



New-Generation Trade Agreements and Their Importance to Trade Relations Between European Union and Third Countries – Vietnam Case

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Abstract. This work aims to show key provisions and importance of new-generation trade agreements made by the European Union on the example of the agreement with Vietnam. Empirical research centred around an agreement signed between the EU and Vietnam, which is the third new-generation trade agreement entered into by the EU with an Asian country, following an agreement with the Republic of Korea and Singapore. The agreement with Vietnam introduced liberalisation covering almost the entire mutual trade (goods), also providing for the liberalisation of services and eliminating certain non-tariff barriers. Due to a word limit applicable to this article, the research into the importance of the agreement to the EU-Vietnam trade relations was limited mainly to trade in goods. Having considered the fact that relatively too short period of time has elapsed since the entry into force of the agreement, it is not possible to comprehensively assess its importance to bilateral trade relations, especially in a long-term perspective. Such research should be continued in the future. In particular, this concerns research into the effects of liberalisation of mutual trade after the end of transition periods applicable to the elimination of barriers to trade – seven years for the European Union and ten years for Vietnam respectively. Following more than a year since the signature of the agreement, it can be claimed that the EU's imports from Vietnam have increased considerably, which not only led to the greater negative balance of mutual trade, but also resulted in greater trade volumes for selected goods, and consequently, this may entail the elimination of certain barriers to mutual trade on the entry into force of the agreement. In this article, a descriptive and comparative method was employed, domestic and foreign literature sources were used and the provisions of the EU-Vietnam agreement

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and legal acts of the EU secondary legislation in the form of regulations were referred to.

Keywords: free trade agreements (FTAs), Vietnam, second- (new-) generation free trade agreements, the European Union, customs duties, non-tariff barriers.

JEL Classification: F13, F53, P33.

INTRODUCTION

The European Union (EU) is a signatory of a variety of multilateral, bilateral and regional agreements, serving the role of a key player in the international trade system. The European Union has made a number of preferential trade agreements (PTAs) that provide for reciprocal preferences. They are implemented under Article XXIV of the GATT/WTO and vary from each other considerably depending on a business partner. They can be categorised into four types (cf. European Commission, 2021):

- First-generation free trade agreements;
- Second- (new-)generation free trade agreements;
- Deep and Comprehensive Free Trade Agreements (DCFTAs);
- Economic partnership agreements.

First-generation free trade agreements had been entered into by the EU before the communication “Global Dimension of Europe” was published in 2006. These agreements, by and large, covered only trade in goods; mainly industrial products, agricultural articles were usually subject to partial and selective liberalisation. These include the following agreements:

- Agreements made with Norway, Switzerland, eight Mediterranean countries, Mexico and Chile;
- Agreements to form customs union with Turkey, Andorra and San Marino;
- Stabilisation and association pacts with five Western Balkans countries containing additional provisions designed to prepare them for gradual integration into the EU market.

The majority of such free trade agreements are planned to be transformed into comprehensive free trade agreements. Following the Arab Spring, the negotiation of the DCFTA began, which applied also to certain eastern partners, Morocco, Tunisia and Jordan. Currently preparations are underway to open negotiations aimed at the modernisation of customs union with Turkey and the free trade agreement with Chile.

Second- (new-)generation free trade agreements are comprehensive free trade agreements negotiated after 2006 with selected third countries, which go beyond mere trade in goods. As regards their contents, new free trade agreements have a comprehensive scope and mean the greatest possible liberalisation of trade, including well advanced liberalisation of services and investments, as well as the elimination of non-tariff barriers, quantitative restrictions (European Commission, 2006, p. 10). These include agreements made with: Colombia, Peru and Ecuador, Middle America, South Korea, Canada, Japan, Singapore and Vietnam.

Deep and Comprehensive Free Trade Areas (DCFTAs), concentrate on the tightening of economic links between the EU and its neighbours by bringing their regulatory framework closer to EU law, notably in trade-related areas. These include agreements made with: Ukraine, Georgia and Moldova.

Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific regions are centred around development needs and support the gradual liberalisation of trade with partner countries.

Due to the fact that new-generation free trade agreements were signed with countries that varied in terms of economic development and that geo-political and geo-economic conditions under which these instruments were

entered into also slightly differed, the detailed research was limited to an agreement signed with one country. Hence, the detailed objective is to demonstrate the key provisions and the nature of the free trade agreement with Vietnam in the context of new-generation trade agreements, as well as to attempt to assess its importance to trade relations between Vietnam and the European Union. Detailed research questions include the following issues.

RQ1: What are the key provisions of new-generation trade agreements made by the European Union with third countries?

RQ2: What were the main barriers to trade with Vietnam?

RQ3: What are the main provisions of the new-generation Free Trade Agreement with Vietnam?

RQ4: Have there been any changes in trade with Vietnam in recent years (in particular after the entry into force of the agreement) in the context of the agreement made with Vietnam?

Due to a word limit applicable to this article, the research into the importance of the agreement to the EU-Vietnam trade relations was limited mainly to trade in goods. The structure of the article encompasses, firstly, the reasons for concluding and the main provisions of the new generation free trade agreements. Secondly, the main barriers to trade with Vietnam and the most important provisions of the EU agreement are presented. Finally, the volume and structure of bilateral trade in recent years are characterized.

In this article, a descriptive and comparative method was employed, domestic and foreign literature sources were used and the provisions of the EU-Vietnam agreement and legal acts of the EU secondary legislation in the form of regulations were referred to.

