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Engaging a proactive Vietnam: A pragmatic economic agenda for Australia

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FOREWORD

Fifty years ago Australia and Vietnam were separated by history, culture and ideology. But in January 1973, we established diplomatic ties in the hope of forging a new relationship. Self-determination and mutual respect lay at the heart of our shared ambitions. Peace, prosperity and understanding were our objectives, and they have remained that way.

Nearly 300,000 Australians identify as having a Vietnamese background and Vietnamese is one of the top five languages spoken in Australian homes. Australians of Vietnamese heritage represent qualities championed in both our countries: hard work, ingenuity, and resilience. These attributes provide a solid foundation for us to broaden our bilateral economic relationship.

Our countries are economic partners, much more than economic competitors. Australia is a trusted and reliable supplier of the many raw materials that Vietnam's exporters require. Our education and vocational training providers are helping to develop Vietnam's future workforce. Australia's logistics, engineering and finance firms are providing Vietnamese industry with the expertise it needs to get its products to markets around the world.

Building our trade and investment relationship will underpin our shared prosperity and COVID-19 economic recovery. This effort is at the heart of the Australia-Vietnam Enhanced Economic Engagement Strategy and its accompanying Implementation Plan. As we look to further deepen our relationship, we will build on this Strategy to strengthen two-way trade and investment.

Australia and Vietnam have a strong foundation of economic and trade architecture, including the multiple Free Trade Agreements we are a part of that support trade and investment. Together, we recognise the importance of a strong, rules-based multilateral trading system to our region.

As Australia and Vietnam look to deepen our ties on what is the eve of half a century of diplomatic relations, this timely report by the Perth USAsia Centre provides a range of thoughtful insights and ideas for advancing our relationship to strengthen economic resilience in the ASEAN region.

THE HON TIM WATTS, MP
Assistant Minister for Foreign Affairs

INTRODUCTION

As Australia and Vietnam relations are approaching the 50th anniversary in early 2023, it is prescient to consider the next phase of the relationship. The depth and width of bilateral relations have recently gained momentum as both countries increasingly recognise each other's strategic importance. There remain identifiable areas where the bilateral relations can further strengthen, including economic exchanges. This report seeks to develop a clear and actionable policy agenda for Australia-Vietnam cooperation to strengthen economic resilience in the ASEAN region. Vietnam's increasing leadership role in the region paired with Australia's closer economic engagement and support will have a long-term regional imprint.

This report gives an overview of the strategically important aspects in economic engagement as well as provides recommendations for further Australia-Vietnam integration. It argues that two considerations should drive the contemporary agenda for Australia's support of Vietnam's leadership role in the region. Firstly, a resilient regional economy should be a focus of Australia and Vietnam's shared interests in ASEAN. Secondly, this must be accompanied by pragmatic bilateral economic cooperation that responds to contemporary challenges.

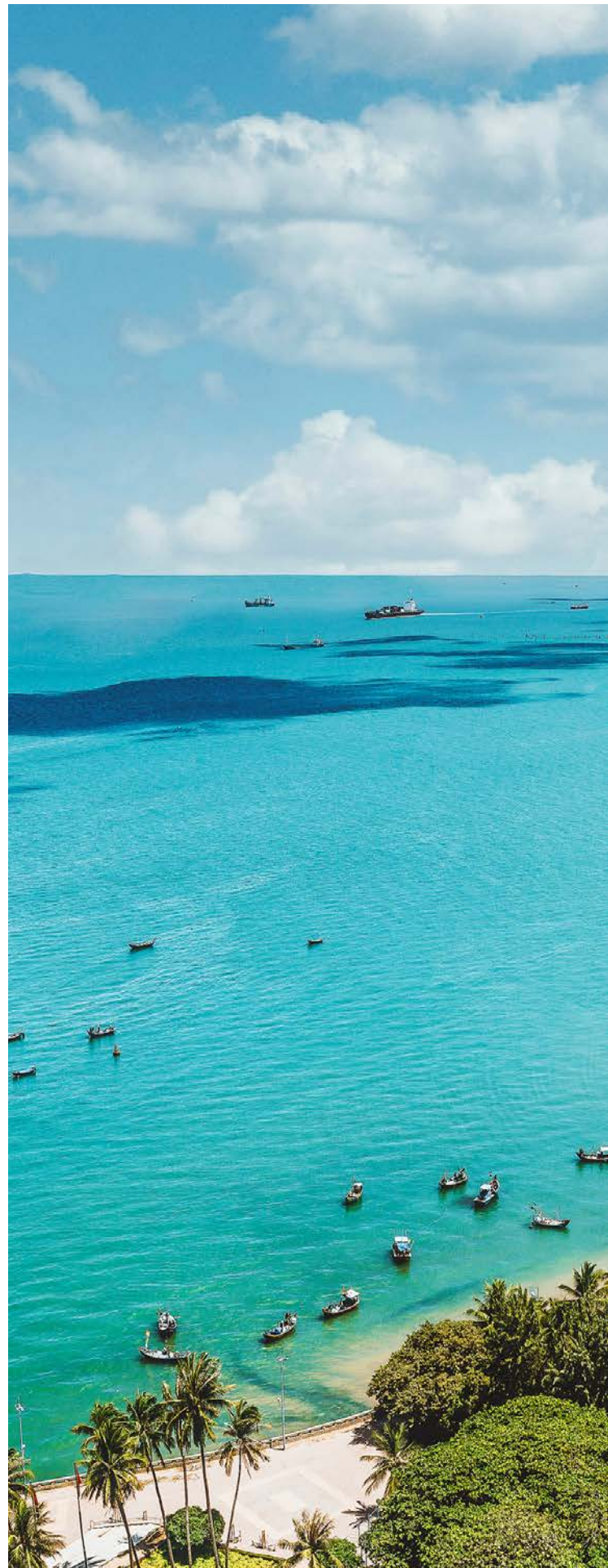
Four key themes emerged from the research and consultations with government, think tank and business stakeholders.

At a regional level, the need to:

- Continue to support Vietnam's leadership role in the region, not only in traditional regional and multilateral frameworks, but also by advocating for its inclusion in new and existing economic minilateral groupings,
- Work jointly with Vietnam to advocate for the uptake of regional economic agreements, particularly by small and medium businesses in the region, and
- Double down and expand on existing regional mechanisms, such as the Mekong-Australia Partnerships and Partnerships for Infrastructure.

Bilaterally, the need to:

- Reprioritise Australia's new engagement strategies to respond to Vietnam's contemporary challenges particularly in energy shortages, supply chain disruptions and regional food scarcity.





