

EU-Vietnam trade and FDI under the effects of Free Trade Agreement and Covid-19 pandemic

Nguyen Thi Minh Anh¹ and Kieu Thi Minh Thu^{2,*}

¹Faculty of International School, Thai Nguyen University, Vietnam. Email: nguyenminhanh@tnu.edu.vn

²Faculty of automotive and engines, Thai Nguyen University of Technology, Vietnam

Corresponding author. Email: minhthu@tnt.edu.vn

Submitted: 25-05-2021

Revised: 31-05-2021

Accepted: 03-06-2021

ABSTRACT: – According to World Bank, Vietnam is one of the few countries in the Asia-Pacific region that is able to maintain positive economic growth in 2020, despite the negative impacts of the Covid-19 pandemic. In the context of global business, international economic integrations are considered as one of the important factors helping Vietnam maintain its economic momentum. Among them, the implementation of the EU-Vietnam Free Trade Agreement (EVFTA), creating impressive prosperity in economic-trade and investment relations between European Union and Vietnam, is an important highlight of the Vietnamese economy and plays a key role in enhancing Vietnam's position in regional and international arena. This paper provides a brief analysis of the EU-Vietnam trade and FDI for last 10 years, especially for the three recent years around the Covid-19 outbreak and the first quarter of 2021, when the 3rd round of the pandemic occurred around the world. The results showed that with the positive effect of the agreements and the good strategy in fighting the pandemic, in 2020, Vietnam became the 10th country having the largest exports to EU, and the order of 15th in total trade with EU. Compared for the same period of 2020, the FDI data in the first three months of 2021 has significantly increased. The results would be a good reference for developing countries, both to defeat the Covid-19 pandemic and to develop their economies..

KEYWORDS:EVFTA, EVIPA, Free trade agreements, Covid-19.

I. INTRODUCTION

The European Union (EU) is a political and economic union of 27 member states those are located primarily in Europe, including Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands,

Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, and Sweden. Vietnam is a country located in Southeast Asia. Vietnam has been 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]. Vietnam's score increased in the latest World Bank Ease of Doing Business report, reaching 69.8 out of a possible 100. This saw Vietnam rank 69th out of 190 economies around the world for ease of doing business. In Southeast Asia, Vietnam was placed the 4th behind Singapore (2nd in the world), Malaysia (12th) and Thailand (21st). However, in 2020, Vietnam's real GDP rose only by 1.5% [2] and FDI was a decline trend, mainly due to the Covid-19 outbreak. From the data of Ministry of Planning and Investment, the total FDI capital in Vietnam in 2020 reached 28.53 billion USD, equaling 75% compared to the same period of the previous year. Despite those decreases in the number of projects and in the registered capital, many foreign investors are gradually recovering and maintaining good production and business activities and expanding projects. According to the latest statistics, there are nearly 300 enterprises around the world interesting, trusting to expand their investment or researching and looking for new investment in Vietnam [3].

Since 2007, Vietnam has joined the World Trade Organization (WTO), taking a significant step integrating with world trade and subsequently entering into several free trade agreements. Free trade agreements (FTAs) are agreements on the terms of trade between two or more countries, determining the value of tariffs and duties that countries impose on imports and exports. Started from June 2019, the Free Trade Agreement and an Investment Protection Agreement between EU and Vietnam were signed. The European Parliament then gave its consent to both Agreements on 12 February 2020. The Free Trade Agreement entered into force on 1 August 2020. The Investment

Protection Agreement will enter into force when it is ratified by all EU Member States. As of February 2021, 6 EU Member States have ratified it [4], [5] and officially entered into force. At its core, similar as other free trade agreements, the EVFTA focuses mainly on both reducing tariff and dismantling customs barriers to facilitate trade relations between EU and Vietnam. With about 70% of Vietnam exports to EU and 65% of Vietnam imports from EU exempted from customs duty immediately based on EUVFTA [6], [7]. The agreement, including significant commitments on tariff reductions Vietnam's main exports to the EU such as textile and clothing, electronics, footwear and agriculture products (coffee, rice, seafood, etc.), is expected to surge Vietnamese exports to EU by 42.7% by 2025 [8]. So, in general, Vietnam will have a huge advantage: the privilege of accessing the EU market up to 10 years [9]. At the same time, according to EuroCham, the agreement gives EU's enterprises the best possible access to Vietnam's market through the opening up of many additional (sub)sectors. Beside tariff preferences and removal of trade barriers, the EVFTA is acknowledged as a new generation bilateral agreement with important provisions for intellectual property rights, investment liberalization, and sustainable development [8]. The agreements also provide greater access to Vietnam, an emerging market with