GENESIS AND OBJECTIVES OF NEW-GENERATION TRADE AGREEMENTS

The publication of a strategic document entitled “Global Europe” in October 2006 meant shifting the centre of gravity of EU commercial policy to a new active phase of bilateralism (European Commission, 2006). The keynote was the use of commercial policy with a view to ensuring economic growth and creating new jobs. The Commission was of the opinion that the global economy had changed, and consequently, the European Union’s commercial policy had to be adapted to these changes, specifically, it should take into consideration an increasing role of emerging markets in the global trade and commercial strategies employed by competitors, in particular, the United States. The reasons behind choosing the major trading partners with whom preferential trade agreements are to be made should be of an economic nature; indeed, attention must be given to market potential (size and economic growth) and the level of security in imports from the EU (tariff and non-tariff barriers). Hence ASEAN¹, South Korea and Mercosur, to name but a few, were considered the most important partners. In these countries and regions, a high level of security goes hand in hand with high market potential; they also actively strive to enter into free trade agreements with other countries competing with the EU. This took the form of the EU’s initiation of negotiations for new free trade agreements with South Korea, ASEAN and India, as well as Middle America and the Andean Community of Nations. This is rather a change in the point of view, but not a fundamental change in the course, as the EU had earlier widely used free trade agreements or inter-regional agreements. However, in 1999, the EU imposed a seven-year de facto moratorium on new initiatives concerning free trade agreements, at the same

¹*Association of South East Asian Nations*; membership was granted to the following countries (in the order of accession): the Philippines, Indonesia, Malaysia, Singapore, Thailand (founding states), Brunei (since 8 January 1984), Vietnam (since 28 July 1995), Laos and Myanmar (since 23 July 1997), Cambodia (since 30 April 1999), the following countries are members: Thailand, Indonesia, Malaysia, Singapore, the Philippines, Brunei, Laos, Myanmar, Cambodia.

time pursuing a comprehensive trade agenda on a multilateral level (Evenett, 2006). On account of the stagnation of multilateral trade negotiations as part of the Doha Round, the EU lays particular emphasis on the conclusion of bilateral agreements to create free trade areas, that is to say, on reciprocal preferences.

The protection of European trade interests is the prime motive for new EU initiatives for free trade agreements. This slightly stands in contrast with the motives for previous EU preferential agreements. Indeed, in the majority of cases, the negotiation of previous agreements was justified by political factors, foreign policy, security reasons and trade interests.

KEY PROVISIONS OF NEW-GENERATION FREE TRADE AGREEMENT WITH VIETNAM

In the Union commercial policy strategy, ASEAN countries were considered – as previously mentioned – a priority partner of the EU in the context of new-generation free trade agreements. After two years of negotiations started in 2007 with the entire ASEAN grouping, further talks were broken off and it was decided to conduct them in a bilateral form with individual countries. Compared to other Asian countries with which the EU is/was negotiating free trade agreements, Vietnam deserves special attention.

Literature on the subject provides research into the potential effects of the agreement with Vietnam, which had been published before the agreement was signed (Grumiller et al., 2018; Khoát & Cismas, 2019; Kikuchi et al., 2018; Kuźnar & Menkes, 2020; Nga et al., 2020; Trösteret et al., 2019). There are also publications devoted to selected issues covered by the provisions of the agreement: benefits to the Vietnamese economy (Kikuchi et al., 2018); intellectual property or labour market (Ha et al., 2021; Huu, 2021; Nguyen & Do, 2020). The authors agree that the agreement between Vietnam and the European Union provided many opportunities and challenges, specifically, for the Vietnamese economy, in particular, for the wood industry. Whereas as regards the European Union, cars represent the group of very important export goods. However, in order to perceive opportunities and challenges for EU and Vietnamese companies, one has to adopt many different perspectives. Hence, while conducting research, attention must be given to a variety of aspects.

The latest research (Boguszewski, 2022) pertaining to free trade agreements (conducted after the agreement with Vietnam was concluded) concentrates attention on their impact on the institutional environment of a country, and through this channel, on results and economic growth. Vietnam served as a case study in the aforesaid research. On the other hand, other researchers (Hoang & Garcia, 2022) focused on the reasons behind the decision to enter into the agreement with Vietnam, that is to say, mainly, geo-economic aspects and broad objectives of the foreign policy. In the context of these circumstances, the authors put their emphasis on the form and contents of the negotiated agreement. Kuźnar & Menkes (2022) point to the significance of new-generation trade agreements made with Asian countries, and specifically with Vietnam, for the promotion of European “non-commercial” values (such as workers’ rights, sustainability).

It must be emphasised that previous studies investigating the significance of the free trade agreement with Vietnam were, by and large, of an *ex ante* nature, especially, as regards the assessment of potential effects on economy, trade, production or selected sectors. Furthermore, none of the studies undertaken so far has considered the impact of the pandemic on international trade. The research carried out in this paper is of an *ex post* nature, which means that it can be considered an added value. Based on current data (the latest data refers to 2021, merely one year after the agreement entered into effect), an attempt was made to evaluate the effect that the liberalisation of EU-Vietnam trade had on mutual trade relations. Such an assessment, given the conditions mentioned above, is only preliminary and short-term. This is because the research results cover, as a matter of fact, the period during which international trade was hampered and changed its directions due to Covid-related restrictions.

The EU-Vietnam Free Trade Agreement (EVFTA) was signed on 30 June 2019 and entered into force on 01 August 2020 (Free Trade Agreement between the European Union and the Socialist Republic of Viet Nam, 2020;

WTO, 2020). It sets out rules for the liberalisation of trade between the EU and Vietnam. EVFTA is the most comprehensive and ambitious trade and investment agreement which the EU has ever made with a developing Asian country. It is the second, following the agreement with Singapore, free trade agreement entered into in the ASEAN region, which will intensify bilateral relations between Vietnam and the EU. The Free Trade Agreement between the European Union and Viet Nam is one of the EU's 46 and Viet Nam's 15 RTAs in force and notified to the WTO (WTO, 2021a).

The agreement creates a free trade area between the Union and Vietnam, with attention being given to the high level of environmental protection and compliance with labour law and relevant standards, agreements, practices and guidelines accepted on an international level.

