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Trade Impacts of the European Union – Vietnam Free Trade Agreement: The Sussex Framework Analysis

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In February 2016, after more than three years of negotiation, the European Union and Vietnam officially announced the conclusion of negotiation and published the text of the EU-Vietnam Free Trade Agreement (EVFTA). This research focuses on the impacts of EVFTA on both economies. By using the Sussex Framework, the EVFTA is expected to have positive impacts on both economies, also exposing many opportunities and challenges to Vietnam as a developing country when trading with an economy giant of the EU. Based on the results of both quantitative and qualitative analysis, the research proposed some recommendations for Vietnamese government and enterprises to enhance the benefits of the FTA.

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CARIS	Centre for the Analysis of Regional Integration at Sussex
CBD	Convention on Biological Diversity
CITES	Convention on International Trade in Endangered Species
DAGs	Domestic Advisory Groups
EU	European Union
EVN	Electricity of Vietnam
EVFTA	European Union - Vietnam Free Trade Agreement
FCA	Framework Cooperation Agreement
FDI	Foreign Direct Investment
FKI	Finger-Kreinin Index
FRRI	Foreign Direct Investment Regulatory Restrictiveness Index
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GLI	Gruber-Lloyd Index
GPA	Government Procurement Agreement
GSP	Generalised Scheme of Preferences
HS	Harmonized System
IIT	Intra-Industry Trade
ILO	International Labour Organization
IPRs	Intellectual Property Rights
NTBs	Non-Tariff Barriers
NTMs	Non-Tariff Measures
OECD	Organisation for Economic Co-operation and Development
PCA	Partnership and Cooperation Agreement
RCA	Revealed Comparative Advantage
RMA	Revealed Market Access
RT	Rule of Thumb
SDR	Special Drawing Rights
SEA	Southeast Asia
SF	Sussex Framework
SMEs	Small and Medium-sized Enterprises
SPS	Sanitary and Phytosanitary Measures

TBT	Technical Barriers to Trade
TCI	Trade Concentration Index
TPP	Trans-Pacific Partnership
TRAINS	Trade Analysis Information System
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollars
USTR	United States Trade Representative
VNR	Vietnam Railway
WIPO	World Intellectual Property Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

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INTRODUCTION

On 2nd December 2015, the EU and Vietnam announced the conclusion of the negotiations for an EU-Vietnam Free Trade Agreement (EVFTA). The EVFTA is expected to create a free trade area among member economies. The EVFTA is of interest for several reasons.

Firstly, the EVFTA is created in the era of “next generation” trade agreement. It, therefore, is expected to extend is scope well beyond the limits of trade and trade-related policies. The EVFTA includes, which have already been addressed by the World Trade Organization (WTO) and other regional agreements such as investment, trade in services, technical barriers to trade and intellectual property rights. Moreover, the EVFTA is significant for its strong focus on sustainable development, sustainable management of natural resources or labour rights.

Secondly, the EVFTA is another FTA between the EU and an ASEAN member state. It is therefore considered as stepping stone towards an ultimate objective of a comprehensive region-to-region EU-ASEAN FTA.

Participating in such agreement will bring both opportunities and challenges for the member economies and there have been different opinions on potential impacts of the EVFTA to the member economies.

This research uses the Sussex Framework, which was introduced by Centre for the Analysis of Regional Integration at Sussex (CARIS), to provide insights into the potential implications of the EVFTA for participating countries[1]. By using the SF, this research is expected to answer the questions on who would be the gainers or losers of the FTA playground. The SF analyses the potential effects of regional trade agreements, based on international databases. The thesis focuses on trade effects in terms of trade creation and trade diversion introduced by Viner (1950). Within the limit of provided database, only statistical indicators of trade in goods will be used.

This research will be divided into 4 main parts. First, in Chapter 1, background on the relationship between the EU and Vietnam as well as background on the EVFTA will be provided. Chapter 1 will also look into roles of the EVFTA to both countries as well as the roles of the FTA in the region context. Different rules of thumbs (RTs) under the SF Framework will be introduced in Chapter 2 and to discuss on how the EVFTA might benefit

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[1] Evan, D. et al., ‘Assessing Preferential Trading Agreements Using the Sussex Framework’, *CARIS Working Paper, 2007, No.01, (Accessed on 1st April 2016), available at https://www.sussex.ac.uk/webteam/gateway/file.php?name=cariswp01.pdf&site=261*

the economics of both Vietnam and the EU. Similarly, Chapter 3 will base on deep integration to analyse questions on welfare gain or loss to the EU and Vietnam. To conclude, the research will give out some policy recommendations for Vietnam, as a developing country in Chapter 4.