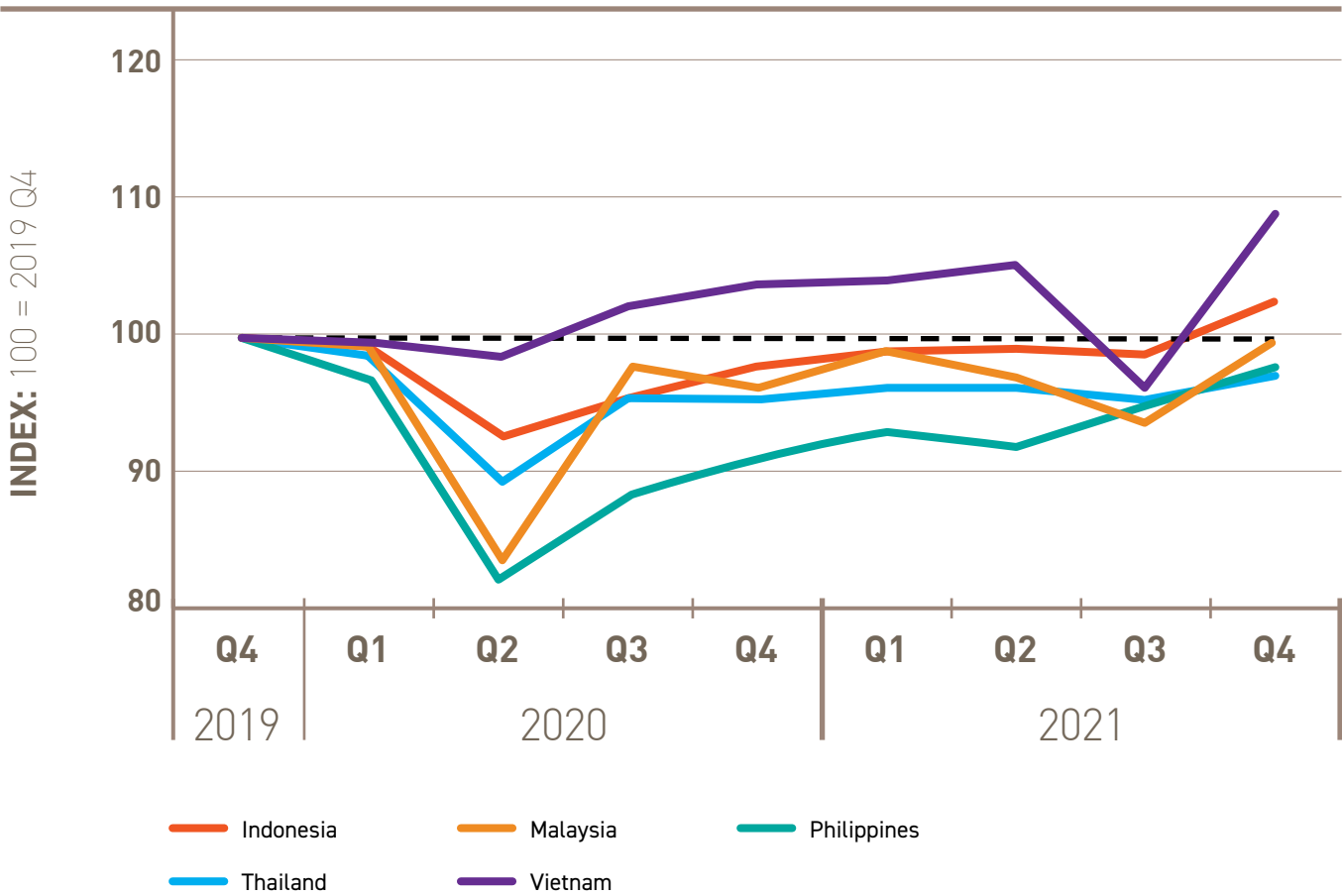
DRIVERS OF VIETNAM'S ECONOMIC AND REGIONAL SIGNIFICANCE

Vietnam's impressive growth trajectory

A number of factors make Vietnam an increasingly desirable partner to Australia and other countries. Firstly, Vietnam's economic size and sophisticated response to COVID-19 makes it one of Southeast Asia's most dynamic nations. Vietnam has rebounded from the Covid-induced economic slowdown relatively faster than the rest of Southeast Asia.

While Indonesia, Malaysia, the Philippines, Singapore and Thailand are expected to adjust their growth projection to more modest figures compared with before the pandemic, Vietnam's 2022 performance was at 7 percent GDP growth, already exceeding its pre-pandemic growth.¹

GRAPH 1: GDP relative to pre-pandemic level, selected ASEAN economies



Source: World Bank East Asia and Pacific Economic Update²

Secondly, Vietnam is reaping the rewards from its efforts to position in the shift of the global supply chain, particularly those seeking an alternative China.³ Vietnam – with stable political environment, well-trained and still relatively cheap labour and favourable foreign investment policies – has become a preferred option.

Lastly, Vietnam's active economic and diplomatic integration policy, including participation in key regional agreements such as the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) increases its competitiveness. Vietnam is considered one of the more politically stable countries in Southeast Asia. Alongside maintaining its one-party state system, safeguarding territorial integrity, and maintaining social order, Hanoi's main aim is economic growth. For this reason, Vietnam has not only been a participant in multilateral trade efforts but a leading champion of regional trade integration.

Australia has been a valued partner of Vietnam, particularly due to early joint efforts on several major infrastructure projects, including the My Thuan bridge (completed in 2000) and the Cao Lanh bridge (completed in 2018). However, the speed and vigour with which European and Northeast Asian countries are entering the Vietnamese market and seeking to grow strategic ties increasingly means that Australia, and particularly Australian businesses, need to work harder to maintain competitiveness.

Most importantly, there has been a strategic recognition by Australia and Vietnam of mutual importance and elevation of ties to a Strategic Partnership in 2018. Vietnam's international role has been increasingly active and consequential within the ASEAN framework and in regional and international forums more broadly. As the 2020 Chair of ASEAN during a pandemic year and a non-permanent UN Security Council member, Vietnam played an active role at a time of geopolitical uncertainty, reinforcing its image as a responsible player on the international stage. Hanoi also values Australia as a regional partner, particularly in the wake of intensifying the US-China competition.



EXPERT SPOTLIGHT BY DR LE TRUNG KIEN

Understanding Vietnam's leadership role in the ASEAN region

The accession of Vietnam to ASEAN in 1995 was a turning point for both Vietnam and ASEAN. There was a recognition in Vietnam that "by working with ASEAN it can have a greater impact on regional and global events, rather than by just acting alone".⁴ The 13th National Party Congress of the Communist Party of Vietnam in 2021 reaffirmed and doubled-down on multilateral diplomacy, emphasising ASEAN among other partners.⁵

Since joining ASEAN, Vietnam has actively participated in and contributed to the ASEAN Community Building process and acted "as the bridge between the mainland Southeast Asia and maritime Southeast Asia".⁶ Vietnam has been very active in formulating strategic directions and significant decisions of ASEAN in various fields.⁷

Its successes in ASEAN Chairmanship in 2010 and 2020 reaffirmed Vietnam's regional role. In 2010, this was the first time that ASEAN launched a model for developing the ASEAN Economic Community based on the harmony of many economic to social, environmental, and macroeconomic management policies. In 2020 in the wake of global pandemic, Vietnam not only fulfilled its duty in exceptional conditions, but also contributed to regional plans for recovery.

Hanoi is among the most active players in regional economic integration. Vietnam is currently among the top four countries with the highest implementation rate of the ASEAN Economic Community Blueprint 2025.⁸ Vietnam has participated in comprehensive cooperation with other ASEAN countries in trade in goods, services, investment, agriculture, transportation, telecommunications, intellectual property protection, competition policy and consumer protection. Compared to when Vietnam joined the ASEAN Free Trade Area (AFTA) in 1996, the total import-export turnover between Vietnam and the ASEAN region has increased by more than 16 times, from 3.26 billion USD in 1995 to nearly 53.598 billion USD in 2020.⁹

Importantly, Vietnam has been active in expanding ASEAN's relations with external partners. In 2010, Vietnam had two important initiatives to expand the East Asia Summit with participation from Russia and the US and establish the ASEAN Defence Ministers' Meeting Plus (ADMM+) with the first ADMM+ hosted by Vietnam. The country has also successfully assumed the role of country coordinator of ASEAN-China Relation (2009-2012), ASEAN-EU Relation (2012-2015), ASEAN-India Relation (2015-2018) and is now the country coordinator of ASEAN-Japan Relation (2018-2021).

SUPPORTING VIETNAM'S LEADERSHIP

ASEAN's economic integration project is a work in progress

The ASEAN style of regionalism is being tested by both internal and external developments. ASEAN's network of loosely prioritised policies creates a cumbersome policy landscape. Among the limitations is the lengthy process of negotiations and slow implementation. For example, in 2021, ASEAN released its mid-term review of the ASEAN Economic Community (AEC) Blueprint 2025. The Blueprint was adopted in 2015 and set out a ten-year pathway for a more integrated ASEAN economy. With two years left on the clock, the review reported that 54.1 percent of the document's line items had been completed, with another 34.2 percent in progress.¹⁰ Other challenges include the consensus model of decision making adopted by ASEAN and the differences in development of the member countries. For these reasons economic regional integration has its challenges.

