

# The EU-Vietnam Free Trade Agreement - Impact Assessment

In August 2015, Vietnam and the EU reached a conciliation on an ambitious trade agreement. This will further strengthen the bilateral relations between the two parties. Specifically the sectors of food and beverage, garment, textile and footwear will have greater opportunities. Multinational as well as small-medium-enterprises (SME) are advised to consider the latest FTA developments in their roadmap and investment strategies.

## Positive economic impetus through the conclusion of FTAs

As part of this trade agreement nearly all tariffs – over 99% are eliminated on both sides. Vietnam will eliminate 65% of its import tariffs on EU exports to Vietnam once signed into action, which will be in 2017/2018. The remaining duties shall be completely lifted over the next ten years.

A positive impact within the trade and investment sector is anticipated on both ends.

## Machinery equipment the main component in EU/Vietnam trade

For both trade flows, machinery and appliances are the leading export products. On Vietnam export side, the number increased strongly and currently underlines the positive development of Vietnam’s production opportunities. Among EU imports from Vietnam the product range mainly includes telephones, mobile products and parts. The category accounts for 45.8% market share and is the highest annual growth rate.

Table 1: Top 5 EU Imports of Vietnam 2014 (from EU to Vietnam)

Product Sections	Value (Mio €)	Total share	CAGR (5yrs)
Machinery and appliances	1,658	26.8%	4%
Products of the chemical or allied industries	1,137	18.4%	9%
Transport equipment	731	11.8%	-3%
F&B and tobacco	409	6.6%	10%
Live animals; animal products	342	5.5%	17%

Source: European Commission, 2015; BDG Vietnam, 2015; CAGR: annual growth rate.

Vice versa, from EU to Vietnam, machinery and appliances account 26.8% of total share including electronic equipment, computers and phones. The second largest category are chemicals, largely organic chemicals and pharmaceutical products, representing 18.4% of total share.

Table 2: Top 5 EU Exports of Vietnam 2014 (from Vietnam to EU)

Product Sections	Value (Mio €)	Total share	CAGR (5yrs)
Machinery and appliances	10,114	45.8%	52%
Footwear, hats and other headgear	2,754	12.5%	5%
Textiles and textile articles	2,522	11.4%	6.8%
Vegetable products	1,703	7.7%	4.6%
Miscellaneous manufactured articles	1,023	4.6%	4%

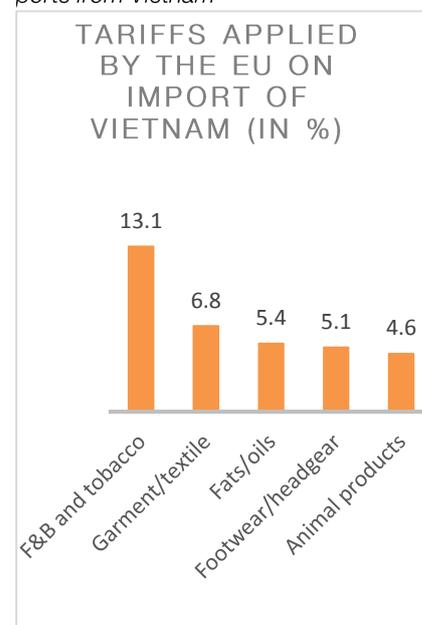
Source: European Commission, 2015; BDG Vietnam, 2015.

The trading turnover settled at 28 billion euros in 2014, of which 22 billion euros are exports from Vietnam and 6.2 billion euros are exports from EU.

## Biggest tariff changes in F&B and footwear/headgear

The removal (elimination) of nearly all tariffs may/will result in huge potential for various industries. The food & beverage industry will enjoy the highest tariff changes, although specific details about the timeline and reduction of all tariffs are not published yet.

