# The effects of trade facilitation on Vietnam's trade relationship with ASEAN countries

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## Abstract

In trade agreements, the term “trade facilitation” is commonly used. Countries that participate in trade agreements must abide by the conditions of the agreement. The purpose of this study is to apply the gravity model to evaluate trade facilitation measures for the trade relationship between Vietnam and ASEAN countries from 2000 to 2020. The effects of trade facilitation measures are positive, according to the results of ordinary least squares regression and a fixed effects model. This work employs the System Generalized Method of Moments estimator to solve the endogenous problem. The findings also demonstrate that trade facilitation had a favorable impact on Vietnam's trade flows throughout this time period. This demonstrates that the deployment of trade facilitation measures in recent years has improved the trade ties between ASEAN members and Vietnam. The execution of these policies not only improves Vietnam's increasingly healthy business environment, but also aids the country's progressive transformation into one of the world's most open economies.

***Keywords***: System Generalized Method of Moments, trade facilitation, trade relationship, ASEAN Countries.

***Jel Classification Code*** : C33, F13, F14, R11.

# 1. Introduction

Trade facilitation (TF) is a common name for bilateral and international trade agreements. It is mentioned as a series of actions for simplicity and openness in the import and export process, infrastructure upgrades, management transparency, and so on, without a defined definition or scope. Negotiations while entering into trade agreements define the scope of these measures.

TF consistently proved to have positive economic benefits (Go, 2018; Hillberry & Zhang, 2015; Ibrahim & Ajide, 2022; Jordaan, 2014; Nizeyimana & De-Wuft, 2015; Paulo et al., 2015; Sakyi et al., 2017). TF is considered to bring welfare effects, as studies have shown reductions in trade costs and increases in trade volume. Moïsé et al. (2011) showed that strict enforcement of these measures can significantly reduce transaction costs. Moïsé and Sorescu (2013) also found similar results in their analysis of the impact of TF on developing countries. TF measures make trade transactions faster. Risks incurred in cross-border transactions can be reduced and unnecessary costs can be reduced (Go, 2018; Hillberry & Zhang, 2015; Nizeyimana & De-Wuft, 2015). Foreign direct investment would also increase as the business environment becomes more attractive (Ibrahim & Ajide, 2022). Sakyi et al. (2017) argued that TF measures can help African countries develop their economies when they are implemented well.

In 1997, Vietnam was admitted as a member of the Association of Southeast Asian Nations (ASEAN). Since joining ASEAN, Vietnam has quickly integrated, actively participated in all ASEAN spheres of cooperation, and made a beneficial contribution to intra-regional trade promotion. According to the General Statistics Office of Vietnam (VNGSO), the overall import and export turnover of commodities between Vietnam and ASEAN in 2019 was 57.3 billion USD, up more than tenfold from 25 years before, and accounted for 11% of the country's total import and export turnover. After Singapore and Thailand, Vietnam is the third largest importer and exporter in ASEAN. After Europe, the United States, and China, ASEAN is Vietnam's fourth-largest export market. Vietnam's total export turnover to ASEAN reached nearly 25 billion USD in 2019, up 1.3% from 2018 and 30% higher than 2016 (see Figure 1). It is clear that Vietnam has benefited much from its 25-year membership in ASEAN, and vice versa. Vietnam has also made a significant and active contribution to ASEAN's development.

As it is known, trade is a critical component of economic growth. As a result, ASEAN is always working to strengthen the commercial climate. They are expressed in accords like the ASEAN Customs Agreement (1997), the e-ASEAN Framework Agreement (2000), the Protocol governing the implementation of the ASEAN Harmonized Tariff Schedule (2003), the Agreement to Establish and Implement the ASEAN Single Window (2005),

and so on. Is the impact of TF measures to blame for the growth in import and export flows between Vietnam and ASEAN countries? This study investigates the influence of the TF on imports and exports to address this question. The purpose of this study is to look at how successful TF measures are in Vietnam and other ASEAN countries. It may also offer valuable policy recommendations based on the findings, contributing to a healthier business climate and increasing Vietnam's competitive advantage in regional and global collaboration. This is also the key contribution of this study. To assess the efficiency of TF, it will look at the costs of cross-border imports and exports. It is discovered that TF policies had a favorable impact between 2000 and 2020, helping to increased trade flows in Vietnam.