II. EU-VIETNAM TRADING

European firms operating in Vietnam have historically been fairly positive about the business environment in Vietnam [11], [9]. Figure 1 shows the annual data of the trade between EU and Vietnam for the last 10 year (2010 – 2020). The data were collected from [12], with the currency exchange rate between Euros and USD of 1.22. On the Figure, the export data, counted in millions of US dollars, are of the exported values from Vietnam into EU's countries. As can be seen from the Figure, both the export and import values between Vietnam and EU are year-by-year increased. However, the growth rate of the export values appeared to be much higher than that of the import values. As a result, the annual trade balances not only were all trade surplus or positive trade balances, but also significantly grew up during the 10-year period. The EU's main exports to Vietnam consists of high tech products, such as electrical machinery and equipment, aircraft, vehicles, and pharmaceutical products. The primary exports from Vietnam to the EU includes telephone sets, electronic products, footwear, textiles, clothing, coffee, rice, seafood, and furniture [6]. According to the Statistical Office of the European Union (Eurostat), the trade values

almost 100 million people, including about 55 million workers with a stable policy. In addition, the agreement opens opportunities for partnership, dialogue and cooperation and creates stronger relations with the Southeast Asian region.

In general, the EU-Vietnam agreements are expected to bring many opportunities both for Vietnam's developments in economic and social aspects, and the improvements of EU's trading [10], [11], [6]. However, the agreement came into force as the Covid-19 pandemic, causing disruption to global trade in general, and also in particular to the EU-Vietnam trade. Several investigations have been made to analyze and forecast the concurrent effects of the agreements and the Covid-19 pandemic. However, an updated analysis for very recent time has not been found. This paper provides a brief analysis of the EU-Vietnam trade and FDI for last 10 years, especially for the three recent years around the Covid-19 outbreak and the first quarter of 2021, when the 3rd round of the pandemic occurred around the world. 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 literature, descriptive statistical method, combined data with tables and figures aggregation.

can be categorized into three groups, as depicted on Figure 2. As can be seen on Figure 2, the major group contributed the highest values for the trade between Vietnam and EU is of from industrial products. Moreover, while the two other groups of Fishery and Agricultural products provided the approximated unchanged trade values, the trade from industrial products has been continuously increased. As can be seen on both Figure 1 and Figure 2, the trade values in 2020 were slightly smaller than that in 2019, as a result of the negative impacts of the Covid-19 pandemic. Noted that 2017-2018 are the times when the Covid-19 has not appeared.

The EVFTA comes after the escalations appeared in trade tensions between the US and China in 2019. These two factors thus would provide a very good condition to expand Vietnam's production and export capacities. Unfortunately, the agreements also came into force as the Covid-19 outbreak, causing disruption to global trade. Consequently, in terms of value, the first seven months of the EVFTA (August 2020-February 2021) EU exports to Vietnam felt by 10%. This amount, however, was much smaller compared to the exports from EU exports to third countries, which was fell by 19%. Similarly, EU imports from

Vietnam increased by 2%, in contrast to a 10% fall in global extra-EU imports [12].