CHAPTER 1: BACKGROUND ON THE EU – VIETNAM RELATIONSHIP

1.1. Diplomatic Relations between the EU and Vietnam

The EU and Vietnam have formally established diplomatic relations since in 1990. In 1995, the EU and Vietnam signed a EU-Vietnam Framework Cooperation Agreement (FCA). On that year, the European Commission Delegation established the permanent representative in Vietnam. For over two decades, there have been significant milestones in the diplomatic relations between two countries.

In 1997, Vietnam joined in the ASEAN-EU Cooperation Agreement.

In 2003, an official dialogue between the EU and Vietnam on human rights was initiated.

In 2004, the first EU-Vietnam Summit was hosted in Hanoi.

In 2008, the EU and Vietnam negotiated for the Agreement on Partnership and Cooperation (PCA).

In 2012, EU-Vietnam Framework Agreement on Comprehensive Partnership and Cooperation (PCA) was signed. The European Parliament ratified the Agreement in December 2015.

In 2012, Vietnam and the EU launched EVFTA.

1.2. The EU – Vietnam Trade Relations

Bilateral trade and investment between the two economies have been strengthened steadily since 1990. Generally, the EU has been among the most important markets for Vietnamese exports and sources of imports. Since 2002, the EU and Vietnam concluded the bilateral negotiations of Vietnam's accession to the WTO, bilateral trade between the EU and Vietnam witness the significant increased.

There are some features that underline bilateral trade between the two economies. Firstly, Vietnam is famous for the agro-food sector and labour-intensive industries. With its strength in capital, technology and management expertise, the EU's ability to supply advanced technologies and machineries made the EU complimentary for Vietnam's manufacturing sectors[2]. It is reason for growth of Vietnam's exports to the EU (from 2005 to 2014), represented in Figure 1-1.

[2] 'Guide to the EU-Vietnam Free Trade Agreement', *Delegation of the European Union to Vietnam*, 2016, (accessed 12th April 2016), https://eeas.europa.eu/delegations/vietnam/documents/eu_vietnam/evfta_guide.pdf

Figure 1-1: Vietnam's exports and imports to and from the EU (2005 to 2014)

Secondly, strong commitment between the EU and Vietnam's leaders as well as political relationship is important factors for promoting bilateral trade. The EU has provided Vietnam with concessional loans and grants to accelerate Vietnam's reforms and international integration. For many years, the EU has offered unilaterally preferential treatments to wide-range of commodities originating from Vietnam under the Generalised System of Preferences (GSP)[3].

Finally, Vietnam has shown to have dynamic and proactive business environment, which is crucial for harnessing trade opportunities. Success stories of Vietnamese fishery products to the EU's market, following with other products in the recent years such as electronics, computers, telephones, textiles and garments, or footwear have enable Vietnam to unlock international key markets, such as Japan and the United States. The EU-Vietnam is therefore expected to create momentum to strengthen trade ties between the two economies[4].

In term of Investment, the EU has been a very important investor into Vietnam. The EU has always been in the top-5 of FDI partners of Vietnam. By the end of 2015, there have been 1730 FDI projects in Vietnam from the EU investors, contributing to more than 23.2 billion USD of FDI bumped into the country. In 2015, about 1.5 billion USD has been poured into Vietnam, making the EU 3rd ranked of FDI partners in Vietnam.

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[3] *Ibid.*
[4] *Ibid.*

1.3. The EU – Vietnam FTA and its roles in the region

Firstly, as for the institutional structure of the EU – Vietnam FTA, A Trade Committee, plus specialised committees and working groups, will be responsible for ensuring the proper operation of the EU – Vietnam FTA. There are different bodies to provide both to seek resolution of market access and to engage in closer regulatory cooperation. Annually, the Trade Committee will meet and may decide on establishment of other specialised committees and working bodies to assist in its tasks.