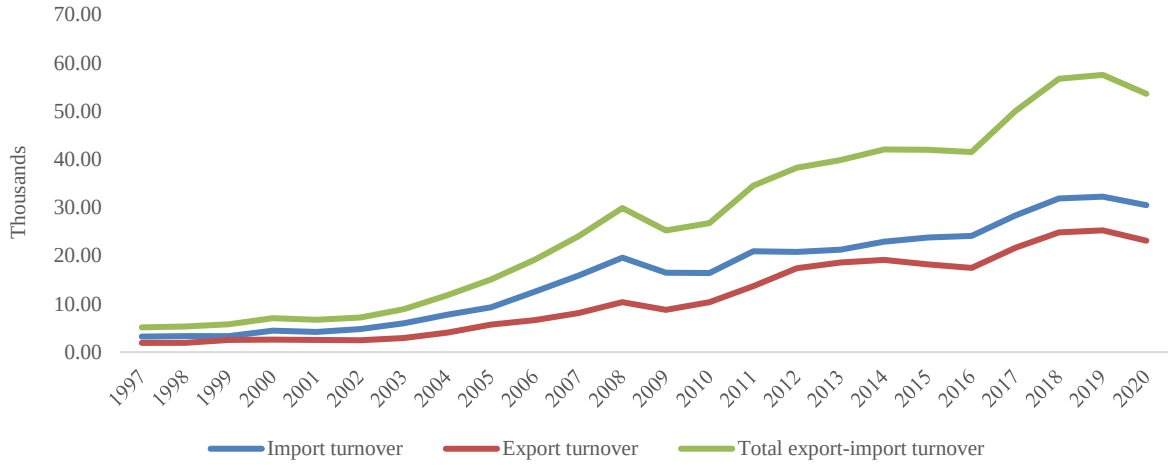


**Figure 1**. Vietnam's import and export to countries in the ASEAN region (Million USD)

Source: VNGSO

The rest of this research is structured as follows: Section 2 contains a summary of prior studies on TF, section 3 has a description of the estimation model as well as the data used in this study, section 4 contains experimental results as well as discussions, and section 5 contains the conclusion and recommendations.

## 2. Literature Review

The fundamental priority of countries has always been economic expansion. Import and export, in particular, are critical to the country's economic development. Guntukula (2018) showed significant positive effects of export flows on economic development. Bakari et al. (2021) indicated that imports and exports has a favorable impact on economic growth in the short run. Blavasciunaite et al. (2020) used panel data from 28 European nations from 1998 to 2018. The findings suggested that when the trade balance falls, it has a negative impact on economic growth. When Ruranga et al. (2020) looked at the impact

of trade policy on Rwandan economic growth, they found that imports and exports had a considerable positive impact. Reddy (2020) further demonstrated that trade contributed to India's economic growth. As a result, many countries are continually concerned about elements that will favorably effect import and export flows. However, several research had shown that there is no direct association between growth and commerce (Bakari et al., 2020; Bakari & Mabrouki, 2017).

For developing countries, TF is especially crucial. TF research has consistently shown that it can result in large economic benefits. It aids in the improvement of the economic environment, making countries more appealing to foreign direct investment and improving cross-border trade flows. Many prior research have demonstrated that it has numerous economic benefits, including helping to decrease trade barriers, reducing trading risks, and lowering transaction costs (Go, 2018; Hillberry & Zhang, 2015; Nizeyimana & De-Wuft, 2015). As a result, trade flows increase and economic development occurs (Paulo et al., 2015; Sakyi et al., 2017). Indeed, Moïsé et al. (2011), employed TF indices to look at trade costs in OECD nations. According to these experts, the existence of TF has the potential to cut OECD countries' trade costs by roughly 10%. Moïsé and Sorescu (2013) investigated the possible TF influence on emerging nations using TF variables from the OECD database. According to the findings of this study, TF measures cut trade costs by more more than 14% in low-income countries, more than 15% in middle-income countries, and more than 13% in high-income nations. A study on TF for African countries was conducted by Jordaan (2014). The author showed that improvements in TF indicators have a favorable impact on these countries' commerce using a gravity model. Sakyi et al. (2017) found similar results in their research. These researchers explore the association between TF and economic growth using the SGMM estimator and data for African countries from 2010 to 2014. The findings suggest that trade facilitation measures assist in prompting economic growth in African countries by increasing trade flows. TF measures have also been shown in numerous studies to help firms lower the cost of adopting border processes (Hillberry & Zhang, 2015; Moïsé & Sorescu, 2013; Nizeyimana & De-Wuft, 2015; Sakyi et al., 2017).

