

# EU-Vietnam trade and FDI for one-year EVFTA implementation under the effects of covid-19 pandemic

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**ABSTRACT:** The European Union-Vietnam Free Trade Agreement (EVFTA), taking effect on August the 1st 2020, has been expected to bring strategic benefits for Vietnam with one of its largest and most important partners. This paper aims to identify and analyze the impact of the EVFTA on Vietnam-EU's trade and FDI under the negative effects of the Covid-19 pandemic. A comparative study was done for two seven-month periods before and after the Free Trade Agreement took effect, i.e. the first seven months of 2020 and that of 2021. The two most important aspects of Vietnam-EU import-export balance as well as FDI into Vietnam from EU were analyzed using statistical techniques. The secondary data were taken from the World Bank, ADB and Vietnam's Ministry of Planning and Investment. The results showed that, the EVFTA brought about the higher surplus for Vietnam trade, despite the fact that the overall of Vietnam trade are mostly deficit under the negative impact of the Covid-19 pandemic. After EVFTA, the average surplus of Vietnam-EU increased by around 100 USD millions. As a result of the 4th wave of the Covid-19 outbreak, the FDI from EU to Vietnam have significantly reduced. Nevertheless, several EU members still remain and continued to investigate into Vietnam. The results would be helpful to evaluate free trade agreements for overcoming the negative impact of the Covid-19 pandemic for Vietnam and other developing countries.

**KEYWORDS:**EVFTA; Free trade agreements; Covid-19; 7-month period; Vietnam-EU.

## I. INTRODUCTION

The European Union (EU) is a political and economic union of 27 member states, primarily locating in Europe. Vietnam is a country located in Southeast Asia, being considered as one of the

fastest-growing economies in the world and the second fastest-growing state in the region (behind China with an annual GDP per capital of 5.3% [1], [2]). Due to the 4<sup>th</sup> Covid-19 wave, in 2020, Vietnam's real GDP rose only by 2.6%, compared to the average of 2.9% GDP growth rate of the Southeast Asia [3]. In such situation, Vietnam's score still being increased in the latest World Bank Ease of Doing Business report, from 69 in 2020 to 70 in 2021, out of a possible 100 score [4].

The Vietnam-EU Free Trade Agreement officially entered into force on 1 August 2020 [5], [6]. As the most ambitious free trade agreement (FTA) that the EU has ever signed with a developing country, the EU-Vietnam Free Trade Agreement (EVFTA) will mutually lift 99% of the tariffs within ten years. Immediately on the EVFTA coming into effect, duty was lifted from 65% of EU exports to Vietnam and 71% of Vietnamese exports to the EU [7], [8], [9]. The agreement was expected to bring about significant effects to overcome the negative impact of the Covid-19 pandemic. However, the fourth wave of the pandemic, started from April 2021 has dramatically changed the situation, especially the world's trade, including EU members and Vietnam. Several investigations have been made to analyze the effects of the agreements and the Covid-19, see for example [10], [11]. However, an analysis for the same period of time before and after the agreement implementation has not been found. This paper provides a comparative study on the EU-Vietnam trade and FDI for the two seven-month periods (from January 1<sup>st</sup> to July 31<sup>st</sup>) of 2020 and 2021, around the EVFTA implementation (August the 1<sup>st</sup> 2020). The evaluation of information in the same time point allows to eliminate objective seasonal factors, such as climate, traditional business practices, etc. For the

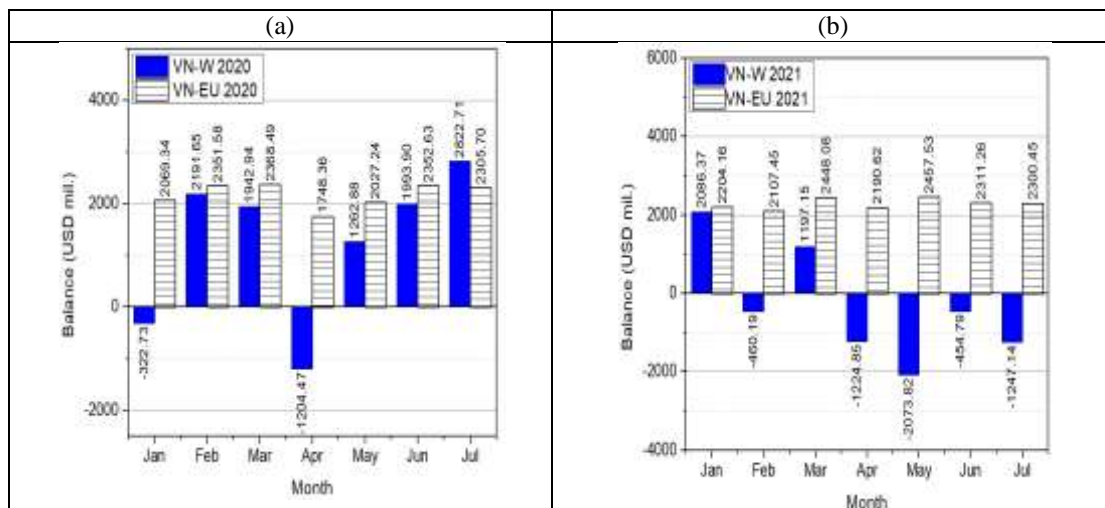
purpose of analysis and estimation, data and information were collected from official resources, which are cited in the text. The methodologies used in this paper are mainly synthesis and analysis of

