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EU-Vietnam Free Trade Agreement: Opportunities and Challenges for European Businesses

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The Free Trade Agreement currently under negotiation between the EU and Vietnam can reduce customs and administrative barriers in access to both markets and thus contribute to closer bilateral trade and investment cooperation. It could be also an incentive for European companies to enhance their presence in a prospective yet poorly saturated Vietnamese market. EU Member States should intensify efforts to support European entrepreneurs to seize business opportunities emerging from the implementation of the agreement.

The Socialist Republic of Vietnam (SRV) is one of the fastest growing economies in Southeast Asia, and the country's GDP increased by 5.3% in 2013. The EU has noticed the potential of Vietnam with more than 90 million consumers with growing purchasing power. However, the domestic market is perceived as heavily protected. Existing customs and regulatory barriers hamper the activity of foreign companies. The EU is striving to increase access to the Vietnamese market for its exporters and investors, and the EU-Vietnam Free Trade Agreement (EVFTA) under negotiation should play a crucial role in this respect.

Trading Machinery for Clothes. Since the end of the Cold War, there has been a noticeable, permanent development of EU-Vietnam relations based mainly on economic cooperation and development aid. In 1995 the EU signed with Vietnam the Framework Cooperation Agreement, and in October 2010 both sides agreed on the Partnership and Cooperation Agreement (officially signed in June 2012), which anticipates closer cooperation in numerous areas, including trade and investment. Moreover, Vietnam's entrance to the WTO in 2007 has contributed to an improvement of the business climate in the country, and thus an acceleration of its cooperation with the EU.

Bilateral trade between the EU and Vietnam has been growing in recent years. In 2007 it was worth €11.5 billion, while in 2013 it had increased 2.5-fold to €27.1 billion. This made Vietnam the EU's fifth largest trade partner among ASEAN members, and the 30th largest in the world. In 2013, EU exports to Vietnam reached €5.8 billion (consisting mainly of machinery, planes, other vehicles and pharmaceuticals), while imports amounted to €21.3 billion (the EU buys mainly garments, shoes, furniture, electronics and food, such as coffee, rice and seafood). It is clear that the structures of the EU's and Vietnam's exports are complementary. The EU sells mainly capital intensive goods, while Vietnam provides labour intensive products. Therefore, direct competition between the partners is relatively rare. The EU recorded a €15.5 billion deficit in trade with Vietnam in 2013 (€2.2 billion more than in 2012), which was, for example, an effect of existing barriers to entering the Vietnamese market. It is worth mentioning that the EU is also one of the biggest investors in the SRV, with overall direct investment stocks worth more than €1.3 billion.

EVFTA Negotiations at the Final Stage. As a token of both sides' willingness to put bilateral economic relations on a higher level, in June 2012 negotiations on the EVFTA was launched. The aim of the agreement is to better utilise the economic potentials of both markets by reducing regulatory obstacles, and cutting more than 90% of tariff lines. *The EVFTA could increase the value of Vietnam's exports to the EU by around 4% annually, and of the EU's exports to Vietnam by more than 3%.*

Up to now, there have been ten rounds of negotiations on the EVFTA. They have embraced a wide range of issues, including such sensitive topics as the scope of openness of Vietnam's economy to foreign competition. A stronger international presence could cause a threat to Vietnam's fledgling industries, such as the automotive sector. Vietnam also strives to ease rules of origin and to receive market economy status, which could make it harder for the EU to apply anti-dumping measures., Moreover, the EU's willingness to provide easier access to the domestic market for garments and shoes, which are produced in the SRV, is also a matter under discussion (EU customs duty on footwear is more than 12%, while the average tariff is 4%).

What is more, the EU pursues, in negotiation of FTAs, a willingness to adhere to many of its own policies, including respecting human rights such as freedom of speech and religion. However, linking trade and investment issues with social and political aspects could lead to opposition from the Vietnamese side. Nevertheless, during Prime Minister Nguyen Tan Dung's visit to Brussels in October 2014 it was announced that negotiations on the EVFTA should be completed within a few months. However, after signing the agreement it will have to be accepted by the European Parliament and national parliaments in all Member States, a process which could last for a few months or even years.