In addition to the estimation model commonly used by many studies in assessing trade flows such as the gravity model (Cui & Dao, 2019; Ismail, 2020; Jordaan, 2014; Porto & Morini, 2017; Yu & Luu, 2020; Zhao & Faiza, 2020), the GMM method is also frequently used to address endogeneity problem in estimation. This strategy was utilized by Sakyi et al. (2017) to overcome the endogeneity problem that emerges when the dependent variable and explanatory factors have a bidirectional relationship. Fauzel (2017) utilized the same strategy to investigate the association between TF and developing-country economic growth from 2007 to 2014. The GMM estimator was employed by Liang et al.

(2021) to look at the association between TF and cross-border e-commerce size. Sakyi & Immurana (2021) employed the SGMM esimator to address the potential homogeneity of the regressors when examining the impact of port efficiency on the trade balance of 27 African nations between 2010 and 2017.

# 3. Data and Methodology

## 3.1 Estimation Strategy

Many studies employ the gravity model to examine the impact of TFs on trade flows (Choi et al., 2019; Jordaan, 2014; Van Der Marel & Shepherd, 2020). This is a simple but widely used model for estimating bilateral trade flows. This model implies that bilateral trade grows in tandem with country size, and that trade barriers fall in tandem with geographic closeness. According to Zaki (2015), the time required to undertake cross-border economic transactions is affected by geographical distance. Commercial trade potential will be greater in countries with nearby or shorter geographic distancesities (Jordaan, 2014; Mehl et al., 2019). Transactions are often complicated by language problems. This demonstrates the importance of language in international trade; partners that speak the same language have a better chance of cooperating (Ferro & Ribeiro, 2013; Jordaan, 2014; Lohmann, 2011). The model calculates the TF impact on Vietnam's trade flows using the factors listed above, as shown in the formula below:

$$lnTrade_{ijt} = \beta_0 + \beta_1 lnTF_{ijt} + \beta_2 GDP_{it} + \beta_3 GDP_{jt} + \beta_4 lnDistance_{ij} + \beta_5 language + \beta_6 Adjacency + \varepsilon_{ij} \quad (1)$$

Where *i* represent Vietnam, and *j* represents ASEAN countries. *t* stands for the years 2000 through 2020. This study chose the time period for two reasons. First, ASEAN has had ten full member countries since 2000. Second, data is readily available and it is relatively complete throughout this time period. The variable $Trade_{ijt}$ is defined as the trade flow, which is separated into Vietnam's annual import and export flows with ASEAN countries. *Exportcosts* and *Importcosts* are included in the TF variable for trade facilitation. The export cost is represented by the *Exportcosts* variable, whereas the import cost is represented by the *Importcosts* variable. The time and cost of importing and exporting items at the border are two of these two variables. These two variables are used to represent the degree of TF in this study. TF is not only committed by Vietnam, but also demands signatories to comply. As a result, values for the variables *Exportcosts* and *Importcosts* will include Vietnam and partner countries. The variable $GDP_{it}$ represents Vietnam's total per capita income, while $GDP_{jt}$ represents the ASEAN countries' total per capita income in the period *t*. Three dummy factors are *Distance, Language,* and

*Adjacency*. $Distance_{ij}$ is defined as the distance between the capitals of the ASEAN partner countries and the capitals of Vietnam. When the partner country has the same common *Language* as Vietnam, the value is 1; otherwise, the value is 0. *Adjacency* is defined as the neighboring border; when a country shares a border with Vietnam, the value is 1; when it does not, the value is 0. Finally, $\varepsilon_{ij}$reflects the estimation error.