## II. EU-VIETNAM TRADING

Figure 1 shows the overall trade balance with respect to that of Vietnam – EU for the seven-month periods of 2020 and 2021. The data were collected from CEIC [12], with the currency exchange rate between Euro and USD of 1.05 (the exchange rate was obtained at 2022 April). In the evaluated time of 2020 (Figure 1a), Vietnam's overall trade balance recorded deficits of 322.77 and 1204.47 USD millions in January and April, respectively. In contrast, the trade balance between Vietnam and EU always has surplus values during the evaluated seven months, ranged from 1942.94 USD millions in March 2020 to 2368.48 USD

literature, descriptive statistical method, and 2-sample t-test technique.

millions in April 2020. For the same period of 2021, under strong negative effects of the 4<sup>th</sup> wave of Covid-19 pandemic, the overall trade balance of Vietnam recorded significant deficits in 5 out of 7 months, as shown in Figure 1b. Nevertheless, the Vietnam-EU always has high values of surplus, mostly higher than those in 2020. Besides, the overall balance values of Vietnam were always deficit in April (both of the two years), as a result of the time effect. However, the Vietnam-EU trade was always surplus in those two months. These above effects would mostly be a result of the EVFTA's positive impacts.



**Figure 1.** Trade balance between Vietnam-World (VN-W) and Vietnam-EU (VN-EU) in seven-month period of (a) in 2020 and (b) in 2021

Source: The authors calculated from ADB's and EuroStat's data

In order to highlight the increase of surplus values that Vietnam obtained after the EVFTA started coming into force, a 2-sample t-test study was implemented. The hypothesis was declared as below.

$$H_0 : \mu = 0$$

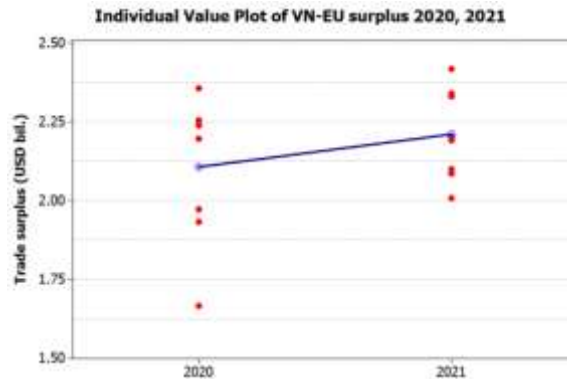
$$H_1 : \mu < 0$$

Where  $\mu$  is the average surplus difference of Vietnam's surplus with EU, obtained in the first

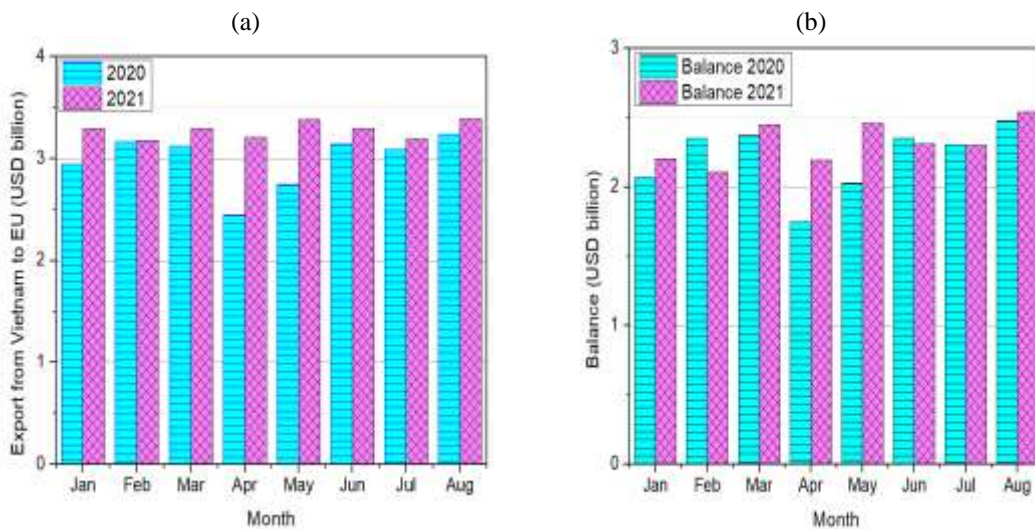
seven months of 2020 and those of 2021. The result is represented in Figure 2.