The specific objectives of the agreement with Vietnam include mainly (elaborated on the basis of EU-Vietnam Trade Agreement and Investment Protection Agreement):

- The elimination of customs barriers to mutual trade in relation to industrial and agricultural goods, the facilitation of access to the market for EU car makers;
- The reduction of non-tariff barriers. Apart from customs levies (tariffs), there are many non-tariff barriers to trade with Vietnam, such as various technical standards and complex customs procedures. The free trade agreement will reduce some of these impediments: Vietnam will adapt, to a greater extent, to international standards, will review technical provisions to make them more consistent with relevant international standards, e.g. those relating to motor vehicles (the UNECE provisions on vehicles, already applied by the EU) and pharmaceuticals. This will enable Union manufacturers to export cars and other motor vehicles without the need to undergo Vietnamese testing and certification procedures. The agreement also contains detailed provisions on non-tariff barriers in the automotive sector. In particular, Vietnam undertook to increase the application of international standards when drafting provisions. The agreement also contains a chapter concerning sanitary and phytosanitary measures to facilitate trade in plant and animal products. Furthermore, Vietnam will simplify and unify customs procedures.
- The liberalisation of the public procurement market (ensuring that EU and Vietnamese suppliers may compete on a level playing field on both markets). The free trade agreement will enable EU companies to bid for Vietnamese governmental contracts and *vice versa*. This applies to contracts with European and Vietnamese national and regional authorities. Union companies will have an opportunity to participate in public procurement contracts of Vietnamese ministries and state-owned companies, as well as of Vietnam's two biggest cities – Hanoi and Ho Chi Minh City.
- The liberalisation of trade in services and better access to services markets. The free trade agreement will facilitate the provision of services by EU companies in Vietnam, for instance, in the postal, banking and insurance sectors, marine transport and environmental protection. The agreement also contains provisions on the mutual recognition of professional qualifications, under which the Parties encourage relevant organisations and authorities to draw up common recommendations pertaining to the mutual recognition of professional qualifications. Like all other trade agreements, the FTA properly secures the EU's right to regulate public services, such as the public health service, public education or social services. The agreement provides for the propagation of reciprocal electronic commerce, specifically, by co-operation in matters relating to electronic commerce, which will be supervised by the Committee on Investment, Trade in Services, Electronic Commerce and Government Procurement, comprised of the representatives of the Parties.
- Access to and Protection of Investments. Both investors from the EU in Vietnam and Vietnamese investors in the EU will be put on an equal footing with national ones. The investment protection agreement accompanying the free trade agreement creates an investor-state tribunal responsible for the resolution of

disputes between investors from the EU and Vietnamese authorities (and *vice versa*). The free trade agreement will open various Vietnamese production sectors to investments from the EU, e.g. food and beverages, tires, ceramics and construction materials.

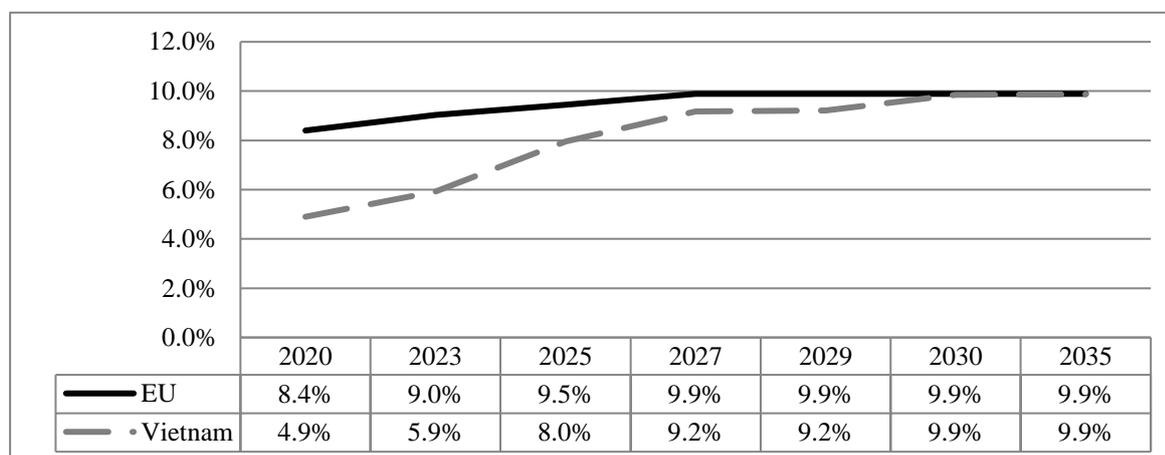
- Promotion of Sustainable Development. The agreement contains a comprehensive chapter relating to trade and sustainable development, which will enable trade to support labour law, environmental protection and human and social development and will contribute to sustainable forest management and sustainable fishery management. This chapter also sets out obligations pertaining to the effective application of international standards and relating to efforts aimed at ratifying a series of international conventions. In response to the problems related to employee rights and environmental protection in Vietnam, the free trade agreement sets forth the obligations to implement the fundamental standards of the International Labour Organisation (e.g. the freedom to join independent trade unions and a ban on child labour) and the UN conventions (e.g. on combating climate changes or the protection of biological diversity). It was also demonstrated how social partners and civil society will be involved in the implementation of the chapter and the monitoring of its progress.
- The protection of intellectual property rights, in particular specific trade marks, copyright, geographical indications.
- Ensuring an effective and fast dispute resolution system. Dispute resolution as part of the Free trade agreement covers consultations and arbitration, as well as a mediation mechanism.

Currently, trade preferences offered unilaterally by the EU as part of the Generalised System of Preferences (GSP) apply (until 31 December 2022) to many Vietnamese products. An average applied MFN rate in Vietnam for all goods is 12% and is two times higher than an average MFN rate in the EU (6.3%); 18.1% applicable to agricultural products (14.2% in the EU) and 11% to non-agricultural products (4.2% in the EU) (the WTO definition); a zero customs duty applies to 29% of all tariff lines (in the EU – 27%). Given the goods which are mainly exported by the EU to Vietnam, relatively high tariff rates effective in Vietnam apply to means of transport (an average tariff rate – 34.5%); machinery and electric equipment (an average tariff rate – 6.2%); pharmaceutical products (8%). On the other hand, the goods which are mainly exported to the EU from Vietnam and covered by relatively high tariff rates include animals and products of animal origin (an average MFN rate – 19%), coffee (11.5%), cereals and preparations (17.2%), clothing (11.6%), textiles (6.6%), furniture (between 0% and 5.6%).