### 3.2 Data Collection and Analysis

The VNGSO database is used to calculate Vietnam's import and export value with ASEAN countries. The data was gathered between 2000 and 2020, and the values were classified based on the number of Vietnamese exports to ASEAN countries and the value of Vietnamese imports from these countries. The two proxies for TF are the major variables of interest in this study. For export-import activities, it comprises border compliance time and documentary compliance costs. Time is calculated in hours for border compliance for export-import activities. It captures the time required for shipments to cross the border in order to comply with customs and other inspection-related laws. The expenses of document compliance are expressed in US$. It accounts for the price of complying with customs paperwork and other inspection-related procedures for cargo crossing international borders. These two variables depict the entire cost of document preparation and border compliance required to accomplish international transactions. These numbers come from the World Bank (WB) database. The geographical distance is calculated using the Geodatasoure database, which compiles the geographical distances between Vietnam and its trading partners. The VNGSO and the WB database provide information on per capita income. Google maps are used to obtain values for neighbouring borders. Table 1 delineates the variables as well as the data sources. The number of sample observations and their value are shown in Table 2.

**Table 1.** Variables details and data sources

| Variable | Variable details | Source |
|---|---|---|
| EX | Vietnam's export value from ASEAN countries | VNGSO |
| IM | Vietnam's import value from ASEAN countries | VNGSO |
| GDPi | Vietnam's gross domestic product | VNGSO |
| GDPj | ASEAN countries's gross domestic product | WB |
| Exportcosts | Export costs | WB |
| Importcosts | Import costs | WB |
| TF | Total trade facilitation effect | WB |
| Language | Vietnam and a partner country whose first language has the common language have the value 1, and vice versa. | Wikipedia |

| | | |
|---|---|---|
| Distance | Geographical distance from Vietnam's capital to the partner country's capital | Geodatasoure |
| Adjacency | Vietnam and a partner country with adjacent borders have the value 1, and vice versa. | Google map |

Note: VNGSO is understood as the General Statistics Office of Vietnam; WB is understood as the World Bank.

**Table 1**. Variables description

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| EX | 189 | 24.31 | 1.93 | 19.96 | 27.38 |
| IM | 189 | 24.17 | 1.93 | 19.98 | 27.05 |
| GDPi | 189 | 25.37 | 0.73 | 24.16 | 26.33 |
| GDPj | 189 | 24.92 | 1.72 | 21.27 | 27.74 |
| Exportcosts | 189 | 1.45 | 0.88 | 0.59 | 4.26 |
| Importcosts | 189 | 1.28 | 0.68 | 0.53 | 3.55 |
| TF | 189 | 2.73 | 1.54 | 1.13 | 7.80 |
| Language | 189 | 0.00 | 0.00 | 0.00 | 0.00 |
| Distance | 189 | 7.57 | 0.82 | 6.16 | 9.01 |
| Adjacency | 189 | 0.33 | 0.47 | 0.00 | 1.00 |

## 4. Results and Discussions

The results of the above equation will be shown in this part, along with a discussion of the results. We examine the impact of TF measures on Vietnam's import and export volumes using panel data on import and export flows between Vietnam and ASEAN nations for the period 2000 to 2020. To assess this effect, we shall first provide the gravity model's fundamental regression results. The estimating model's primary difficulty is endogeneity in the research model. We employ the SGMM estimate approach to assess the TF effect to solve this problem.

The results of the ordinary least squares (OLS) regression and fixed effects (FE) model are presented in Table 3. The findings are shown in 12 columns, with columns (1) through (6) representing OLS results and (7) through (12) representing FE model results. The Hausman test is used to choose between random effects and fixed effects, with a P-value of less than 0.05 indicating that fixed effects should be chosen. First, we look at how TF affects the OLS regression. The effect of export cost is not clearly seen when the variables *Language*, *Distance*, and *Adjacency* are not included in the model, but when these factors are controlled, the effect is clearly visible and statistically significant (see columns (1) and (2) of Table 1). Vietnam's exports to ASEAN countries tend to increase by 0.425% at the 5% level. In terms of imports, every 1% increase in TF measures increases the value

of Vietnam's imports by 0.674% and 0.783%, respectively. When looking at the overall effect of TF actions, export flows grew by 0.395% (at the 1% level), while import flows climbed by 0.233% (at the 10% level). The regression results of the FE model are also shown in Table 3. The results in column (7) are comparable to those in column (1), but the influence of the TF measures is unclear. When the model is adjusted for the variables *Language*, *Distance*, and *Adjacency*, export flows increased by 0.425%, while import flows increased by 0.783% at the 1% level. When looking at the total TF effect, the data suggest that at a 5% level, Vietnam's import flows will increase by 0.233%, while export flows will increase by 0.395%.