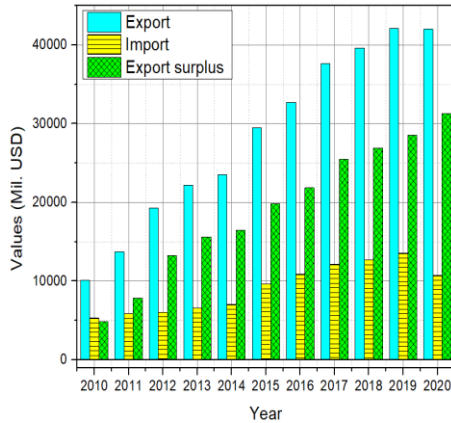


Fig.1. Vietnam-EU trade flows and balance, annual data 2010 – 2020

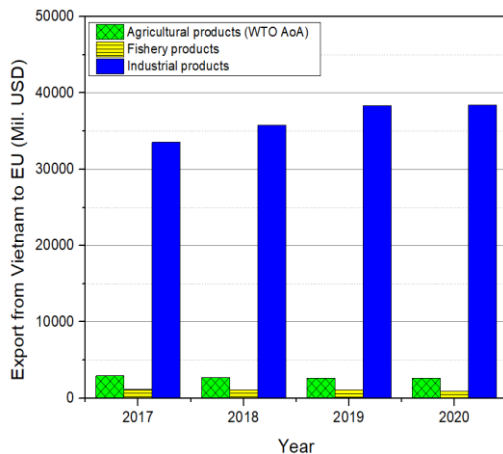


Figure 2. Vietnam-EU total trade values for the last 4 years

Vietnam is close proximity to China, where the COVID-19 outbreak started. This situation made Vietnam the one of the countries suggested to have widespread transmission of the virus from China. However, the country opposed this expectation and attained low spread of COVID-19 infection due to its proactive approaches in containing the disease [13]. As of March 11, 2021, Vietnam only has a total of 2529 confirmed cases, equivalent to 26 cases per one million population-compared to the global rate of 15,223 cases per one million of population. The Vietnamese government persistently implemented the special strategy with dual goals: both fighting the Covid-19 epidemic, avoiding disruptions and developing the economy. As a result, in 2020, Vietnam became a 10th country having the largest export values to EU (Figure 3), and the order of 15th in total trade with EU (Figure 4). It is noted that in 2020, the total export values

from Vietnam to EU were of €34,420, equivalent to USD 41992.4, as increased 106% compared to that of 2018, the year before the Covid-19 started.

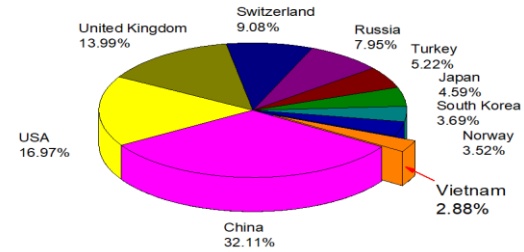


Fig.3. The 10 countries with largest exports to EU in 2020

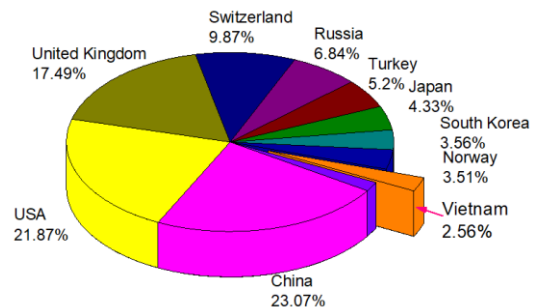


Fig.4. The 10 countries with largest imports from EU, and Vietnam (15th order) in 2020

III. FDI INTO VIETNAM FROM EU

According to the Organization for Economic Cooperation and Development (OECD), FDI can be defined as “a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy”. FDI is a good way to transfer technology between countries and promotes international trade. In other words, FDI is considered as an important element in international economic integration.

European Union (EU) has been always amongst leading FDI partners in Vietnam. According to European Chamber of Commerce in Vietnam (EuroCham), within 10 years from 2000-2010, the trade turnover in this bilateral trade relations had increased more than four times, from \$4.1 billion in 2000 to \$17.75 billion in 2010. Of which, Vietnam's exports to EU posted a four-fold increase from \$2.8 billion to \$11 billion and Vietnam's imports from the EU increased 4.89 times from \$1.3 billion to \$6.3 billion. On the other hand, in recent year, Vietnam has surpassed Indonesia and Thailand to become EU's second most important trading partner among all ASEAN members [8]. FDI now contributes over half of the

value of the manufacturing sector, and over 70 percent of Vietnam’s export turnover [4].