Vietnam is a beneficiary of the standard General System of Preferences (GSP) in the EU (until the end of 2022), which means that it benefits from preferential access to the EU market. It is the second largest, following India, beneficiary of the Generalised System of Preferences, 24% of exports to Vietnam was covered by GSP preferences, potentially 38% of exports to the EU could be covered by GSP preferences (2018). The utilisation rate, which may be defined as the share of preferential import value in relation to the value of import eligible for preferences, was 64% for Vietnam (in 2018) (for India, it was 87%, Tajikistan – 91.5%, Indonesia – 91.5%) (European Commission, 2020).

Chart 1

Timeline for Reduction of Tariff Rates Specified in EU-Vietnam Free Trade Agreement (in accordance with tariff lines)

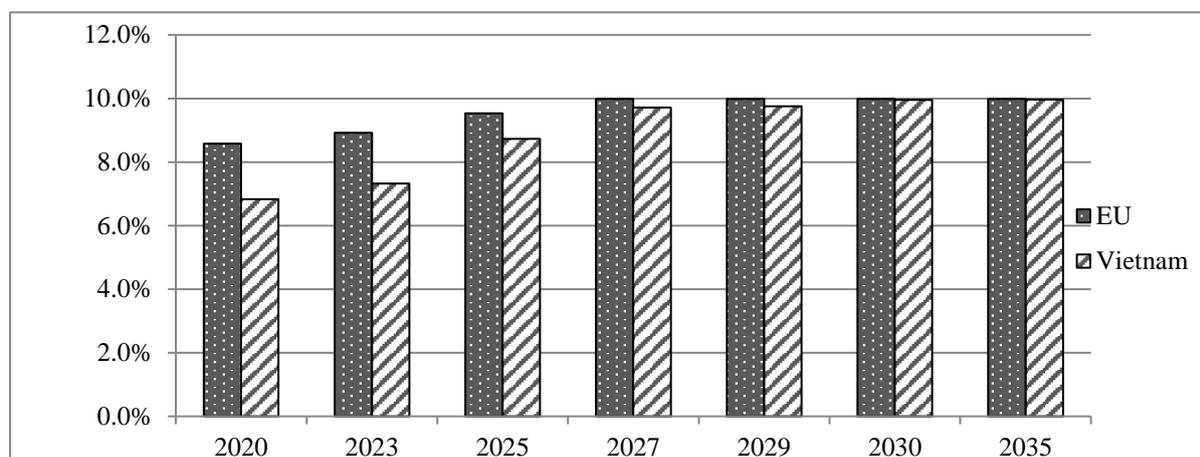


Note. Own elaboration based on: WTO, 2021b, p. 12-14.

The Chart 1 shows the EU's obligations to abolish customs duties and eliminate customs duties in mutual trade under the agreement. In 2020, 26.6% of all tariff lines (TL) in the EU tariff was covered by zero MFN customs duties, which accounted for 65% of imports from Vietnam between 2017 and 2019. Furthermore, the EU grants preferential duty-free access to goods from Vietnam in relation to 30.5% tariff lines under the Generalised System of Preferences (GSP), the beneficiary of which is Vietnam (until the end of 2022). After the arrangement entered into force, additionally, customs duties for 26.9 % of tariff lines was eliminated for imports from Vietnam. Until 2023, customs duties for 598 additional headings will be abolished. As a result of that, the total percentage of duty-free tariff headings will be 90.3%, representing above 89% of imports from Vietnam between 2017 and 2019. And finally, 106 tariff lines (1.1% of all the lines) will be still covered by tariff quotas or specific customs duties resulting from the entry price system after the implementation has been completed. On the other hand, in 2020, zero MFN rates applied to 31.1% of all tariff lines in Vietnam, which accounted for 60% of Vietnam's imports from the EU between 2017 and 2019. Further reductions of customs duties (zero customs duties) for imports from the EU were made in 2020 for 17.9% of tariff lines. Until 2029, after ten years of implementation, customs duties for further 4,124 tariff headings will be liberalised, as a result of which the total percentage of duty-free tariff headings will amount to 92.1%, accounting for above 97% of imports from the EU between 2017 and 2019. And finally, 627 tariff headings (2.1% of imports) will be exempted from customs duties until 2035, whereas 117 tariff headings will be covered by customs duties (1.2% of all tariff lines) after the end of the transition period (chart 1 and chart 2).

Chart 2

Timeline for Reduction of Tariff Rates Specified in EU-Vietnam Free Trade Agreement (in consideration of import volumes in 2017-2019)



Note. Own elaboration based on: WTO, 2021b, p. 12-14.

The parties partially liberalise customs duties as part of duty-free tariff quotas. The EU abolished customs duties as part of tariff quotas of fixed volume on the entry into force of the agreement for 76 tariff headings relating to bird eggs, garlic, sweetcorn, certain varieties of rice (30,000 tonnes of milled rice; 20,000 tonnes of broken rice; 30,000 tonnes of scented rice), manioc starch, tuna, surimi, sugar, mushrooms, ethanol, mannitol, sorbitol, modified starch (none of these tariff quotas for Vietnam is a part of EU/WTO tariff quotas). Vietnam, on the other hand, abolished customs duties as part of the quota in 11 equal annual stages for 30 tariff headings relating to bird eggs, sugar, tobacco and salt (the quota quantities set out in the agreement constitute a part of Vietnam's quotas in WTO). Furthermore, given Vietnam's WTO obligations, annual quota quantities are not fixed and are to be raised by 5% on a yearly basis (WTO 2021b, p. 16). The EU is gradually eliminating almost all the other customs duties applicable to imports from Vietnam until November 2030. The EU will still maintain customs duties on several products even after the expiry of the transition period, including on certain fish products (tilapia, bonito).