**Table 3**. The TF impact on Vietnam's exports and imports to ASEAN countries, 2000 to 2020

| Variable | OLS | | | | | | FE | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EX | | | IM | | | EX | | | IM | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Costex | 0.102<br>(0.144) | 0.425**<br>(0.182) | | | | | 0.102<br>(0.157) | 0.425***<br>(0.157) | | | | |
| Costim | | | | 0.674***<br>(0.237) | 0.783***<br>(0.281) | | | | | 0.674***<br>(0.207) | 0.783***<br>(0.193) | |
| TF | | | 0.395***<br>(0.123) | | | 0.233*<br>(0.125) | | | 0.395***<br>(0.0866) | | | 0.233**<br>(0.0944) |
| GDPi | 0.0195<br>(0.0752) | 0.00769<br>(0.0727) | -0.100<br>(0.0780) | -0.244***<br>(0.0827) | -0.192**<br>(0.0792) | -0.0947<br>(0.0819) | 0.0195<br>(0.0767) | 0.00769<br>(0.0708) | -0.100<br>(0.0730) | -0.244***<br>(0.0862) | -0.192**<br>(0.0803) | -0.0947<br>(0.0796) |
| GDPj | 0.885***<br>(0.0721) | 0.831***<br>(0.0698) | 0.844***<br>(0.0687) | 1.039***<br>(0.0717) | 0.971***<br>(0.0681) | 0.960***<br>(0.0701) | 0.885***<br>(0.0593) | 0.831***<br>(0.0557) | 0.844***<br>(0.0536) | 1.039***<br>(0.0597) | 0.971***<br>(0.0567) | 0.960***<br>(0.0585) |
| Language | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Adjacency | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Distance | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Constant | 1.678<br>(1.339) | 750.1***<br>(99.08) | 770.9***<br>(97.31) | 3.607**<br>(1.401) | 700.5***<br>(93.15) | 737.7***<br>(106.9) | 1.611<br>(1.153) | 744.5***<br>(139.2) | 765.0***<br>(128.6) | 3.597**<br>(1.406) | 695.4***<br>(131.3) | 732.5***<br>(140.3) |
| Observations | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 |
| R-squared | 0.995 | 0.996 | 0.996 | 0.995 | 0.995 | 0.995 | 0.943 | 0.952 | 0.956 | 0.948 | 0.956 | 0.953 |

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

**Table 4.** The TF impact on Vietnam's exports and imports to ASEAN countries, 2000 to 2020 (SGMM estimator)

| Variable | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| EX(-1) | 0.436** | 0.658*** | 0.409** | 0.611*** | | | | |
| | (0.203) | (0.139) | (0.206) | (0.141) | | | | |
| IM(-1) | | | | | 0.423** | 0.538*** | 0.423** | 0.00587 |
| | | | | | (0.181) | (0.185) | (0.209) | (0.489) |
| Costex | 0.425** | 0.254** | | | | | | |
| | (0.182) | (0.110) | | | | | | |
| Costim | | | | | 0.525*** | 0.538*** | | |
| | | | | | (0.193) | (0.185) | | |
| TF | | | 0.254*** | 0.171** | | | 0.561*** | 0.402* |
| | | | (0.0950) | (0.0716) | | | (0.122) | (0.223) |
| GDPi | -0.149** | -0.121** | -0.169** | -0.124** | -0.146*** | -0.184** | -0.379*** | -0.309* |
| | (0.0722) | (0.0563) | (0.0860) | (0.0605) | (0.0440) | (0.0829) | (0.0821) | (0.169) |
| GDPj | 0.545*** | 0.334*** | 0.562*** | 0.365*** | 0.577*** | 0.646*** | 1.514*** | 1.095** |
| | (0.207) | (0.122) | (0.216) | (0.111) | (0.173) | (0.174) | (0.212) | (0.554) |
| language | No | Yes | No | Yes | No | Yes | No | Yes |
| adjacency | No | Yes | No | Yes | No | Yes | No | Yes |
| Distance | No | Yes | No | Yes | No | Yes | No | Yes |
| Constant | 3.359** | 2.658*** | 4.011** | 2.828*** | 2.639** | 3.269** | 4.689*** | 4.293** |
| | (1.512) | (0.969) | (1.722) | (1.075) | (1.126) | (1.567) | (1.241) | (1.921) |
| Number of country | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| AR(2) | 0.63 | 0.84 | 0.57 | 0.77 | 1.13 | 1.05 | 0.16 | 0.59 |
| AR(2) p-value | 0.526 | 0.403 | 0.572 | 0.440 | 0.257 | 0.292 | 0.871 | 0.557 |
| Hansen Stat | 6.37 | 6.29 | 5.37 | 5.91 | 7.61 | 5.75 | 3.06 | 3.91 |
| Hansen p-value | 0.272 | 0.506 | 0.373 | 0.550 | 0.472 | 0.569 | 0.691 | 0.790 |