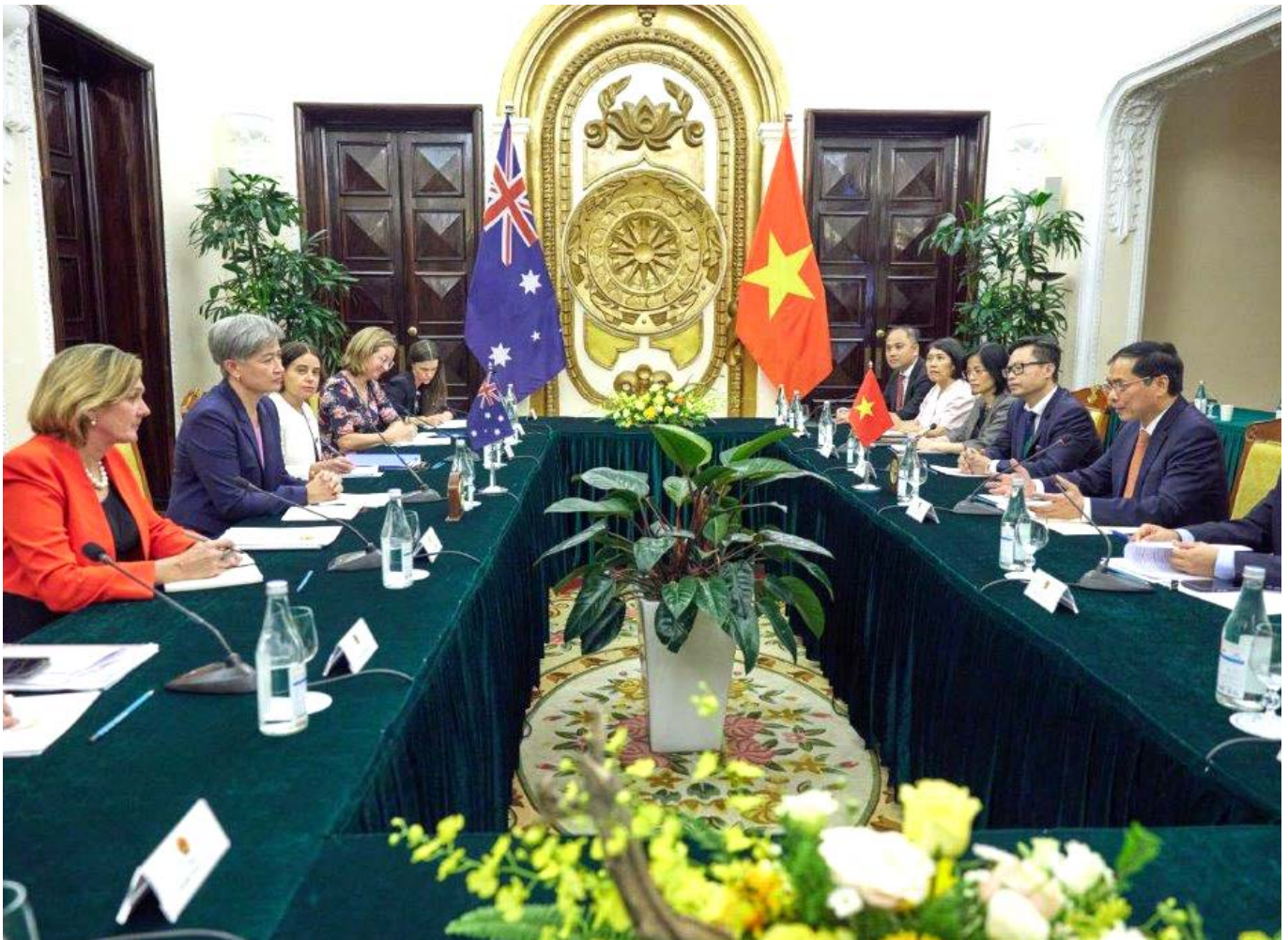
However, the AEC is not the only regional economic integration initiative. The Regional Comprehensive Economic Partnership was finalised after years of negotiation under Vietnam's ASEAN Chairmanship in 2020. Regional policymakers have long recognised the potential of the region's market and plans such as the ASEAN Comprehensive Recovery Framework or the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic. A regionalised pandemic response indicates a willingness to capitalise on intra-regional economic activity for the prosperity of the region.¹¹

In terms of Australia's support of economic resilience in ASEAN, its flagship program, started in 2009, the ASEAN-Australia Development Cooperation Program Phase II (AADCP II) comes to an end in December 2022. AADCP II provides support to ASEAN for the development and implementation of key ASEAN strategies for regional economic integration. The new Australian government has heralded a renewed focus on engaging with ASEAN, including an election commitment to develop a Southeast Asia Economic Strategy. Most recently, the signing of the memorandum of understanding (MOU) Australia for ASEAN Futures Initiative makes official Australia's ongoing commitment to supporting ASEAN's economic integration through the Aus4ASEAN-Economic Connectivity program.¹² The government now needs to articulate a strategy on how it plans to do this. Such an articulation should go beyond development programs in ASEAN focused engagement and consider how to complement ASEAN engagement with new forms of economic cooperation with Southeast Asian countries.

“ASEAN centrality does not mean ASEAN only”

– PENNY WONG AT THE INTERNATIONAL INSTITUTE FOR STRATEGIC STUDIES ON THE 6TH OF JULY 2022





Beyond ASEAN, Australia should pursue minilaterals to support Vietnam's regional leadership role

As ASEAN economic integration continues at its own pace, Australian policy makers should consider supporting Vietnam's middle power identity through new creative forums. For example, through the formation of new minilaterals which can support Vietnam's leadership role in the region and complement ASEAN economic activity. In an era where multilateralism is complicated by great power competition or where the need for consensus becomes an impediment to achieving outcomes, the adoption of minilateral formations is an efficient diplomatic tool for middle powers, like Australia and Vietnam, to achieve shared objectives. Minilateral groupings can be a new, supplement approach to bring to the table the smallest number of countries to solve a particular issue. As Vietnam's strategic partner, Australia supports Hanoi's leadership role in the region. Together, they are uniquely placed to cooperate in concrete areas such as energy or infrastructure. For example, South Korea is the second biggest overseas development aid (ODA) supplier and

largest investor in Vietnam. At the same time, the South Korea-Australia relationship is growing in strategic significance. As South Korea and Australia grow their hydrogen partnership there is scope for the two countries to work with Vietnam to build infrastructure to enable Vietnam's participation in the hydrogen economy. Another opportunity lies with Japan as Vietnam's largest provider of official development aid and third-largest source of foreign direct investment. Australia and Japan are increasingly developing a quasi-alliance, presenting opportunities to leverage Japanese expertise especially in areas such as infrastructure or battery supply chains to form a new trilateral focused on economic integration with Vietnam.

Aside from forming new minilateral groupings with Vietnam, Australia can also support Vietnam's diplomatic activism by including it in the existing strategic groupings. For example, the Australia-Japan-India Supply Chain Resilience Initiative could consider including Vietnam in its activity on ensuring economies are resilient to future disruptions, such as pandemics and geopolitical tensions.

PURSuing THE SHARED GOAL OF REGIONAL ECONOMIC RESILIENCE

Despite differences, Australia and Vietnam have a shared interest in regional economic resilience

Vietnam has pursued a foreign policy of openness, diversification and multilateralisation of international relations since its Doi Moi reforms in late 1980s. This includes a diversified partnerships approach with countries in Europe, South America and Asia. It is worth noting that Vietnam currently only has the highest level of partnership, comprehensive strategic partnership (CSP) with three leading powers: China (signed in 2008), Russia (2012), and India (2016).¹³ Its neutral standing can be reflected in the recent Russia-Ukraine war, where Vietnam's only CSP with a democratic country is with India and both countries have either abstained or rejected resolutions introduced at the UN to condemn or punish Russia. Yet, it dynamically engages with the US and its allies and recently Vietnam has also signed up to join discussions on the Biden Administration's Indo-Pacific Economic Framework (IPEF).