Figure 1: Tariffs applied by the EU on Imports from Vietnam



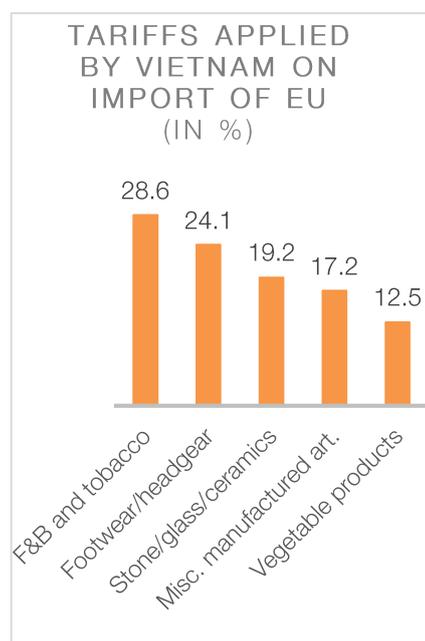
Source: Worldbank databank, 2015

## Food and beverage sector with great opportunities for both parties.

Highest tariffs will be eliminated for primary and processed food and its trade volume has been growing with double digits consecutively over the past five years.

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Figure 2: Tariffs applied by Vietnam on Imports from EU



Source: Worldbank databank, 2015

In particular European food have been on high demand in Vietnam in the last five years (CAGR: 15%). Consumer behavior/orientation is rapidly changing towards international, modern and packed food. With the elimination of its tariffs, European companies should be aware of this trend which contains growing opportunities.

Vice versa, Vietnam's exports with fish products, coffee and cocoa could benefit drastically from the new agreement although improvement in marketing and processing is highly required. Next to high import barriers, the immensely high quality standards within the food and beverage industry could mark a challenge for Vietnamese products.

## Machinery and chemical products with potential, but with challenges for Vietnam imports

Other promising industries for importing to Vietnam are machining and electronic goods. Mostly all ta-

riffs (5.9% in average) will be eliminated immediately in these sectors, while the rest will be reduced after five years. However, the impact of the tariff reduction could be short-term in the machining sector as Vietnam still needs to improve its supporting industry.

European electronic companies will get a positive push, which will help them to compete against Asian competitors. The FTA could compensate the disadvantage with higher cost of transportation according to the impact assessment of the VCCI WTO Center (Vietnam Chamber of Commerce and Industry).

For chemical and its allied industries, 70% of the tariffs (5.6% in average) will be eliminated directly at the beginning. The demand and import is increasing. However, but the market entry for new companies could be challenging as said by the German Trade and Invest (GTAI).

## Great impact for Vietnamese garment/textile and footwear exports

According to the VCCI the liberalization of garment/textile duties will result in an export increase of more than 20% of the five most exported products in the textile product range (Women's and men's suits, men's and women's overcoat and jersey).

For footwear exports the World Bank simulation estimate an increase from 7 to 21% due to tariff reduction only.

## BDG Insights: Opportunities in sourcing and production set-up

Beside greater opportunities for the export business, the agreement also brings chances and risks in other sectors. In terms of chances, the costs for sourcing materials could be decreasing within these two parties.

Big opportunities will be also in the service and manufacturing sector for European companies in Vietnam. Vietnam will open its key sectors for manufacturing investment such in food products and beverages, gloves and plastic products, construction materials and agriculture machinery etc.

In general, the EU-Vietnam FTA will generate easier access to both markets. However, the international competition will likely grow faster in terms of sales markets and Vietnamese labour force.

Multinational as well as SME should be aware of the latest free trade agreements including the TPP and other upcoming FTAs within Asia. These contain opportunities and risks which should be considered in the overall company strategy.

Author: Christoph Lam, BDG Vietnam;

Support: Manuel Wendle and Phuong Lam, BDG Vietnam

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**BDG Vietnam / BDG Asia**

Tel. +84 8 3823 78-59

E-Mail: [contact@bdg-vietnam.com](mailto:contact@bdg-vietnam.com)

[www.bdg-vietnam.com](http://www.bdg-vietnam.com)