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

The SGMM estimate is then used to more properly assess the TF impact and address the endogeneity problem. The results are shown in eight columns of Table 4, with columns (1) to (4) representing TF impact on export flows and columns (5) to (8) reporting TF impact on Vietnam's import flows for the period 2000 to 2020. Overall, the findings indicate that the TF has had a favorable impact on Vietnam's trade flows throughout this time period. When adjusting for characteristics such as *Language*, *Distance*, and *Adjacency*, Table 4 demonstrates that improving export costs will boost import volume by 0.425% and export volume by 0.254% at the 5% level. When the model accounts for the variables *Language*, *Distance,* and *Adjacency*, the results of Table 4 reveal that improving import costs increases Vietnam's import volume by 0.423% at the 5% level and 0.538% at the 1% level. These coefficients are likewise positive and statistically significant when examining the overall impact of TF on trade flows..

Our findings are consistent with previous studies that have assessed the economic benefits brought by TF as positive (Cui & Dao, 2019; Jordaan, 2014; Liang et al., 2021; Sakyi et al., 2017, 2018; Sakyi & Immurana, 2021; Yu & Luu, 2020). Imports and exports are critical components of economic development. The TF agreements that Vietnam and ASEAN members have implemented throughout the years have improved commercial relations between Vietnam and ASEAN countries. The increase in Vietnam's trade volume reflects this. At the same time, it demonstrates Vietnam's strong adherence to the implementation of the TF duties. The TF policies enable Vietnam gradually become one of the most open economies in the region, if not the globe, by improving the business environment and increasing corporate cooperation opportunities.

## 5. Conclusion and Recommendations

For developing countries like Vietnam, TF measures are especially vital. It aids in the improvement of the economic climate and the attraction of foreign direct investment to countries. At the same time, it promotes economic growth by increasing trade flows and trade collaboration prospects.

Vietnam has made positive contributions to the TF implementation since joining ASEAN. We utilize the gravity model along with Vietnam's import and export data to ASEAN nations and trade cost data for imports and exports for the period 2000 to 2020 to estimate the TF measures' influence on Vietnam's trade flows. The findings of the OLS and FE regressions reveal that TF effects have a favorable impact on Vietnam's import and export flows. We employ the SGMM estimator to overcome the estimate's endogeneity concern, and the results suggest that Vietnam has benefited economically from the TF adoption over time. All of these results support previous studies' conclusions that compliance with

TF obligations will have economic benefits (Cui & Dao, 2019; Jordaan, 2014; Liang et al., 2021; Sakyi et al., 2017, 2018; Sakyi & Immurana, 2021; Yu & Luu, 2020). The TF's implementation helps to improve trade connections between Vietnam and ASEAN member countries, which are becoming more integrated. These advancements have had a significant impact on the socioeconomic development of Vietnam. It helps to strengthen Vietnam's position in regional and international cooperation forums.

Vietnam must continue to perfect policies, improve the investment climate, and boost customs cooperation and greater development in order for the Vietnam-ASEAN trade partnership to thrive. In order to improve connectivity between Vietnam and ASEAN, it is also vital to boost infrastructure development. Infrastructure development not only creates economic prospects but also aids in the reduction of underemployment (Yu & Luu, 2022). Encourage the creation and expansion of the National Single Window and the ASEAN Single Window. The Single Window, as we all know, provides numerous benefits to both enterprises and governments. The creation of the Single Window allows enterprises to save time while complying with customs administrative procedures. It saves money and makes efficient use of human resources. Simultaneously, it improves the transparency of administrative procedures. The creation of the Single Window assists government agencies in promoting administrative reform and improving policies for import and export activity. It improves the capacity and quality of state management agencies' public service delivery. At the same time, it mitigates the threats to national security and social security posed by unlawful transit and trade. As a result, it is critical to move quickly to construct the National Single Window and the ASEAN Single Window.

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