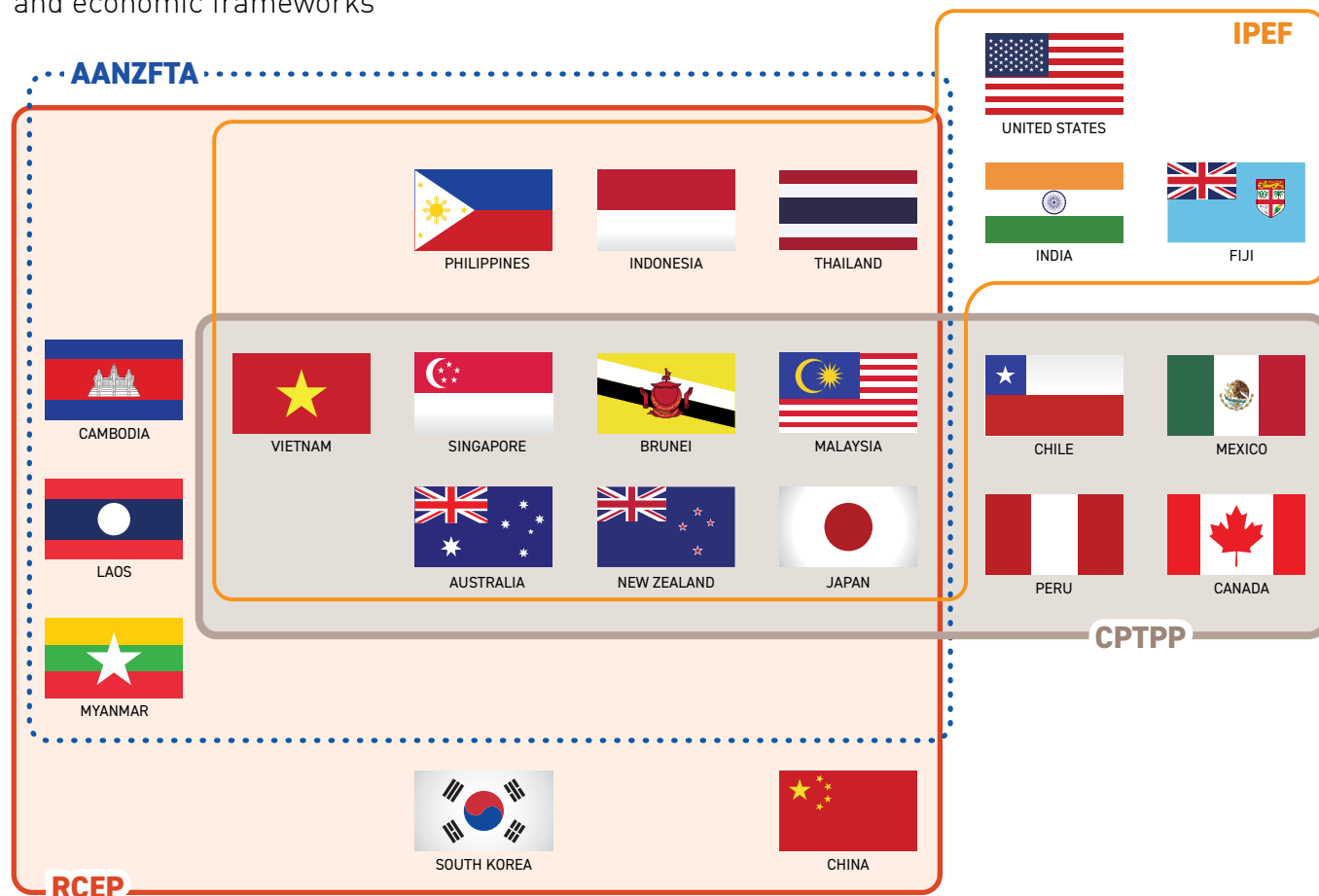
However, there are important differences in Vietnam's and Australian strategic outlooks. For example, though Australia and Vietnam share concerns regarding Chinese claims in the South China Sea and have experienced Chinese trade coercion, they have markedly different approaches to managing these challenges. Firstly, the nature of Chinese economic coercion directed at Canberra and Hanoi has been dissimilar. Vietnam has experienced ad hoc instances of Chinese coercion, such as randomly extending customs clearance times preventing agricultural goods to cross the border.¹⁴ Meanwhile Australia has experienced economic sanctions targeted at Australian businesses as a form of political punishment.¹⁵ Secondly, despite facing increasing instances of trade coercion, Vietnam has kept ministerial and party-level dialogue channels open, whereas Australian and Chinese ministerial level dialogue has stalled for over two years with only new signs of ice-breaking since the Labour government came to power in May 2022. Lastly, and most importantly, Vietnam has territorial disputes with China and contending economic maritime interests in the South China Sea. Though explicit collaboration between Australia and Vietnam on the issue of trade coercion may not be practical (or even desirable from Vietnam's perspective), the two countries have shared interest in preventing practices of trade coercion through ensuring a resilient regional economy.

The successful implementation of key agreements is central to building regional resilience

There is an extensive tapestry of economic agreements governing the relationships between Southeast Asia, Vietnam and Australia. These include the CPTPP, RCEP, ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) and the IPEF (a regional economic framework). All agreements seek to increase trade and investment between member countries and build new regional supply chains. The successful implementation and uptake of these agreements will allow countries to diversify their trading partners and avoid the risks associated with overreliance on one or two major trading relationships. Vietnam has emerged not only as a participant in multilateral trade efforts but as a leading proponent of regional trade integration, including remaining committed to the CPTPP even after US withdrawal.¹⁶ Australia and Vietnam are working to upgrade AANZFTA, currently the highest-quality ASEAN FTA. AANZFTA's upgrade is expected to enhance services trade and investment between Australia and Vietnam and create new business opportunities and cooperation through new chapters on government procurement, micro-, small and medium enterprises, and sustainable development.



FIGURE 1: Australia and ASEAN shared trade agreements and economic frameworks



For Vietnam, Australia, and the region there are shared challenges in the implementation of these arrangements, particularly in ensuring the benefits of the agreements flow to all parts of the economy including small and medium enterprises (SMEs). The ASEAN region is dominated by SMEs which account for approximately 98 percent of all enterprises and some 75-85 percent of total employment.¹⁷ Development of the SME sector is an explicit objective within the ASEAN Economic Community Blueprint, demonstrating the importance of the sector to building regional resilience. More importantly, much of the post-Covid economic recovery will rely on both resilience and dynamism of the regional SMEs.

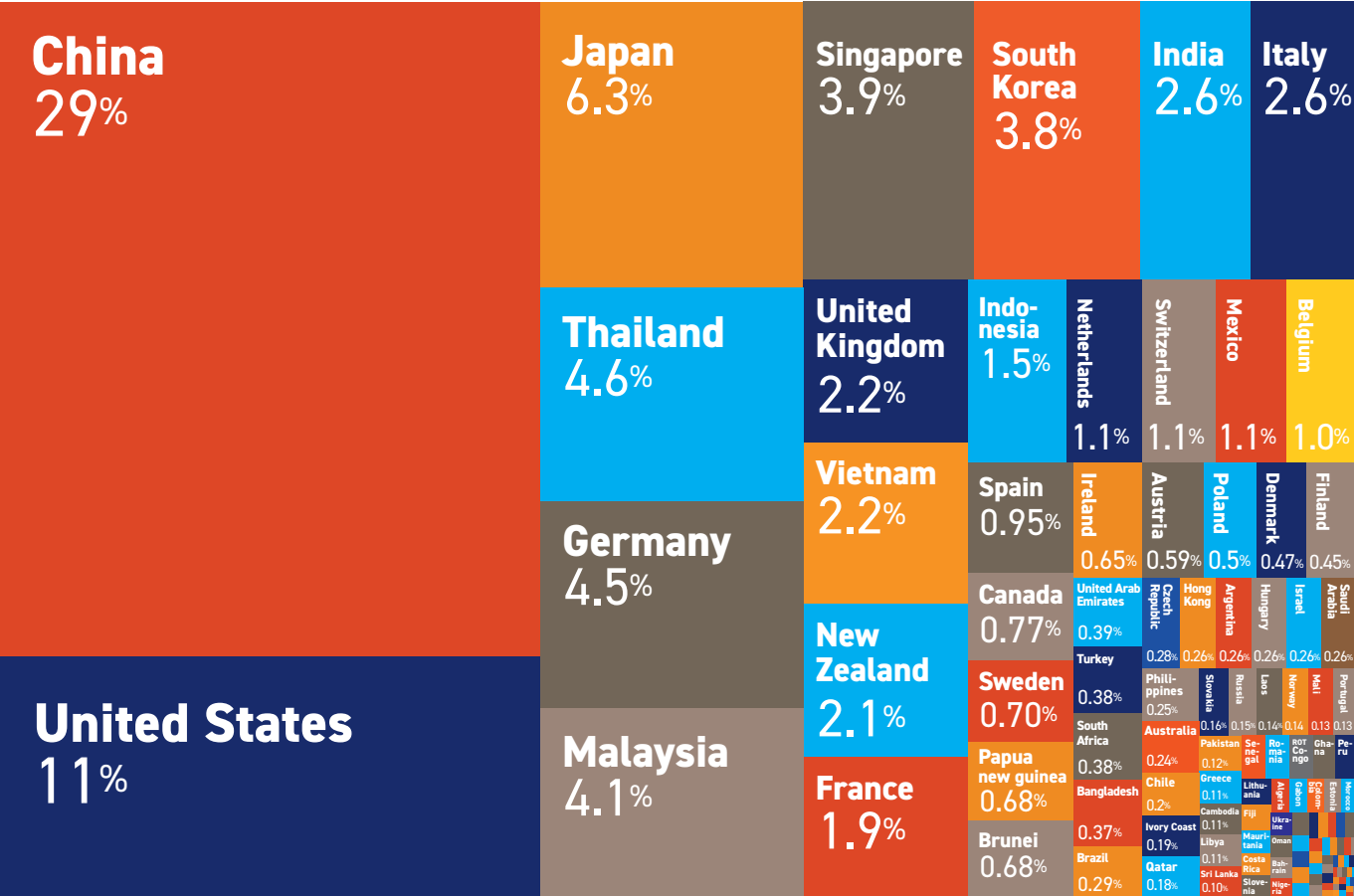
The ability of SMEs to leverage new trade agreements is critical to these agreements delivering value for its members.¹⁸ Challenges to achieving this are:

1. Accessible and language appropriate information dissemination to SMEs in the region,
2. Capacity building for regional businesses to help SMEs realise their position in new regional value chains, and
3. Identifying new export market opportunities enabled by the trade agreements.

Australia and Vietnam should work to jointly address these challenges, not only in Vietnam but in the wider ASEAN region. The Regional Trade for Development Initiative (RT4D), which will provide technical assistance and capacity building to help eligible ASEAN countries implement trade agreements is an important first step. RT4D will address these challenges by providing access to technical experts and dedicated National Coordinators in Vietnam and ASEAN’s least developed Member States to support engagement in economic cooperation. RT4D will also increase the focus on gender equality, disability, and social inclusion within the trade policy agenda. However, the current program does not have an explicit import facilitation objective.¹⁹ RT4D can go further in terms of specifically highlighting import opportunities and specifically for SMEs in the ASEAN region.²⁰ The Vietnam Free Trade Agreement Portal which was supported by the Australian government could serve as a model for an ASEAN wide and SME focused initiative.²¹

From an Australian perspective there is a strategic need for Australia to diversify its imports. While the Australian narrative has focused on export diversification to include Southeast Asia, import diversification is just as critical to building resilience in the Australian economy from trade coercion. For example, China is the dominant supplier of many Australian imports. Items in which China has a dominant market share (greater than a third) account for 18 percent of Australia’s total goods imports.²² With many companies adopting a China Plus One strategy, where businesses avoid investing only in China and diversify business into other countries, there are increased opportunities for SMEs in the region to import to Australia to facilitate Australia’s diversification goals.²³

GRAPH 2: Australia’s imports by country



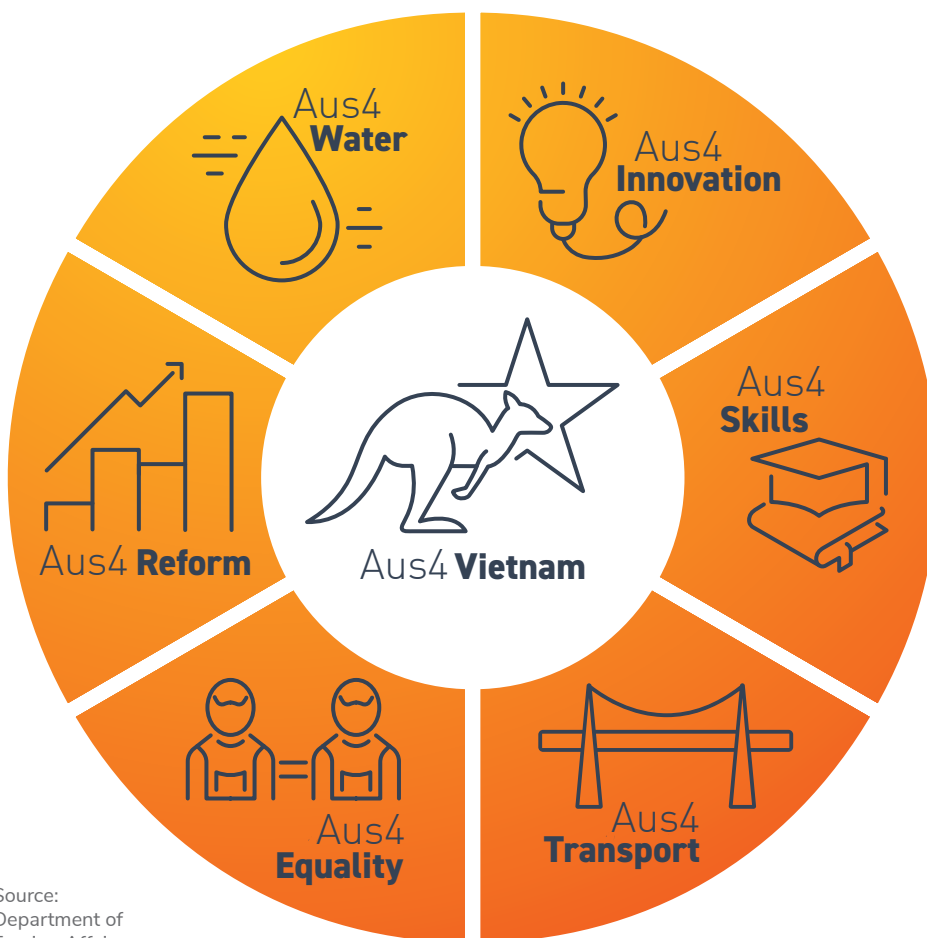
BUILDING MOMENTUM IN EXISTING ENGAGEMENT

Aligning Australia's development approach in the region with commercial diplomacy

With the new Labor government in place since May 2022, Australia has an opportunity to reset its engagement in Southeast Asia. It is important, however, to recognise the value of long-term programs, and not reinvent the wheel

where unnecessary. The new government's approach to Vietnam and broader Southeast Asian engagement should double down on existing mechanisms for regional economic cooperation and leverages Australia's existing strengths in the region. For example, expanding the scope and scale of the already sophisticated and successful economic development programs like the Figure 2 showcases.

FIGURE 2: A selection of Australia's economic development programs in Vietnam



Source:
Department of
Foreign Affairs
and Trade²⁵

Though investing in new programs may not be a strategic use of resources, there is a need to expand or realign existing regional programs for Australia's geo-economic goals in the region. In this regard, there are two stand out programs that can be enhanced: the Mekong Australia Partnerships (MAP) and Partnerships for Infrastructure (P4I).²⁶

Increasing investment and engagement in the Mekong Australia Partnerships

The Mekong Delta provinces have been working together on shared solutions including through Vietnam's integrated response plan for the Mekong Delta's development. This has been supported by Australian development assistance, technical assistance, and the broader Mekong River Commission (MRC). The Mekong sub-region has been the subject of Vietnam's proactive middle power engagement vis-à-vis the lower Mekong countries: Cambodia, Laos, Myanmar,

and Thailand. Australia's Mekong Australia Partnerships forms a central pillar of engagement with Mekong countries and provides an avenue through which to support Vietnam's continuing leadership role in the area. Given the new Labor Government's prioritisation of climate change diplomacy and commitment to increasing ODA to the region, there is rationale for increasing investment in these programs, expanding its work in climate change resilience, including water security and leveraging the program to build diplomatic relationships at the official track 1 and track 1.5 levels with experts and civil society.