Secondly, the EVFTA is evitable for the relationship between the EU and Vietnam in term of bilateral trade. Vietnam has currently enjoyed preferential access to the EU through the GSP, granted by the EU to developing countries. However, it is limited that Vietnam had only access for products defined unilaterally by the EU and the EU could change the conditions at any time. On the other hand, the EU had no preferential access to Vietnam. The implementation of the FTA is therefore considered as mutual benefit for both economies. Also, the EVFTA is believed to promote significant relationship between the EU and Vietnam as it emphasizes on sustainable development via core commitments on labour rights and environmental protection.

Additionally, the EVFTA has an important role in the region, as it is the second concluded agreement between the EU and ASEAN countries. ASEAN is among the key pillar for development in Asia with market potential. Also, after China, the EU is ASEAN’s second largest trading partner. Therefore, strengthening trade between ASEAN is the EU’s priority, expressing an ambitious trade agenda with ASEAN. Following the conclusion of the EU-Singapore FTA, EU-Vietnam FTA is expected to be the second step of the EU into the ASEAN, promoting the on-going negotiation of FTA between the EU and Malaysia and Thailand, the newly launched FTA between the EU and the Philippines (launched in December 2015).

At regional level, the ultimate objective is for the bilateral FTAs under negotiation between the EU and individual ASEAN member countries to serve as building blocks towards an ambitious and comprehensive EU-ASEAN regional FTA[5].

[5] ‘Facts and figures: Free Trade Agreement between EU and Vietnam’, *European Commission Fact Sheet*, 2015, (accessed 15th April 2016), http://europa.eu/rapid/press-release_MEMO-15-5468_en.htm

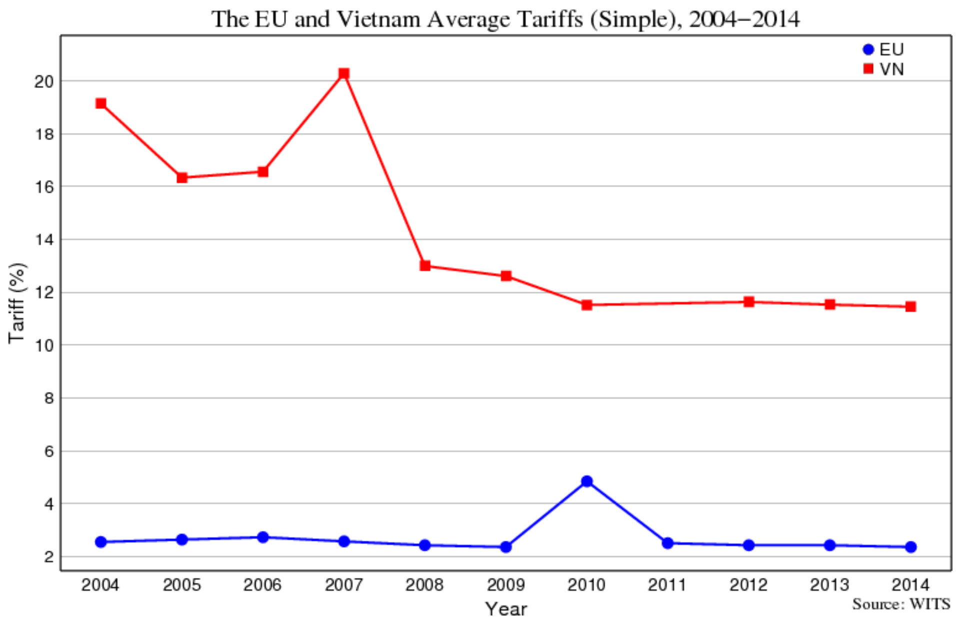
CHAPTER 2: EXPECTED SHALLOW INTEGRATION EFFECTS

The Sussex Framework, which was developed by the CARIS, examines the potential impacts of a regional agreement based on both shallow integration and deep integration. Specifications of the SF explained in this section as well as implications will rely heavily on methodology published by CARIS[6].

2.1. Initial Tariff Lines

This section specializes in the expected effects of shallow integration through tariff and trade data as inputs to the Sussex Framework. As for the first rule of thumb, it is that the higher are the tariffs, the higher is the likelihood of both trade creation and diversion. In this study, data on bilateral tariffs of the two economies have been downloaded from TRAINS database. The evolution of simple average tariffs between the EU and Vietnam over the last decade (2004 – 2014) is presented in Figure 2-1.