Lower Duties and Simplified Regulations. In case of EVFTA implementation, Vietnam's average customs tariff, which is now more than 9%, should be lowered. However, most benefits for European companies will derive from the reduction of administrative barriers in Vietnam. These can be divided into three groups. The first group comprises export limits and customs procedures. In the case of some products which are not "first need" goods, such as cosmetics or mobile phones, the EVFTA could make shipments to Vietnam easier, because imports are currently limited to selected ports (for example, Ho Chi Minh City or Da Nang). Additionally, complex documentation could be simplified, as it currently combines numerous documents, such as permission of the Vietnamese embassy in the country of origin. Generally, the EVFTA could bring more coherent customs regulations in Vietnam, as well as a more efficient customs process. The second group of barriers embraces issues related to investment and market access. EVFTA implementation could particularly reduce the number of licences and permissions required to conduct business, and the time it takes to acquire these, which can make the process less costly. The third group concerns regulatory barriers. In this case the agreement could increase the level of intellectual property rights protection, and introduce financial stability standards.

Opportunities and Challenges for European Companies. The EVFTA could create attractive business opportunities for European companies. In 2013, EU exports to Vietnam (€5.8 billion) were 2.5-fold less than to Malaysia (€14.3 billion) and five times less than to Singapore (€29.2 billion), which shows untapped export potential. European business should seek market niches, such as in the agricultural sector where there is potential due to increasing interest among the Vietnamese in better quality and healthier food, and that is how EU products are perceived. There are especially good prospects for dairy products, including those for children, meat, and fruit, such as apples, particularly the sweeter varieties.

The Vietnamese market should also attract the attention of pharmaceutical producers. Safe and good quality medicines, which can be alternative to cheaper generic drugs, are becoming more and more popular in the SRV. Growing demand is also recorded in the case of machinery for various purposes, such as mining (Vietnam is the second biggest coal producer among ASEAN members) and agriculture. Moreover, interest in construction machinery can rise in the near future due to government plans to spend around $56 billion (€47 billion) by 2025 on infrastructure projects. Vietnam could be also an interesting destination for the "green technologies", particularly in the area of waste water management and renewable energy sources. Anticipated improvements regarding investor protection may induce EU firms to consider enhanced investment activity in Vietnam. It will enable not only easier access to the local market, but also to other ASEAN members. Moreover, it can open for European exporters markets that have FTAs with ASEAN but not with the EU, such as China, India or Australia. Nevertheless, there are numerous challenges that European business has to face in the event of EVFTA implementation, especially concerning increased access to the EU market and thus enhanced competition from Vietnamese suppliers of clothes, shoes or furniture, which can put price pressure on EU firms.

The Untapped Potential of Regional Cooperation. EVFTA implementation could make it easier for EU firms, particularly from the agricultural, machinery, pharmaceutical and "green technologies" sectors, to enter the Vietnamese market. It could be also a form of promotion of Vietnam among European companies. Economic cooperation with Vietnam and other ASEAN countries could contribute to diversification of EU exports, which is an important task in the context of ongoing difficulties in trade with Russia and Ukraine. EU Member States and European business should monitor the state of negotiations on EVFTA and prepare themselves to seize economic opportunities connected with the implementation of the agreement. Governments should collaborate with European business associations, which can effectively disseminate information on the EVFTA among their members.

Particular attention should be paid to enhanced regional cooperation. It could be very effective due to the differing business climates and diversity of wealth between Vietnam's individual provinces. It is also worth creating a database on the Vietnamese minority in the EU, especially entrepreneurs, as well as Vietnamese graduates of European universities. Regular meetings and open conferences with this community could create opportunities for European companies to establish valuable business contacts. The abovementioned activities should be underpinned by actions in other areas, such as organising cultural events or enhance an EU scholarship programme for Vietnamese students.