

## Box 2: Viet Nam's Engagement in the Regional Production Network

In general, Viet Nam is following a similar trade pattern experienced by other East Asian economies, but still is at an earlier stage of regional trade engagement (Vo and Nguyen 2006).

- *Firstly*, the East Asian economies began their growth relying strongly on exports of labor-intensive products but they have gradually gained a comparative advantage shift to increasingly capital and technology-intensive products. At present, Viet Nam's manufacturing exports are concentrated in labor-intensive products such as textiles and garments, footwear, and furniture with low value added in the production value chains.
- *Secondly*, East Asia saw a huge expansion of trade in intermediate goods such as machinery parts and components and a rising regional intra-industry trade. Viet Nam seems to be following a similar pattern. Viet Nam's regional intra-industry trade index increased from 2.2 in 1985 to 19.0 in 2000, but it is much smaller than that of other East Asian economies. East Asia has become the largest source of Viet Nam's imports of parts and components for industrial production.
- *Thirdly*, while trade in intermediate goods is mainly within East Asia, a majority of the markets for the final products is still extra-regional. The significantly increasing role of the EU and the US as important destinations for Viet Nam's exports can also be seen in the case of Viet Nam. Since the enactment of the Viet Nam-US BTA in December 2001, Viet Nam's exports to the US have increased from USD 1.05 billion in 2001 to about USD 5.0 billion in 2004.
- *Fourthly*, PRC has played an increasing role as a trade partner, especially in intermediate goods and components in East Asia. PRC has also become a key trade partner of Viet Nam, but with characteristics of the "North-South" trade and a huge deficit on Viet Nam's side (the deficit increased from USD 0.2 billion in 2001 to more than USD 5 billion in 2006<sup>13</sup>).