Figure 2-1: The EU and Vietnam Tariffs (Simple), 2004-2014



In this rule of thumb, the initial tariff levels between the two counties represent the expected trade creation and trade diversion effects. In general, it can be seen from Figure 4-1 that the tariff level of the EU has already been very low for the last 10 years, moderating around the rate of 2.5% in 2004 to 2.36% in 2014. On the other hand, tariff level of Vietnam has witnessed a significant drop from 19.4% in 2004 to 11.46% in 2014, though remaining rather high compared to the EU. Therefore, suggestion from the tariff data is that the potential of

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6 Gasiorek, M. et al., *'Qualitative Analysis of a potential Free Trade Agreement between the European Union and India'*, Main Report, Centre for the Analysis of Regional Integration at Sussex, 2007, p.15-16

both trade creation and trade diversion from shallow integration would be rather low for the EU and be higher for Vietnam as the FTA is into reality.

Although simple average tariffs draw a recommendation on general potential for trade creation and trade diversion, it hides significant variations on the dataset. Different indicators were therefore analysed to have a closer investigation on the expected trade creation and trade diversion. Table 2-2 illustrates indicators such as standard deviation, minimum and maximum tariffs, and domestic and international tariff peaks on bilateral imports of the two economies.

Table 2-2: Comparative bilateral tariff profiles of the EU and Vietnam (2004-2014)

Country	Year	Simple Average	Weighted Average	Standard Deviation	Min Rate	Max Rate	Domestic Peaks (%)	International Peak (%)
EU	2004	2.55	2.9	1.34	0.83	5.26	1.62	1.77
	2005	2.64	2.88	1.33	0.92	5.16	1.55	1.57
	2006	2.73	3.04	1.36	0.85	5.32	1.03	1.03
	2007	2.57	2.75	1.33	0.69	5.04	1.37	1.06
	2008	2.43	2.49	1.24	0.85	5.02	1.91	1.21
	2009	2.36	2.45	1.37	0.62	5.05	1.54	1.15
	2010	4.84	4.47	2.05	1.36	8.29	3.93	4.31
	2011	2.5	2.5	1.37	0.81	5.39	1.17	1.19
	2012	2.43	2.32	1.32	0.68	5.05	0.86	1.1
	2013	2.43	2.51	1.39	0.64	5.19	1.34	1.49
	2014	2.36	2.28	1.39	0.57	5.19	1.4	1.56
VN	2004	19.14	18.59	5.16	12.69	27.5	0.48	7.71
	2005	16.33	15.58	5.04	10.15	24.81	0.6	7.94
	2006	16.56	15.96	5.01	10.21	24.93	0.61	8.23
	2007	20.28	19.31	5.58	12.74	28.99	0.58	10.28
	2008	13	12.49	3.75	8.11	19.3	1.17	5.77
	2009	12.61	12.19	4.03	7.53	19.49	0.84	6.23
	2010	11.52	11.11	3.58	6.88	17.47	0.62	6.78
	2011	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2012	11.63	11.15	3.71	6.73	17.75	0.6	5.52
	2013	11.53	11.04	3.72	6.61	17.65	0.6	7.13
	2014	11.46	10.85	3.73	6.61	17.64	0.61	7.18

Source: UNDS COMTRADE

From Table 3-2, it is shown that there were significant differences across tariff lines. For the EU, the percentage of both domestic tariff peaks and international tariff peaks was rather low over time, at 1.45% and 1.56% respectively in 2014. Vietnam, on the other hand, experienced very low percentage of domestic peaks in comparison with international peaks, as 0.61% compared to 7.18% in 2014. With higher maximum tariffs and applied tariff peaks for more products, Vietnam might enjoy greater magnitude for trade creation and trade diversion if these product categories are covered under the EU-Vietnam FTA.

To continue with the analysis of trade creation and trade diversion derived from tariff lines, applied tariffs on imports of the EU and Vietnam by products were considered. Figure 2-3 and 2-4 in ANNEX A provided insights into tariff profiles by products of the EU and Vietnam in 2014. As for the European Union, tobacco and substitutes (code 24 – HS 2 digit) were the most protected at 13.84%. Other products in top 5 of protection were fruits or vegetable preparations (code 20), diary products (code 04), apparels or clothing accessories (code 61) and preparations of meats and fish (code 16). Brief conclusion can be drawn from the figure that if those sectors are liberalized in the EVFTA, there will be considerable trend for both trade creation and trade diversion.