Under the agreement, Vietnam reserved the right to impose export duties on 57 tariff lines, the majority of which include such goods as oil or coal, on which export duties had been already levied (WTO, 2021b, p. 40). Supplement 2-A-3 to Appendix 2-A to the agreement sets out timelines for the elimination or reduction of export duties for Vietnam. The elimination or reduction of export duties applies to oil seeds, minerals, non-organic and various chemicals, rubber, raw skins, wood, pearls and precious stones, as well as base metals, a reduction up to 20% for 56 TLs after five years and 10% for one TL relating to manganese ore, also after five years.

When the agreement becomes effective, Vietnam will liberalise almost 65% of import duties from EU countries, whereas the remaining provisions will be enforced within a ten-year transition period. A transition period applicable to the EU will be seven years.

- The trade agreement eliminates customs duties on a series of the EU's key export products:
- The majority of machinery and equipment will not be covered by import duties in Vietnam (in the amount of up to 35%); the rest will be exempted from customs duties until August 2025;
- Until August 2027, Vietnamese import duties in the amount of 75% on motorcycles with engine cubic capacity greater than 150cc will be gradually eliminated; smaller motorcycles: duty-free import after ten years;

- For the majority of cars, duty-free import after ten years (August 2030); Vietnamese import duty in the amount of 78%; cars with high engine cubic capacity (>3,000cc for petrol, >2,500cc for diesel fuel): after nine years;
- Customs duties on car parts will be gradually abolished (in the amount of up to 32%) until August 2027;
- Nearly half of pharmaceutical products from the EU is exempt from import duties in the amount of 8% on the entry into force of the agreement, and the remainder will be no longer covered by Vietnamese customs duties in the amount of 12% until August 2027;
- Nearly 70% of chemicals exported from the EU will not be covered by Vietnamese import duties in the amount of up to 5%, whereas the remainder will be eligible for exemption from customs duties in the amount of 25% after three, five or seven years.

As regards the EU:

- Textiles – customs duties will be eliminated within seven years;
- Footwear – customs duties will be abolished within seven years;
- Fishery and aquaculture products within seven years (except for canned tuna – a tariff quota);
- Rice products – customs duties will be abolished within seven years;
- Vegetables, bags, suitcases, products from plastics – customs duties will be eliminated on the entry into force of the agreement.

European manufacturers and exporters of agri-food products will benefit from Vietnam’s growing market and the gradual elimination of customs duties.

Table 1

Timeline for Elimination of Customs Duties on Selected Union’s Agri-Food Products Exported to Vietnam

	Import Duty Under Vietnam’s Customs Tariff	Elimination of Customs Duty
Beef and lamb	20%	August 2023
Frozen pork	15%	August 2027
Fresh pork, meat offal and hams	Up to 25%	August 2029
Poultry and giblets	Up to 40%	August 2030
Dairy products	Up to 15%	August 2025
Majority of cheeses with geographical indication	Up to 15%	August 2023
Wines and spirit drinks	50% and 48% respectively	August 2027
Beer	35%	August 2030
Food preparations	Up to 40%	August 2027
Baked goods and sugar confectionery	Up to 40%	August 2025
Chocolate	30%	August 2027
Pastas	20-38%	August 2027

Note. Own elaboration based on Agreement with Vietnam.

Import duties on frozen pork from the EU will be liberalised seven years after the agreement becoming effective, beef after three years, dairy products after five years, poultry after seven years and food preparations after

seven years at the latest. Customs duties on wine and alcoholic beverages will be abolished seven years after the agreement enters into force (Table 1).

169 European geographical indications will benefit by being recognised and protected on the Vietnamese market to a similar extent as that provided for by the EU legislation. This means that using geographical indications, such as Champagne, Feta, Parmigiano Reggiano, Rioja or Roquefort will be reserved in Vietnam for products imported from European regions from which they originate. The trade agreement recognises and protects geographical indications of wines, spirit drinks, agricultural products and foodstuffs produced in the EU or Vietnam. Many Union geographical indications will be protected automatically after the trade agreement becomes effective. A few examples include (however, this list is not exhaustive): Česképivo, Bayerisches Bier, Rioja and Porto, Koniak, Eau-de-vie de Cognac, Eau-devie des Charentes – alcoholic beverages from France, Ouzo, Irish Cream, Grappa from Italy, SchwarzwälderSchinken, including three Polish products: PolskaWódka (Polish vodka), Wódka “Zubrówka” (“Zubrówka” Vodka) and Polish Cherry. Thirty-nine Vietnamese geographical indications will be also recognised and protected as such in the EU due to the agreement, which will provide adequate framework for the further promotion of the import of high-quality products, such as *PhúQuốc* fish sauce, *MộcChâu* tea or *Buôn Ma Thuột* coffee. (Delegation of the European Union to Vietnam, 2019).

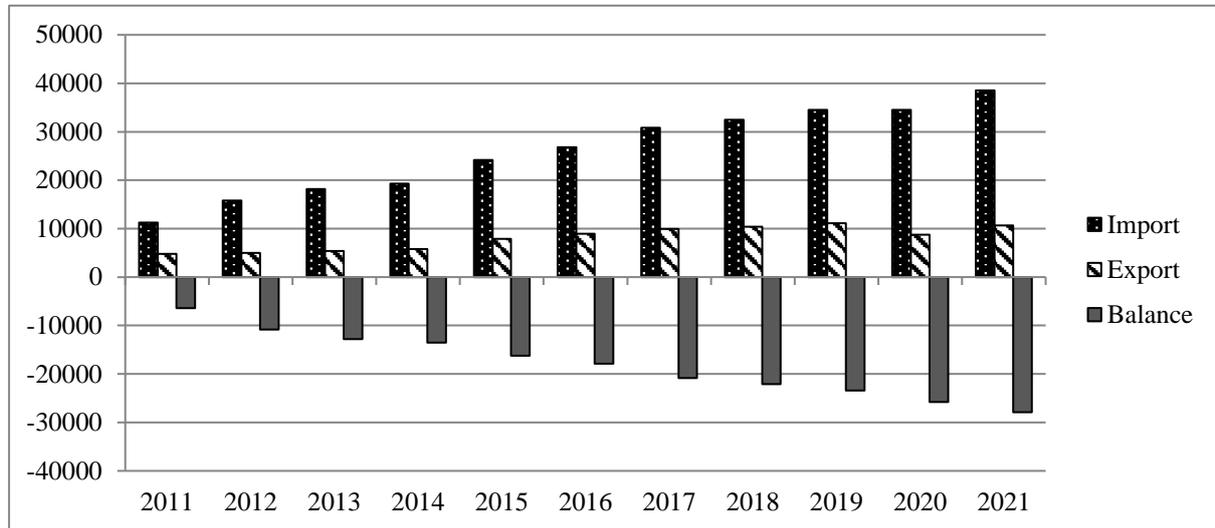
Trade Relations between European Union and Vietnam in the Context of New-Generation Agreement Concluded