EXPERT SPOTLIGHT BY DR LE TRUNG KIEN

Four ideas to Expand the Mekong Australia Partnership

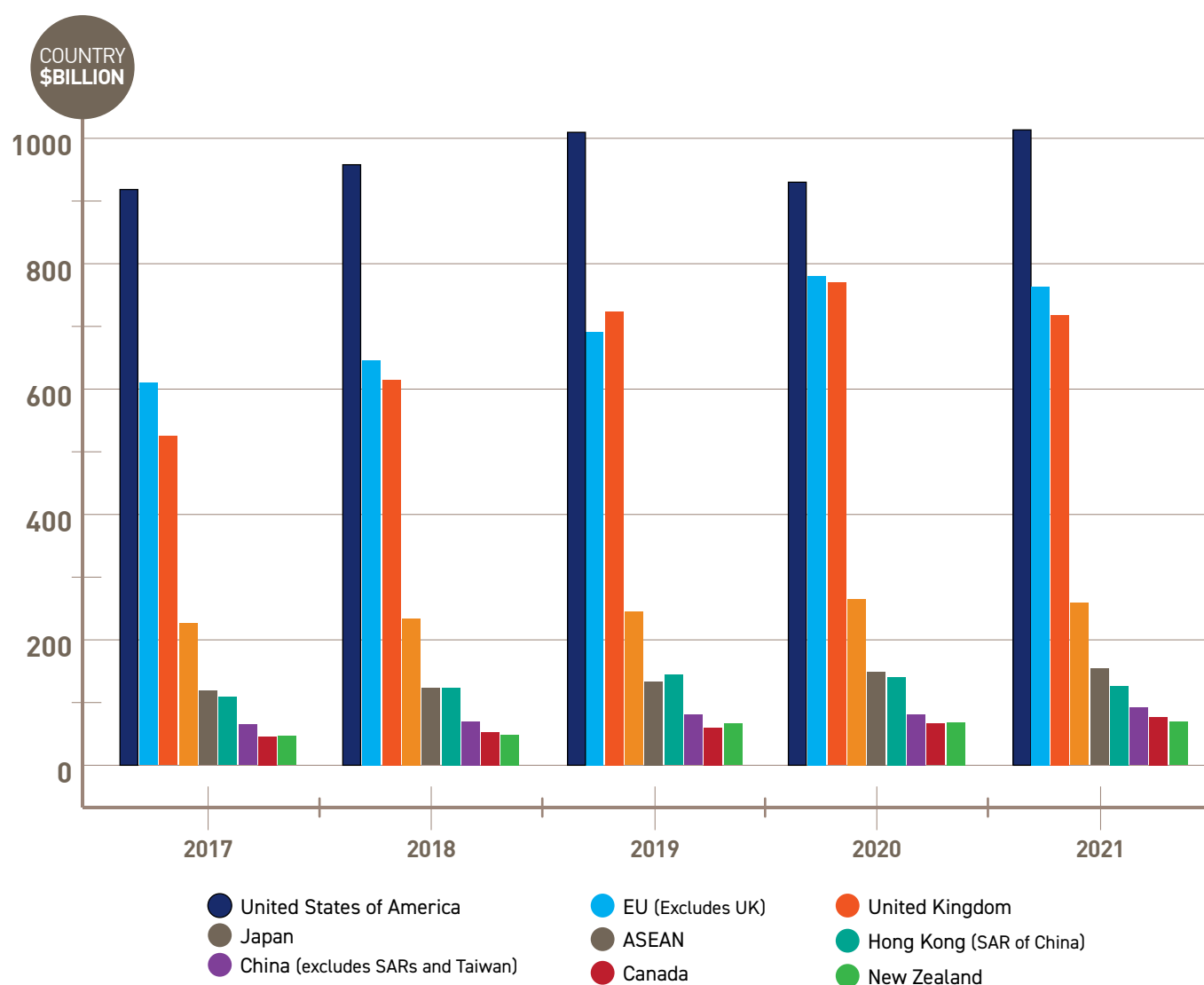
- 1** Establish a Mekong Australia Delta Dialogue (MADD)²⁷ co-hosted annually by Australia and Vietnam to keep MAP activities updated with the interests and needs of different stakeholders. Such a dialogue will provide valuable input for Australia's Mekong policy to ensure the effectiveness and robustness of Australia's engagement with the Mekong subregion. The MAPD could rotate annually between Australian and Mekong Delta cities and be a track 1.5 dialogue of policymakers, academics, business, and non-governmental organisations (NGOs).
- 2** Establish a Mekong-Australia Knowledge Hub to disseminate materials and videos of the capacity-building activities of Australian institutions in the Mekong sub-region. The Hub should be a website with a modern design, and cross-platform accessibility. The purpose of such a Hub is to showcase the leading role of Australia in creating data-based solutions for challenges such as water, energy and food security as well as cross-border crime in the sub-region.
- 3** Implement a Mekong Expert Exchange Program to provide short-term and long-term scholarships for sub-regional experts to be fellows at the Australian institutions. This could be an extension of the Australia Awards or Endeavour Leadership Program. It is noteworthy that cooperation mechanisms in the region have established a number of centres in fields such as agriculture, water cooperation, and environment. However, Mekong countries still lack high-quality experts to participate effectively in those centres. By training such a group of experts within Mekong countries, Australia can fill in the gap and add critical values to sub-regional cooperation.
- 4** Establish an Australia-Vietnam and a third country (US, UK, Japan, South Korea etc.) Mekong Green Partnership to facilitate the transition to a green economy in the region and open investment opportunities for Australian business. The strong commitment of Vietnam at COP26 places the green economy and green energy high on the country's development agenda.

Aligning Partnerships for Infrastructure with commercial diplomacy

As the region's experience and needs have evolved, so too has Australia's approach to infrastructure development. The Australian government has moved from directly funding major infrastructure projects to delivering an infrastructure advisory program in the form of Partnerships for Infrastructure (P4I). The P4I program provides advice to regional governments on policy and regulation, prioritisation, planning and procurement for infrastructure projects. Established in 2021, the program is in its early stages. In its current form the program has no private sector investment facilitation or attraction remit.

Maintaining a role in infrastructure investment facilitation has an important strategic function for Australia as well as a development function for, not just Vietnam, but throughout the region. In an era of geoeconomic competition, supporting strategic infrastructure projects remains one of the most tangible ways to promote growth, demonstrate regional leadership, and further Australia's national interests by providing alternatives to Chinese investment in the region.²⁸ For countries like Vietnam, diversified investment sources increase resilience to external shocks caused by geopolitical competition among major powers. Currently Australia's foreign investment into the ASEAN region is underperforming. Despite ASEAN being the fifth largest economy in the world Australian total investment does not reflect its size and potential (see graph 3).

GRAPH 3: Level of Australian investment abroad



Source: ABS International Investment Position, Australia: Supplementary Statistics²⁹



The need to connect Australia's aid activities, through programs like P4I, with commercial opportunities for Australian investment is the next phase in sophistication for Australia Vietnam economic integration. As of December 2020, Australia's investment in Vietnam totalled A\$1.38 billion and Australia was only the 20th largest provider of FDI into Vietnam.³⁰ Australian investment is concentrated mainly in manufacturing and processing industries, food services, agriculture, forestry and fisheries. As Vietnam seeks foreign direct investment to meet the growing needs of the economy in sectors such as infrastructure and Australian institutional investors look to diversify investment markets there is growing complementarity.

Australia is not able to compete with Chinese infrastructure investment alone, but it can provide an alternative source in specific infrastructure areas, working in concert with the US and Japan. For example, the Trilateral Infrastructure Partnership between the US, Japan and Australia could play a bigger role in infrastructure investment opportunities in Vietnam. Though there has been a meeting of the Trilateral Infrastructure Partnership with Vietnam in October 2020, the partnership has yet to make any further public announcements regarding the progress or future direction of the trilateral's work in Vietnam.³¹

Given Australian investment into Vietnam is yet to match its potential, there is also a need for institutional support to raise awareness of investment opportunities. Programs like P4I are designed primarily as aid programs focused on building closer institutional connectivity and government to government partnerships. The impetus behind the program is to provide upstream support to help de-risk quality infrastructure investment in the hope that this paves the way for more investment. However, connecting this upstream work with downstream financing and other mechanisms aimed at leveraging private sector investment should eventually become an explicit and articulated objective of the program. Government coordination between P4I, Austrade and Export Finance Australia may be underway behind the scenes, but the next phase of maturation looks like outward facing private sector engagement, that leverage P4I's in-market expertise to encourage Australian commercial interest. Australia must build on its development activity in Vietnam and the region to grow Australian commercial investment into the region.

