Intermediate components → Parts and sub-assemblies → Final assembly

Greater domestic linkages and technology spillovers

- Shift to applied R&D, design and testing
- Expand intermediate inputs and domestic supplier capabilities
- Leverage RCEP's regional rules to support integration

The Policy Engine: Targeted interventions to build absorptive capacity

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1 Specialized Infrastructure Clusters



Provision of reliable low-carbon electricity, secure data infrastructure, and shared testing/metrology facilities.

2 Supplier Matching & Certification



Multi-year technical assistance programs.

Proof Point: MOIT-Samsung program upgraded 63 domestic firms to Tier-1/2, boosting productivity by 30–50%.

Upgraded Domestic Capability

3 Condition-Based Incentives



Time-bound tax/investment incentives tied to R&D expenditure, local engineering employment, and verifiable tech milestones.

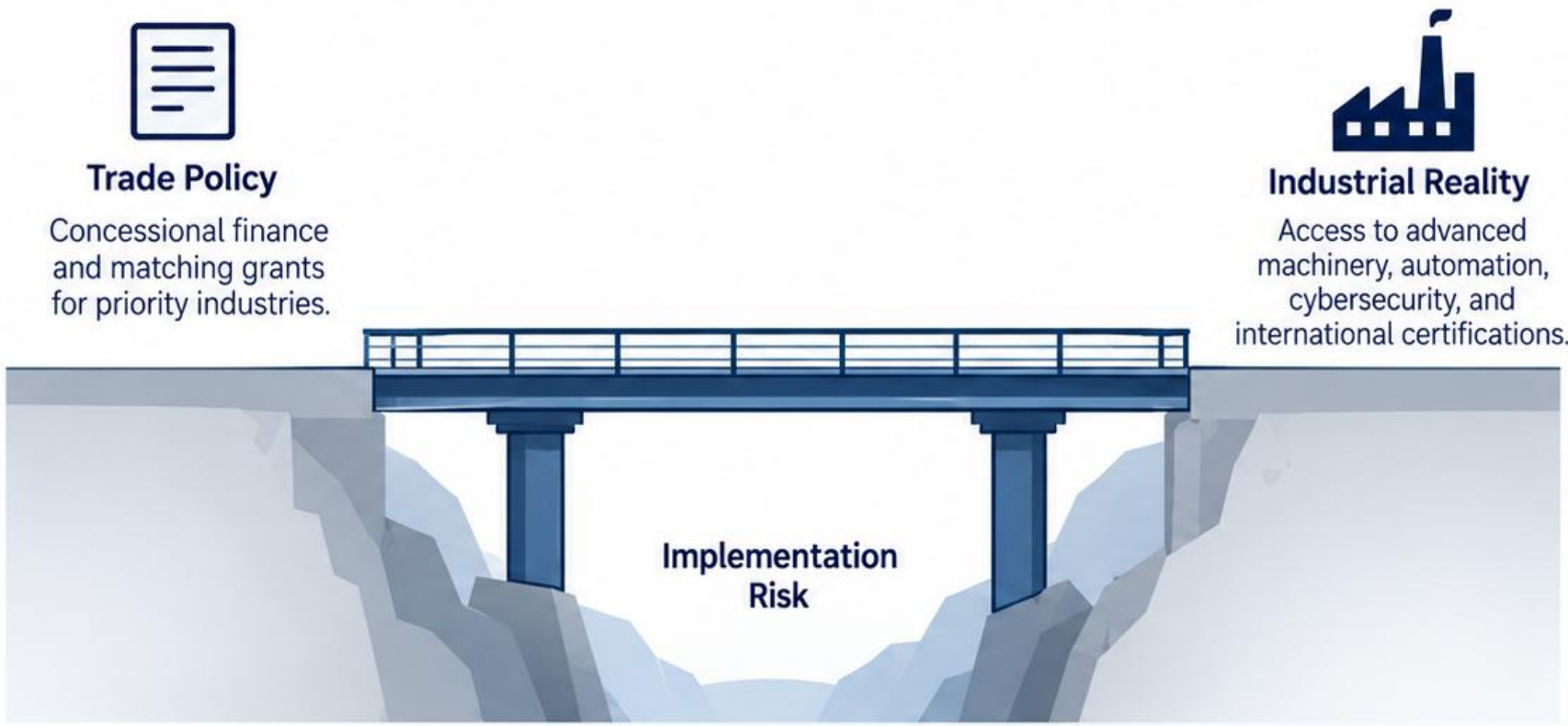
4 Skills Pipelines



Co-financed laboratories and industry-designed curricula to overcome the 779 vs 9,082 researchers-per-million gap with Korea.

Institutional financing bridges the gap between trade policy and industrial reality

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Capability Finance

Concessional finance and matching grants for Vietnamese SMEs to acquire machinery, automation, cybersecurity and international certifications.

Risk Mitigation

Providing blended finance, guarantees, and political-risk mitigation for high-development-value projects.

Project Preparation

ADB & World Bank funding feasibility studies for specialized semiconductor and optical-electronics clusters.

Conditionality Note: Financial support must be strictly conditional on transparent procurement, environmental performance, and verifiable domestic capability formation.

Trade agreements offer shelter; domestic capability builds the future

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The Finding



RCEP absorbs geopolitical and trade shocks, preserving export vitality.

The Warning



High export volume masks deep structural vulnerabilities in electronics.

The Mandate



Use macroeconomic stability from RCEP to build domestic capability.

Resilience is not merely surviving supply chain disruptions—it is the capacity to capture and create value despite them.

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Thank you