Similarly, tariff profiles of Vietnam shows wide range of commodities under tariff peaks, with the highest applied tariff in 2014 was for tobacco and substitutes (code 24) at more than 44%. Other products, which were under high protection, are beverages (code 22), preparations of fruits and vegetable (code 20) and meat and fish preparations (code 16), with tariffs of 25% at least. Other products might also enjoy trade creation and trade diversion if they are covered under the FTA that are edible fruits and nuts (code 08), articles of leather (code 42), footwear (code 64), vehicles except for railways (code 87) and miscellaneous manufactured articles (code 96).

In general, it can be recognized that some products are highly protected by both economies, which are tobacco and substitutes (code 24), fruit and vegetable preparations (code 20) and meat and fish preparations (code 16). With highly protected sectors, they are the most difficult to negotiate. It is proved as in both economies' tariff schedules of the announced FTA on 02 December 2015, there has not any significant changes in the tariff base rates for such protected categories[7]. Those product lines will be liberalized in 10-year phrase from the date of enforcement.

It can therefore be concluded that the exclusion of these protected products would eliminate the potential for both trade creation and trade diversion. Despite such conclusion, it should also be noted that trade creation and trade diversion also depend on the elasticity of supply and on the extent to which smaller tariffs bring differences in competitiveness among economies[8]. Other rules of thumb will explain such consideration.

[7] EU-Vietnam Free Trade Agreement, EU-Vietnam, Agreed Texted as of January 2016, Annex 2-c-i [hereinafter EVFTA]

[8] See note 6

2.2. Number of partners involved in the FTA

This second rule of thumb bases on the number of partners involved in the negotiated FTA. The more numbers of partners in the FTA there are, the higher potential for trade creation as opposed to trade diversion will be. However, EU and Vietnam formed a bilateral FTA, with no further economics involved. In this situation, EU negotiated to only one partner who is Vietnam and Vietnam negotiated with the EC only but it represents the 28 Member States of the EU, the largest market in the globe. Also, with the already high level of trade within the EU (intra-EU trade), there will be higher potential for trade creation for Vietnam than trade diversion. The FTA would also decrease barriers to trade for Vietnam with all those countries that already have agreements in place with the EU.

2.3. Share of total trade with potential partner

Continuing on RT2, complete view about potential trade partner of both Vietnam and the EU will be examined in this section, and geographical distributions of trade for both Vietnam and EU are considered. As for RT3, the higher the initial share of trade with potential partner, the greater is the likelihood for a welfare-enhancing FTA. The scope for expansion will be limited if a country engages into an FTA with economics, with whom little trade is counted. Within this research, top five countries to which the EU and Vietnam export to and import from will be examined, as regards the shares of imports and exports to its partners. Also, trade volume with potential partners will also be considered to have more complete view on the potential free trade agreement.

Figure 2-5: Distribution of Vietnam's imports by partners (%) (2005-2014)