The result revealed that, with a p-value of 0.03 and 95% upper bound for difference, the average surplus of Vietnam-EU trade obtained in seven-month period of 2021 is higher than that of 2020 by around 100 USD millions.

A more comprehensive comparative data of Vietnam-EU trade is represented in Figure 3.



**Figure 2.** Comparative t-test of Vietnam-EU surplus between 2020 and 2021’s seven-month periods



**Figure 3.** Vietnam-EU Trade in seven-month periods: (a) the export value from Vietnam to EU and (b) the trade balance of Vietnam-EU

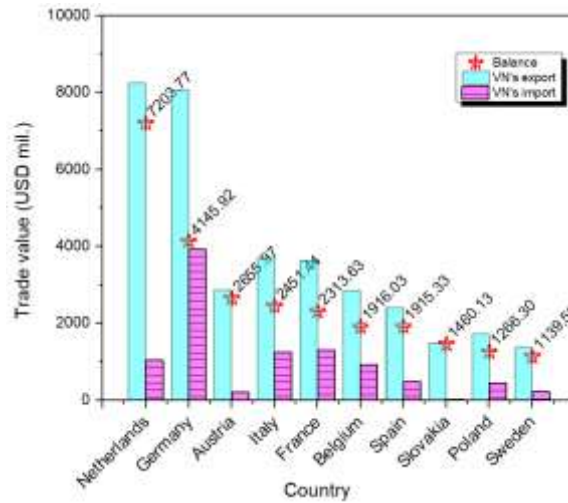
Source: The authors calculated from EuroStat

As can be seen in Figure 3a, the export values from Vietnam to EU in each month of the period after EVFTA’s implementation (August the 1<sup>st</sup> 2020) were always higher than those of the same month before the EVFTA coming into force. These resulted in higher surplus values of every month in 2021, compared to those of the corresponding time in 2020.

Figure 4 shows the trade values of Vietnam export (to EU), Vietnam import (from EU) and the trade balance in 2021 with 10 EU members having the surplus higher than 1000 USD millions. Netherland and Germany are the two EU members provided the highest surplus for Vietnam, with more than 7203 and 4145 USD millions, respectively.

Accumulated for the 7 first months of 2021 (just after EVFTA), Vietnam has a trade surplus of 13.02 billion USD to the EU market, increasing by 15.75% compared to that of 7 first months of 2020 (before EVFTA).

It is also noted that, according to EuroStat, between January 2020 and December 2021, EU imports from Vietnam increased by 34.4 % while imports from other non-EU countries increased by 25.4 %. EU exports to Vietnam decreased by 6.7 % while exports to other non-EU countries increased by 5.0 %. These would be the positive impact of the EVFTA, resulted in surplus of Vietnam-EU trade, while the overall trade (Vietnam with the world) were deficit as mentioned above.



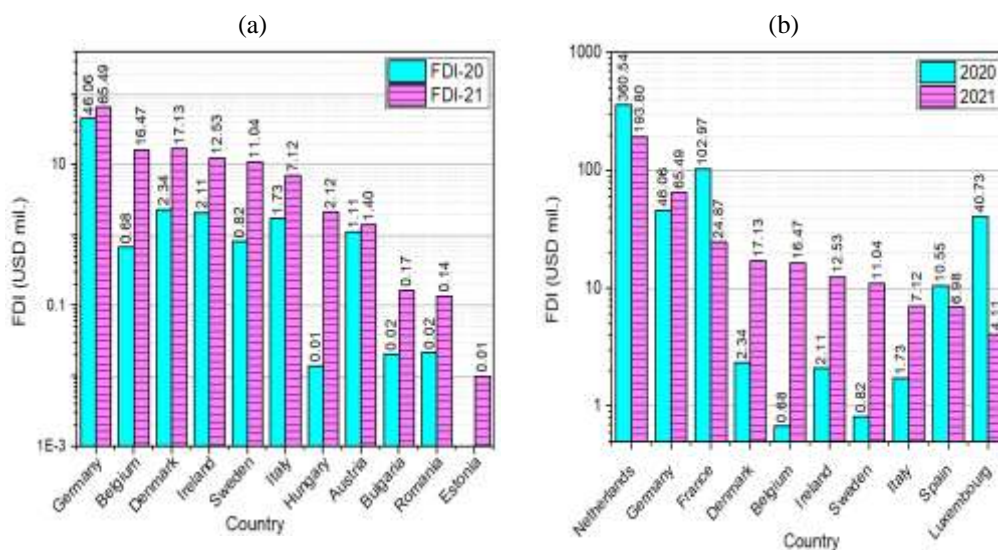
**Figure 4.** Vietnam’s trade in 2021 with 10 EU members having highest surplus  
 Source: The authors calculated from EuroStat