Vietnam, with a population of above 97 million, is an important market in Asia for the EU’s exports. The EU considers Vietnam to be the fifteenth biggest partner for trade in goods all over the world and the second biggest partner in South-Eastern Asia. Vietnam is the fifteenth (in 2021 – the sixteenth) trading partner of the EU, as regards trade in goods, and the biggest trading partner of the EU, of all ASEAN countries (in 2020). The balance of bilateral trade in goods between the EU and Vietnam in the second decade of the 21st century was negative, however, 2021 saw it reach a record high – almost EUR 27.9bn (in 2020, it was EUR 25.8bn). These figures result from the higher growth of import than export, which, in fact, rose in 2001, compared to the preceding year, but it must be remembered that in 2020 the majority of countries from all around the world, including the EU, recorded a drop in trade in goods (except for Vietnam). Vietnam exports electronic equipment (such as mobile phones and computers) to the EU, together with shoes, textiles and clothing, coffee, rice, seafood and furniture, garments and vegetable products; the EU exports machinery, cars and chemicals (including pharmaceutical products) to Vietnam (European Parliament, 2018).

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Chart 3

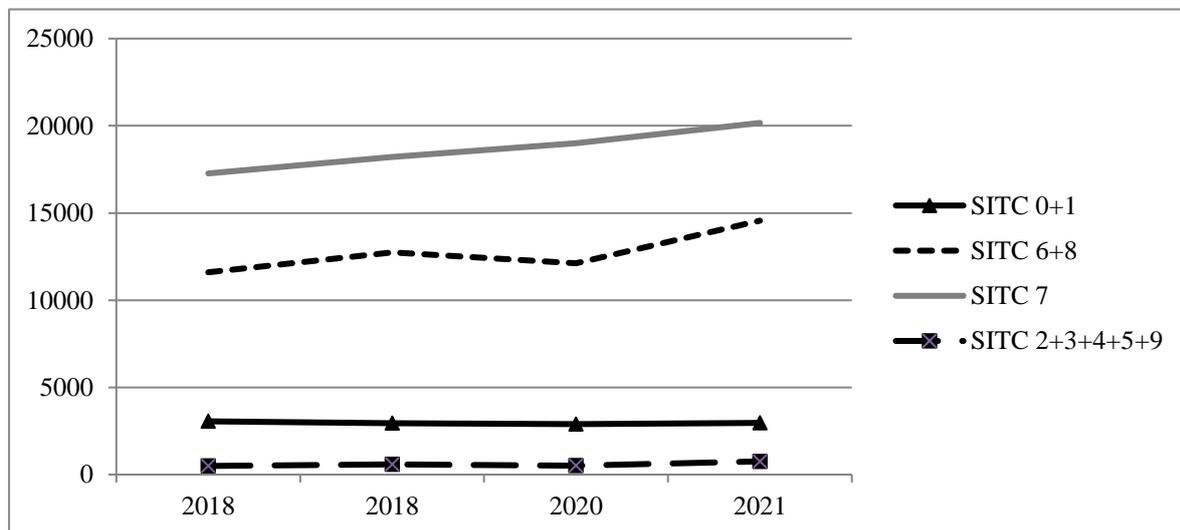
EU-Vietnam Trade in 2011-2021 in mEUR



Note. Own elaboration based on Eurostat Comext - Statistical regime 4.

Chart 4

EU's Import from Vietnam based on Main Groups of Standard International Trade Classification (SITC)



Note. Own elaboration based on Eurostat Comext - Statistical regime 4.

SITC – Standard International Trade Classification

Goods are classified into the following sections:

SITC 0+1 – Food, live animals, beverages and tobacco

SITC 2+4 – Raw materials

SITC3 – Mineral fuels, lubricants and related materials

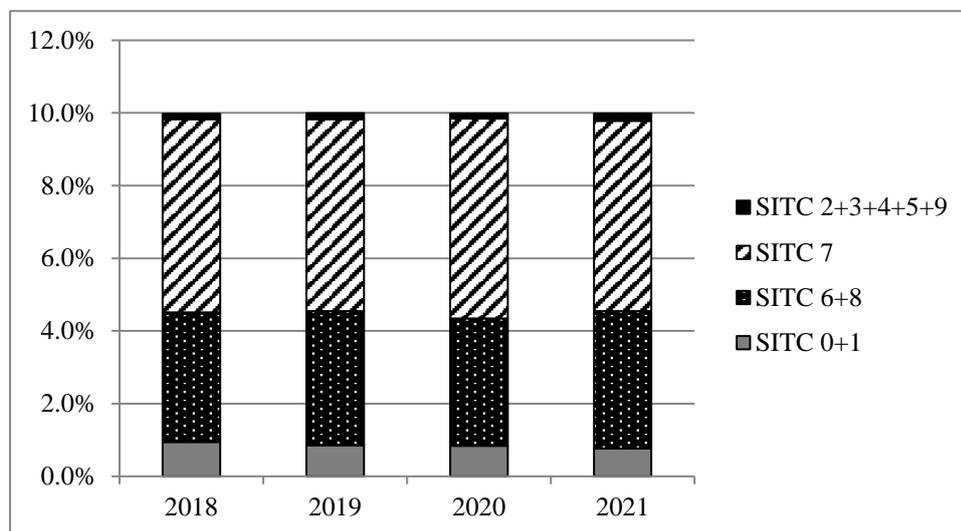
SITC5 – Chemicals and related products, n.e.s.