Another way Australia could align its development activities to enhance its investment relationships is through the establishment of an Australia-Vietnam Infrastructure Forum. Such a model is adopted bilaterally between Australia and India and focuses on creating a mechanism for the Australian infrastructure industry to identify real opportunities for trade and investment in India's growing infrastructure space.³² An equivalent Vietnam focused forum could find a natural home in the extension of the P4I program.

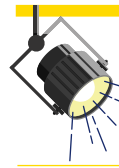
STRENGTHENING THE BILATERAL

Strengthening bilateral economic engagement is key to supporting Vietnam's regional leadership role. One of Vietnam's biggest challenges when participating in the AEC is the difference in development levels compared to the original member countries of ASEAN (ASEAN+6). Though this gap has narrowed significantly in recent years, (with Vietnam even surpassing ASEAN+6 in export turnover and inbound foreign investment) continuing this development trajectory will be key to Vietnam's continued leadership in the region. Being an active player in the emergence of Asian economies has been a successful strategy for Australian engagement in the Indo-Pacific. Australia's contemporary focus continues to be on strengthening Vietnam's economic clout in the region through deepening bilateral economic activities. There are some earlier signs of progress especially at a sub national level. For example, the Investment and Industrial Development Corporation (Becamex IDC) – one of the biggest real estate companies in Vietnam – and the Australia Vietnam Business Council (AVBC) recently signed a memorandum of understanding (MoU) on business development cooperation³³ and the West Australian Government and Ba Ria Vung Tau Peoples Committee also signed an MoU in September 2020³⁴.

Reprioritising the bilateral economic agenda to respond to contemporary challenges

In December 2021, Australia released the Australia-Vietnam Enhanced Economic Engagement (AVEEE) Strategy which seeks to foster closer cooperation between Australia and Vietnam. This Strategy and its accompanying implementation plan define the aim of becoming top ten trading partners and doubling two-way investment with a focus on eight key sectors. The Strategy is an important blueprint for the relationship, however in the face of continued global disruption, it requires a reprioritisation. On Vietnam's side, contemporary challenges such as war in Ukraine and continued lockdowns in China have disrupted global supply chains and have the potential to dampen economic growth in Vietnam and the wider region. While important work is underway in digital transformation, ensuring labour mobility between the two countries and increasing education links – Australia must also respond to these short-term shocks to Vietnam's economy.

Australia has an opportunity to demonstrate its value as a bilateral partner by reprioritising its economic engagement strategy to respond to Vietnam's contemporary challenges in energy, supply chain disruption and food security.



EXPERT SPOTLIGHT BY LAYTON PIKE, CHIEF GLOBAL ADVISER AND DIRECTOR GLOBAL STRATEGY AT RMIT UNIVERSITY³⁵

The significance of the Enhanced Economic Engagement Strategy

When looking across Australia's key strategic and economic relationships, the Enhanced Economic Engagement Strategy with Vietnam is significant for a few key reasons. First, it sets out broad and ambitious economic goals including through doubling two-way investment and becoming top-ten trading partners. Second, it provides a roadmap to deliver the ambition across eight key sectors, each with its own deliverables. Thirdly, it includes practical measures to increase engagement around the Australia-Vietnam economic relationship. An annual Australia-Vietnam Economic Partnership Meeting will work to keep Ministers and officials close and aligned to the Strategy. Supporting this, Government appointed 'Business Champions' on both sides are working to stimulate interest from industry in more trade and investment and will report to Ministers on recommendations for further reform to improve the trade and investment environment.

The Strategy, not even a year old, is bringing a high-level focus and attention to the potential of the relationship across industry and government. It is helping provide the momentum for both the economic relationship to grow, and the platform for the bilateral relationship to move to the next level. To better understand the opportunities, more applied research and engagement is needed under each of the Strategy's key sectors to help Australian industry better understand the practicalities of the Vietnam opportunities, and vice versa.

FIGURE 3: New priorities in the bilateral agenda





Fast tracking energy cooperation

Vietnam's government projects that power consumption will grow between 10 to 12 percent per year until 2030, representing one of the fastest growth rates in Asia.³⁶ Today, like many other countries, Vietnam is suffering from higher oil prices, tight coal supplies, inflation, as a result of the Russia-Ukraine conflict, and continuous lockdowns in China. A significant component of economic cooperation between Russia and Vietnam is in joint energy extraction operations.³⁷ Strengthening an energy partnership between Australia and Vietnam has become an urgent priority in the face of rising energy prices, Russia's unreliability as an energy partner, and Vietnam's growing energy demand.³⁸

Australia has the potential, and since the change of the government in May, an opportunity to become a renewable energy "superpower," one that has a significant role in the Indo-Pacific.³⁹ Australia remains a reliable supplier of Vietnam's energy needs. As an indicator, Australia's coal exports have tripled in value since 2017, to A\$2.05 billion in 2020.⁴⁰ Energy and resources exports now account for just over half of all Australia's merchandise exports to Vietnam. However, as Vietnam has set itself an ambitious decarbonisation agenda, there are a number of new avenues for energy cooperation beyond coal.

Areas of Energy Cooperation

1

Attracting investment into Vietnam's renewables sector

In the longer term, to meet its goal of net-zero emissions by 2050, Vietnam needs to massively increase its renewable energy capacity, particularly solar and wind. This will require substantial investment: the most recent iteration of Vietnam's Power Development Plan 8 (PDP8) estimates an annual financing need of over \$11 billion, much of which will be allocated for renewables.⁴¹

2

Technology partnership in the solar and wind sectors

The AVEEE Strategy's implementation plan states that Australia will explore support for Vietnam's Electricity and Renewable Energy Authority through the development of the country's offshore wind and solar sector.⁴² Australia currently has low emissions technology partnerships with India, Germany, Singapore, Japan, the Republic of Korea, and the United Kingdom- consideration should be given to the adoption of a similar model with Vietnam.

3

Preparing for Green Hydrogen

The PDP8 has earmarked the inclusion of hydrogen in Vietnam's planned energy mix, however considerable technical and financial assistance will be needed to develop the infrastructure necessary for hydrogen adoption in Vietnam. The announcement that Vietnam is to build its first hydrogen plant underlines the importance of hydrogen to the country in the future.

4

Capitalising on the gas opportunity

Currently, despite the wealth of local LNG knowledge and experience, Australia is failing to capitalise on LNG export, gas exploration, and gas infrastructure opportunities with Vietnam so this should be a continued focus of the energy partnerships.⁴³



Supply chain disruptions and Australia's potential role

Vietnam is particularly exposed to interruptions in the global supply chain. As a newly established hub for cellular phones, electronics and semiconductors, it needs a stable supply of materials to meet growing export demands.

Being a manufacturing hub, Vietnam is highly dependent on raw inputs that it sources from China and other countries (Russia and Ukraine are major suppliers of nickel, krypton, aluminium, and palladium, which are critical for the production of semiconductors⁴⁴). But with China enduring lockdowns with minimal movement at its ports such as in Shanghai, it has become more challenging to source input raw materials and component products.⁴⁵ While it is unclear exactly how sanctions against Russia, supply chain disruptions from the war in Ukraine, and continued Chinese lockdowns will affect the Vietnamese economy, the World Bank has readjusted its projection of Vietnam's GDP growth to a modest 5.5 percent (from 7 percent).⁴⁶



EXPERT SPOTLIGHT BY ASSOCIATE PROFESSOR NGUYEN ANH TUAN

Three avenues for supply chain cooperation

The new Australian government should aim for more investment in Southeast Asia to help with the development of ASEAN countries, but also to benefit Australian companies. Australia is also regarded as a modern, technologically advanced, and friendly country located within Vietnam's immediate sphere of interest. Australian education, electronics, ICT, agriculture, and food all have a strong reputation in Vietnam. To promote supply chain cooperation, focus should be on

- I. Building a powerhouse partnership in which Australian resources, technology and services expertise combine with low-cost manufacturing capability and resources in Vietnam to supply Vietnamese consumers, but also other export markets; and
- II. Leveraging capital reserves in superannuation funds. Former Prime Minister Scott Morrison pushed this idea when he visited several ASEAN countries.
- III. Encouraging Australian private sector investment. Australian privately-owned companies such as LinFox have often shown a greater ability to stick with Asian investments longer than some listed companies who are limited by demands from investors for quick quarterly returns.