### III. FDI FROM EU TO VIETNAM

EU members are leading FDI partners in Vietnam. The agreement between EU and Vietnam brought about major implications for FDI values from EU into Vietnam. FDI contributes more than a half of the value of the manufacturing sector, and over 70 percent of Vietnam’s export turnover [5], [11].

As a result of the 4<sup>th</sup> wave of the Covid-19 outbreak, the FDI from EU to Vietnam have significantly reduced. The total FDI during the 7-month period, from January the 1<sup>st</sup> 2020 to July 31<sup>st</sup> 2020, was downgraded from 649.84 USD millions to 364.38 USD millions for the same period of

2021. Nevertheless, several EU members still remain and continued to investigate, despite the negative impact of the Covid-19 pandemic. Figure 5a represents 11 EU countries having increase investments into Vietnam. For example, FDI for seven-month period of 2021 from Germany into Vietnam increased by around 20 million USD compared to that of the same period in 2020. Besides, several countries although reduced the investment but still having large FDI into Vietnam. Figure 5b shows 10 EU members investigating largest FDI amount into Vietnam in seven first months of 2021.



**Figure 5.** Vietnam’s trade in 2021 with 10 EU members having highest surplus  
 Source: The authors calculated from Vietnam MPI [13]



As can be seen from Figure 5, Germany, Belgium, Ireland, Denmark, Sweden, and Italy are the 7 countries not only increased their investment but also contributed the largest FDI into Vietnam in seven first months of 2021. Also, Netherland, France, and Luxembourg are the countries although reduced the investment but still having largest FDI into Vietnam, compared to other EU members. Inside them, Netherland is the country investigated the largest FDI and contributed largest surplus for Vietnam (See Figure 4).

#### IV. CONCLUSION

This study made a comparison of the Vietnam-EU trade and the FDI investigated into Vietnam for the two 7-month periods of 2020 and 2021. The former period of time, from January the 1<sup>st</sup> 2020, is the first seven months of the year before the EVFTA coming into force (August the 1<sup>st</sup> 2020). The later is the first seven months of the year after the EVFTA implementation. The both periods are in the time of the 3<sup>rd</sup> and 4<sup>th</sup> waves of the Covid-19 pandemic. A comparative study between the overall trade balance of Vietnam and the Vietnam-EU trade balance in such periods was also implemented. Several remarks of the effects of the Vietnam-EU free trade agreement can be noted as below.

Under the positive effects of EVFTA, during seven months of the year after the agreement implemented, the trade of Vietnam-EU always have high values of surplus, mostly higher than that in the period of the last year. In such periods, the overall of Vietnam trade are mostly deficit, as a result of the negative impact of the Covid-19 pandemic. Applying 2-sample t-test, the result revealed that, with a p-value of 0.03, the average surplus of Vietnam-EU trade obtained in seven-month period of 2021 is higher than that of 2020 by around 100 USD millions. Accumulated for the 7 first months of 2021 (just after EVFTA), Vietnam surplus increased by 15.75% compared to that of 7 first months of 2020 (before EVFTA). As a result of the 4<sup>th</sup> wave of the Covid-19 outbreak, the FDI from EU to Vietnam have significantly reduced. The total FDI during the 1<sup>st</sup> 7-month period in 2021 reduced significantly compared to 2020. Nevertheless, several EU members still remain and continued to investigate, despite the negative impact of the Covid-19 pandemic. Among them, the Netherland investigated the largest FDI and contributed largest surplus for Vietnam.

The results would be a good reference for developing countries, both to defeat the Covid-19

pandemic and to support developing countries in the new normal situation.

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