SITC 6+8 – Other manufactured goods

SITC 7 – Machinery and transport equipment

SITC 9 – Commodities and transactions not classified elsewhere in the SITC

Chart 5

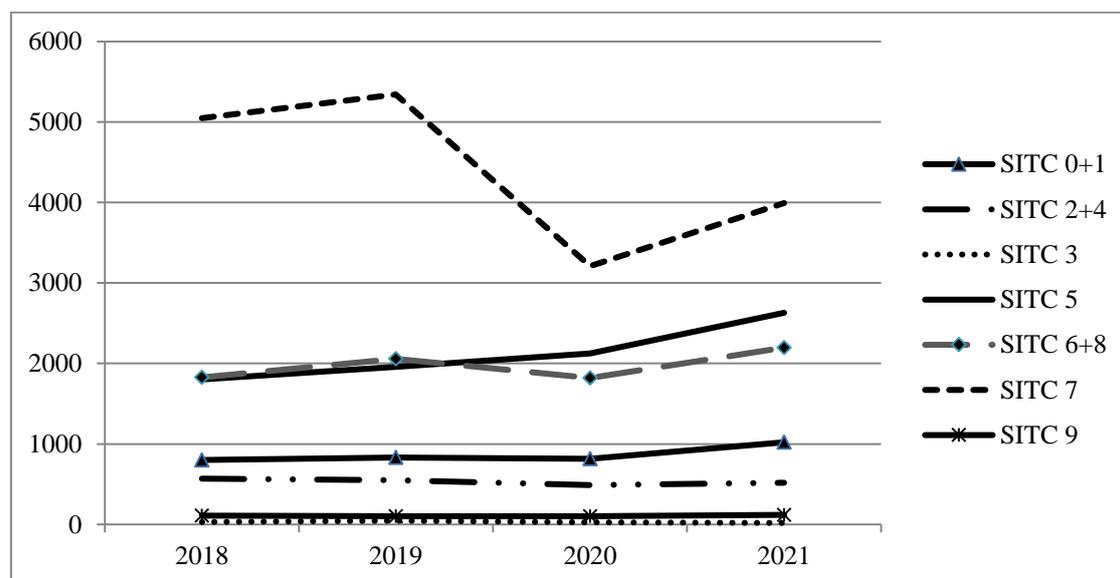
Goods Structure of EU's Import from Vietnam

Note. Own elaboration based on Eurostat Comext - Statistical regime 4.

Having considered the structure of goods covered by trade, the biggest group includes processed products, with the SITC 7 group (machinery and transport equipment) having the greatest share – above 50% in the EU's import from Vietnam, and as regards the EU's export, approx. 38% (2021) (chart 4 and chart 5). As regards the EU's imports from Vietnam, the second largest group is section 6+8 of the SITC, namely manufactured goods classified by material and other manufactured goods (37.8% in 2021), followed by goods categorised into section 0+1 of the SITC, i.e. food, beverages and tobacco products (including live animals) (a considerably lower share – approx. 8%). It is noteworthy that over the past several years, the share of goods classified as section 0+1 in import has declined, whereas the share of section 6+8 and section 7 has risen. As for the majority of goods categorised into these sections, customs duties on imports from Vietnam, will not be abolished sooner than after the end of several-year transition periods. Hence one may venture a guess that the entry into force of the agreement has not considerably affected the structure of goods imported by the EU. However, too short time has elapsed since the date the agreement entered into force, and furthermore, one has also to consider the impact of the pandemic on global trade, which led to changes in international trade and a drop in trade growth rate. Nevertheless, what deserves attention is an increase in the import of goods categorised into section 7 and section 6+8 (except for 2020). On the other hand, as regards the EU's exports to Vietnam, the biggest group is represented continuously by goods listed in section 7 (although their share in total exports fell: from almost 49% in 2018 to nearly 38% in 2021). Goods categorised into section 5 (chemicals and related products), with their share rising from 17% in 2018 to almost 25% in 2021, and goods included in section 6+8 (an increase from almost 18% to nearly 21% in 2021) ranked second as the commodities most commonly exported to Vietnam. In absolute values, the recent years have seen a growing trend for the export of goods listed in section 5, as well as section 6+8. In 2021, the export of machinery and transport equipment from the EU to Vietnam rose (section 7), however, in 2020 a decline in exports for this group of goods was reported. As regards the export of specific groups of products, the highest increase in exports to Vietnam in 2021, compared to 2020, was reported for semiconductors (324%) and accessories for means of transport (111%). A considerable growth of imports from Vietnam was observed for fuels (other than oil), which were higher by 1,500%, non-ferrous metals (264%), iron and steel (511%) and base metals (165%). In this case, a reason behind it may be the reduction or elimination of relatively high import duties.

Chart 6

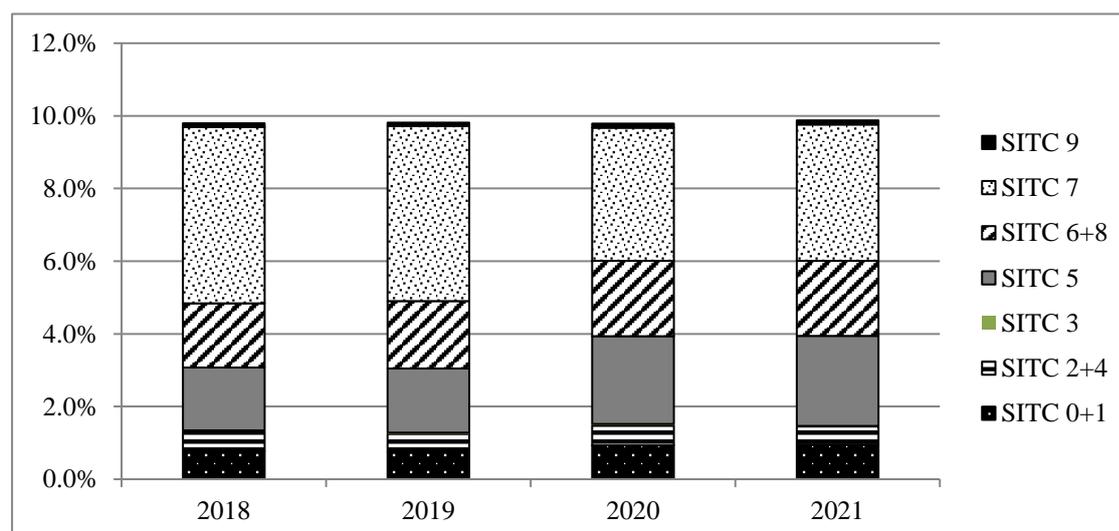
EU's Export to Vietnam by Main SITC Groups, in mEUR



Note. Own elaboration based on Eurostat Comext - Statistical regime 4.