As an exporter of raw materials, Australian policy makers should explore what role Australia can play in responding to contemporary supply chain challenges faced by Vietnam's manufacturing industry. Vietnam is already looking to Australia to play a bigger role in its manufacturing supply chains as evidenced by the purchase of the Northern Territory Roper Valley iron ore project in May 2020 by Vietnamese steelmaker Hoa Phat Group. The company will source half its iron ore supplies from Australia and is looking at further vertical integration into the country by buying coking coal mines. Australia has the potential to export raw materials such as rare earths, lithium, zinc, and cobalt, however further study of Vietnamese market demand in raw material and critical minerals and Australian capacity to respond is required.



Responding to the region's food security crisis

One of the impacts of the war in Ukraine has been exposing food security vulnerability in Southeast Asia. Ukraine, along with Russia, is an important provider of grain and food staples to Southeast Asia. For example, in 2020, Ukraine exported \$708 million to Indonesia, accounting for 25 percent of imports; \$92 million to Malaysia, 23 percent of imports; and \$131 million to Thailand, around 17 percent of imports.⁴⁷ Beyond the war in Ukraine there are other factors unsettling global food markets such as climate disruption, increased disasters and rapid industrialization.

China's winter wheat harvest was described by China's agriculture minister as "the worst in history." A decline in water levels along the Mekong River due to damming has increased salt intrusion into the Mekong Delta, leading to a smaller harvest in Vietnam. The effect of these trends on global food supplies is being magnified by nations imposing bans on food and fertiliser exports to preserve stocks for their domestic needs.⁴⁸

In May 2022, Deputy Prime Minister Lê Minh Khái proposed the establishment of a food innovation hub for Southeast Asia in Vietnam.⁴⁹ As a major food exporter, Australia could be doing more to alleviate the crisis through mechanisms such as food aid programs or long-term support for preparing for food security disruptions arising from climate change. There is scope in the long term for Australia to support Vietnam through the establishment of a food innovation hub and develop a regional food aid program to directly assist affected communities in the region in the short term.



POLICY RECOMMENDATIONS

Australia should
support Vietnam's
leadership role
in ASEAN and
beyond

1

Support Vietnam's leadership role in ASEAN-centred regional architecture by ensuring it is a core element in the ASEAN Futures Initiative and Australia's overall ASEAN engagement strategy.

2

Pursue the formation of economic-focused minilateral arrangements so that support for Vietnam goes beyond development programs and regional fora. Potential minilaterals could focus on energy and infrastructure, with countries like South Korea and Japan.

Australia should
see successful
implementation of
key trade agreements
as central to building
regional resilience

3

Develop an initiative to prepare SMEs in the region to capitalise on new trade agreements. Program objectives should focus on disseminating information to ASEAN SMEs on specific export opportunities to Australia in sectors where Australia is seeking to diversify imports. Such a program could be modelled on the Vietnam Free Trade Agreement Portal and be a natural extension of the R4TD initiative.



Australia should
invest in and
expand on its key
existing regional
engagements

Australia should
reprioritise its
enhanced economic
engagement strategy
with Vietnam to respond
to contemporary
challenges.

4

Expand and regularise Track 1.5 level Mekong Delta Policy Dialogue. Such a dialogue should provide a touchpoint for Australia's Mekong policy to ensure the effectiveness of Australia's engagement with the Mekong subregion.

5

Make coordination between Austrade, Export Finance Australia and P4I an explicit objective of P4I and explore the expansion of P4I into investment facilitation with the aim of encouraging Australian commercial investment. Priority should also be given to connecting P4I with the US, Japan and Australia Trilateral Infrastructure Partnership and other infrastructure programs such as Partnership for Global Infrastructure and Investment.

6

Fast track energy cooperation by establishing an Australia-Vietnam Energy Partnership to focus on investment into Vietnam's renewable sector, technology partnership in wind and solar, financial and technical support to accelerate hydrogen adoption and continued engagement on gas cooperation.

7

Commission a study by industry experts to explore the potential for Australia to play a role in Vietnam's supply chain gaps resulting from the war in Ukraine and extended lockdowns in China in the short term, and advocate for the inclusion of Vietnam in the Australia-Japan-India Supply Chain Resilience Initiative in the long term.

8

Support Vietnam's goal to address food scarcity issues in the region by supporting the proposed 'Vietnam Food Innovation Hub'. Such a program should bring together the Commission for International Agricultural Research work in Vietnam and leverage private sector investment and innovation.

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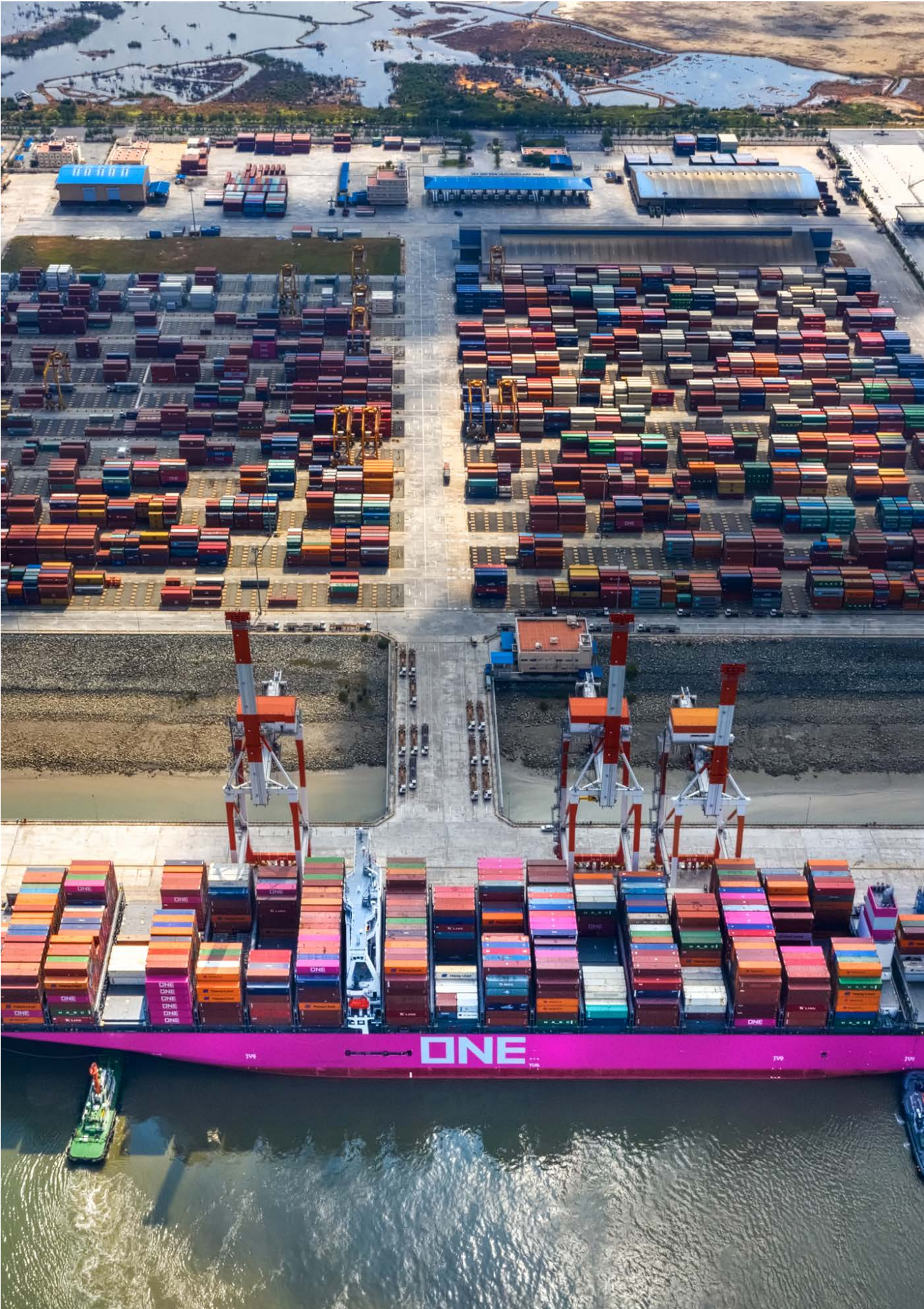
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