The agreement between EU and Vietnam brought about major implications for FDI values from EU into Vietnam. Firstly, the EU- Vietnam Investment Protection Agreement (EUVIPA) provided for an investor-state dispute settlement provision to protect EU investors from expropriation and lack of fair and equal treatment. Secondly, a large portion of FDI in Vietnam has export interests. The statistical data showed that more than 70% of Vietnam’s exports are linked to FDI [14]. EU investors will thus also benefit from export capacity expansion as a consequence of lower import duties in the EU. More importantly, the agreements call upon Vietnam to adopt international standards which further increases the prospects for FDI linked exports which are subject to stringent standards audits in jurisdictions such as the EU.

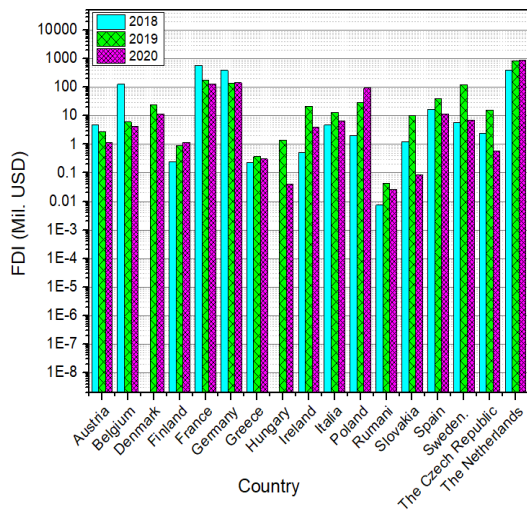


Fig. 5. FDI from EU in recent three year: countries with more than one million USD

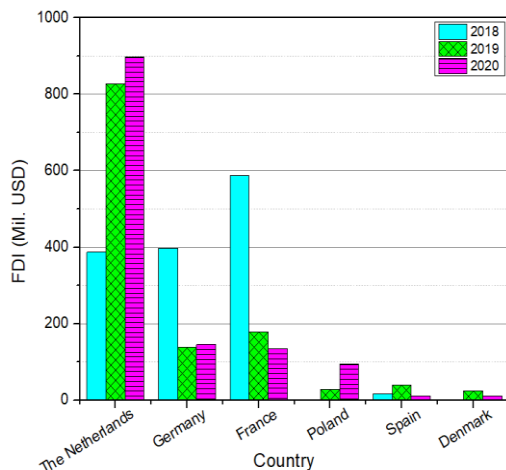


Fig. 6. FDI from 6 EU’s countries with largest investigation into Vietnam

Since the Covid-19 pandemic happened at the end of 2019, the data of FDI from EU investigators into Vietnam during three years, from 2018 to 2020 were analyzed. Figure 5 shows the FDI values of the EU countries having investigated amount larger than one million USD. As can be seen, when some countries reduced their investigations into Vietnam, several others still remain and continued to investigate, despite the negative impact of the Covid-19 pandemic. For example, FDI from the Netherlands into Vietnam increased by more than four hundred millions from 2018 to 2019, and continue to grew up by about 100 million USD in 2020. Figure 6 represented the FDI values from 6 EU countries having largest investigations into Vietnam in 2020 [14], one year after the Covid-19 happened.

In order to more deeply assess the situation of FDI investment from the EU into Vietnam during the 4th Covid-19 outbreak, the FDI data in the first quarter of 2021 were compared with the same period of 2020, as shown in Figure 7. The total FDI values were categorized into 4 groups, including the FDI projects implemented, new signed up, adding more capital to the existed FDI projects, and sharing the capital with the domestic firms.

As can be seen from Figure 7, the FDI from EU into Vietnam has significantly increased, despite the negative impact of the Covid-19 in this time. The major reason for this bright situation would be the positive impacts of the agreements overcome the negative influences of the Covid-19 pandemic.