Chart 7

Goods Structure of EU's Export to Vietnam



Note. Own elaboration based on Eurostat Comext - Statistical regime 4.
SITC 3 – below 0.5%

As regards the structure of goods exported by the EU, only subtle changes occurred. When the agreement entered into effect (in 2020), the share of machinery and transport equipment (section 7) in the EU's export declined

compared to 2019, and in 2021, a 1% increase was reported in comparison with 2020. However, there was a substantial rise, compared to the preceding year, in the share of chemicals and related products (section 5) and manufactured goods classified by material and other manufactured goods (Section 6+8), both in 2020 and 2021. It must be noted that import duties in Vietnam on the majority of machinery and equipment and chemicals were eliminated on the entry into force of the agreement.

As for imports from Vietnam to the European Union, also no significant changes occurred. It must be remembered that Vietnam is a beneficiary of the Union's GSP until the end of 2022, while additional customs preferences following from the signature of the agreement in 2020 concerned a relatively small number of tariff lines. Goods which are particularly sensitive (textiles, footwear, clothing, fishery products) will be covered by full liberalisation after the end of a transition period – typically seven years.

CONCLUSIONS

The main reason for negotiating new-generation free trade agreements referred to in the 2006 strategy for the development of the European Union's common commercial policy is an economic criterion (market potential, economic growth) for the selection of prospective trading partners and *de facto* a shift from multilateralism to bilateralism. The trade agreement of this type entered into by the European Union with Vietnam fits into this pattern. As a matter of fact, Vietnam is a relatively important trading partner for the EU and *vice versa*.

Principal barriers to mutual trade include, except for customs duties (Vietnam did not apply tariff preferences to Union goods), non-tariff barriers, e.g. various technical standards and complex customs procedures, barriers to the movement of services, investments. It must be remembered that by the end of 2022 Vietnam was a beneficiary of the Union's GSP, hence it unilaterally benefited from preferential access to the EU market (this led, among other things, to a reduction in customs duties on textiles exported from Vietnam).

The agreement with Vietnam introduced the liberalisation of almost whole mutual trade (goods), also providing for the liberalisation of services, the liberalisation of the public procurement market and the elimination of certain non-tariff barriers, in particular, in the automotive industry. However, regarding the majority of commodities categorised into the main sections of goods covered by mutual trade, customs duties will not be abolished sooner than after the end of several-year transition periods. Vietnam also committed itself to effectively apply international standards and to make efforts aimed at ratifying a series of international conventions.

When examining changes in mutual trade in the two-year period following the conclusion of the agreement, it seems reasonable to cautiously say that the instrument in question did not have any considerable effect on the structure of mutual trade. The research revealed that recent years have seen an increase in mutual trade, except for 2020, the negative balance of the Union's trade with Vietnam also rose. One may not overlook the fact that during the years 2020-2021 the growth rate of international trade declined on account of the pandemic. However, in the examined period no significant changes in the structure of the Union's import and export took place. Goods categorised into Section 7 of the SITC have the biggest share in mutual trade, although the share of that group of goods in the EU's exports decreased following the entry into force of the agreement, whereas for imports, it rose in that time. On the other hand, there was a marked increase in the share of goods included in section 5 and sections 6 and 8 in the EU's export to Vietnam. No significant changes in the EU's imports from Vietnam were seen, which should not be surprising, given the fact that certain Vietnamese goods had earlier already been given preferential access to the Union market under the GSP. Although a share of some industrial goods, means of transport (sections 6, 7 and 8) in imports rose, customs duties on the import of the majority of these commodities to the EU will be eliminated after several-year transition periods have expired. What deserves attention is an increase in the import of fuels (other than oil), non-ferrous metals, iron and steel, precious metals from Vietnam. The reason behind that may be linked to a reduction or elimination (as stipulated in the agreement) of relatively high Vietnamese export duties. The reasons for a relatively small rise in the export from the EU of machinery and transport equipment and

chemicals may be associated with the elimination of import duties in Vietnam for these groups of goods on the entry into force of the agreement.

Given a too short period of time that has elapsed since the entry into force of the agreement, it is not possible to assess its importance to bilateral trade relations. It must be remembered that Vietnam was a beneficiary of the Union's GSP, hence it was and is allowed preferential access to the EU market. Making the new-generation trade agreement with the EU induced, so to speak, Vietnam to open its market to the EU's goods, services and investments. As demonstrated, customs duties under the Vietnamese tariff are on average higher than under the European Union tariff.

Furthermore, one may not ignore the fact that 2020 observed a considerable decline in trade, not only in the EU, but also in other countries all around the world, which was caused by the pandemic, hence that year is not a good reference point for any comparison. Moreover, given a relatively too short period of time that has elapsed since the entry into force of the agreement, it is not possible to fully assess its importance to bilateral trade relations, especially in a long-term perspective. Such research should be continued in the future. In particular, this concerns an investigation into the effects of the liberalisation of mutual trade after the end of transition periods for the elimination of mutual barriers to trade.

It must be noticed that the free trade agreement cannot be considered the only reason for changes to trade flows, as such flows are affected also by other factors: trade with other important partners, internal demand, global economic situation and others. It must be also remembered that both the EU and Vietnam have close trade relations with other countries, including, e.g. with China or the USA, and Vietnam also with South Korea.

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