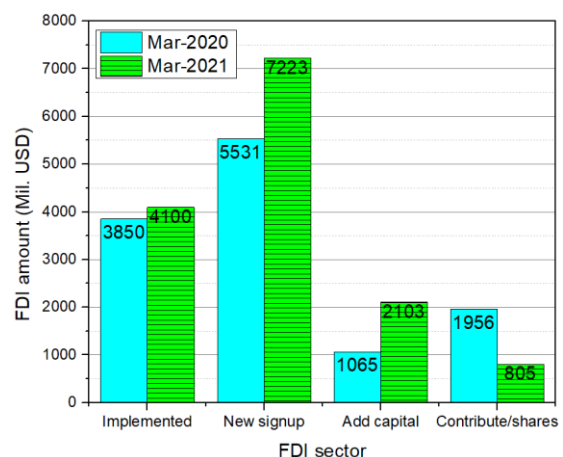


Fig. 7. FDI sectors compared with the same period between 2020 and 2021

VI. CONCLUSION

Over the past years, Vietnam has benefitted from trade diversion due to the US-China trade war. However, its gains must be placed in the context of

cumulative changes in regulations within the economy. The EUVFTA and EUVIPA provide additional sources of gains for the trade and FDI between European Union and Vietnam.

Beside the positive effect of the agreements, the Vietnamese government persistently implemented the special strategy with dual goals: both fighting the Covid-19 epidemic, avoiding disruptions and developing the economy. As a result of such impacts, in 2020, Vietnam became a 10th country having the largest export values to EU, and the order of 15th in total trade with EU.

Despite the negative impact of the Covid-19, the FDI values from EU to Vietnam kept remained and increased over last three years. Compared for the same period of 2020, the FDI data in the first three months of 2021 has significantly increased.

Further studies should be made to deeper analyze the impact factors of the EU-Vietnam agreements as well as the Covid-19 negative impact on the economy. The results would be a good reference for developing countries, both to defeat the Covid-19 pandemic and to develop their economies.

ACKNOWLEDGMENT

The authors would like to express their thanks to Thai Nguyen University of Technology, TNU International School and Thai Nguyen University for their supports of the study.

REFERENCES

- [1]. N. Audier, J.-J. Boufflet, L. Newman, and L. T. Binh, "EU-Vietnam Free Trade Agreement (EVFTA) Report 2019," European Chamber of Commercial in Vietnam 2019.
- [2]. OECD, "Economic Outlook for Southeast Asia, China and India 2020 – November Update: Ongoing Challenges of COVID-19," OECD Publishing, Paris, 2020.
- [3]. T. Phuong. (2020). In 2020, Vietnam attracts nearly 29 billion USD of FDI into Vietnam. Available: <http://ven.vn/>
- [4]. EuroCham, "The EuroCham Whitebook - Trade / Investment Issues & Recommendations," ed, 2021.
- [5]. A. Deshmukh. (2020, April). EU – Vietnam Free Trade Agreement: Vietnam's Competitive Gains. Available: <https://globalriskinsights.com>
- [6]. L. Lindemann and D. T. Ha. (2020). EVFTA: How Will European and Vietnamese Investors Benefit? Available: <https://www.vietnam-briefing.com/>
- [7]. L. T. Viet Nga, D. N. Minh, and P. M. Dat, "European-Vietnam free trade agreement (EVFTA) impacts on imports: A case study," Journal of Security and Sustainability Issues, vol. 9, pp. 56-68, 2020.
- [8]. D. Shira. (2020, April). Vietnam-EU Trade: EVFTA Comes Into Effect. Available: <https://www.vietnam-briefing.com/>
- [9]. C. Lee. (2020). FDI inflows from Europe to move into Vietnam. Available: <https://vietnamtimes.org.vn/>
- [10]. D. Hadjinikolov and P. Zhelev, "Expected Impact of EU-Vietnam Free Trade Agreement on Bulgaria's Exports," 12/18 2020.
- [11]. K. Das. (2018, April). Positive Outlook for European Businesses in Vietnam. Available: <https://www.vietnam-briefing.com/>
- [12]. Eurostat. (2021) Directorate-General for Trade: Statistics on Vietnam. Available: https://webgate.ec.europa.eu/isdb_results/fact_sheets/country
- [13]. C. Nguyen Thi Yen, C. Hermoso, E. M. Laguilles, L. E. De Castro, S. M. Camposano, N. Jalmasco, et al., "Vietnam's success story against COVID-19," Public Health in Practice, vol. 2, p. 100132, 2021/11/01/ 2021.
- [14]. Vietnam_MPI. (2021, May 20). FDI Brief Report. Available: <http://www.mpi.gov.vn/en>