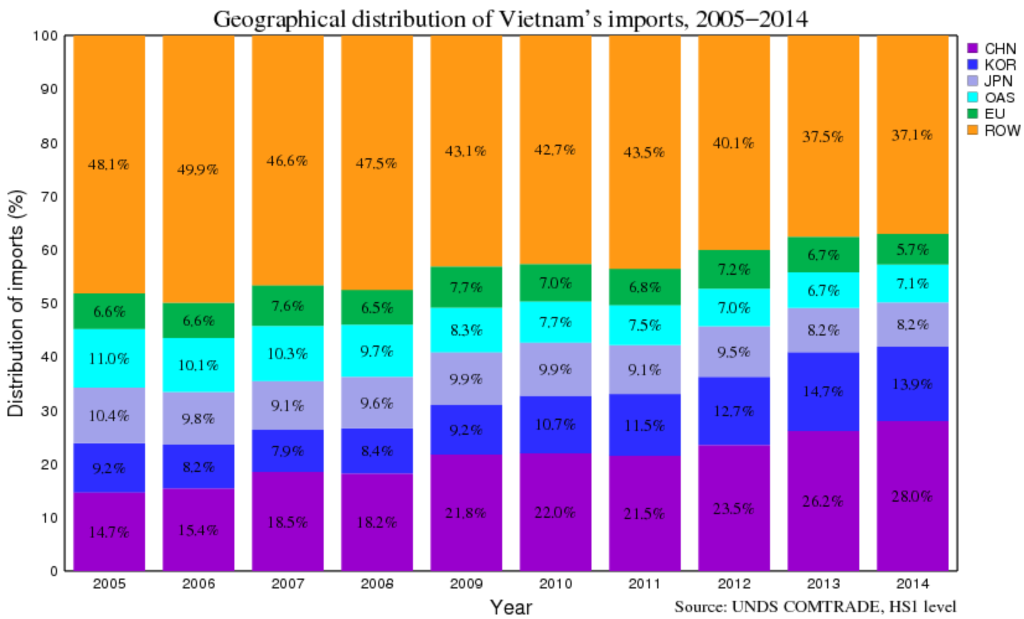
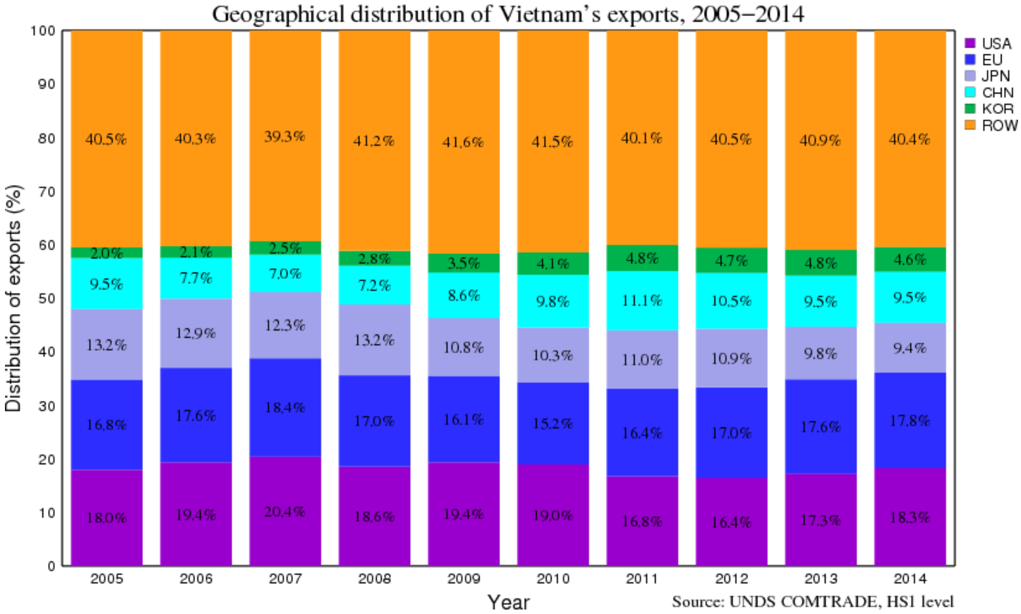


Figure 2-6: Distribution of Vietnam's exports by partners (%) (2005-2014)



The above figures represent the 5 major trading partners of Vietnam over the 10-year period, from 2005 to 2014, in term of their imports and exports. Among main trading partners, Vietnam has not had FTAs with the EU and the US. With the recent announcement on the negotiation of the TPP[9], an FTA with the EU is also the most looking forward agreement to Vietnam. The European Union is the second most important destination for exports from Vietnam, with around 17% of Vietnam's exports (17.8% in 2014). Also, imports from the EU have been ranging from 6% to 7% in total of Vietnamese imports (5.7% in 2014), ranked 5th among importing partners of Vietnam. Therefore, it is likely that exports of Vietnam have already been destined to the very sufficient partner; potential for trade creation might increase. Also, it shall be considered that diversification of Vietnam's trade distribution will leave some potential for trade diversion.

9 'Trans-Pacific Partnership Leaders Statement', *United States Trade Representative*, 2011 (accessed 10th July 2016), available at https://ustr.gov/about-us/policy-offices/press-office/press-releases/2011/november/trans-pacific-partnership-leaders-statement

Figure 2-7: Distribution of EU’s imports by partners (%) (2005-2014)

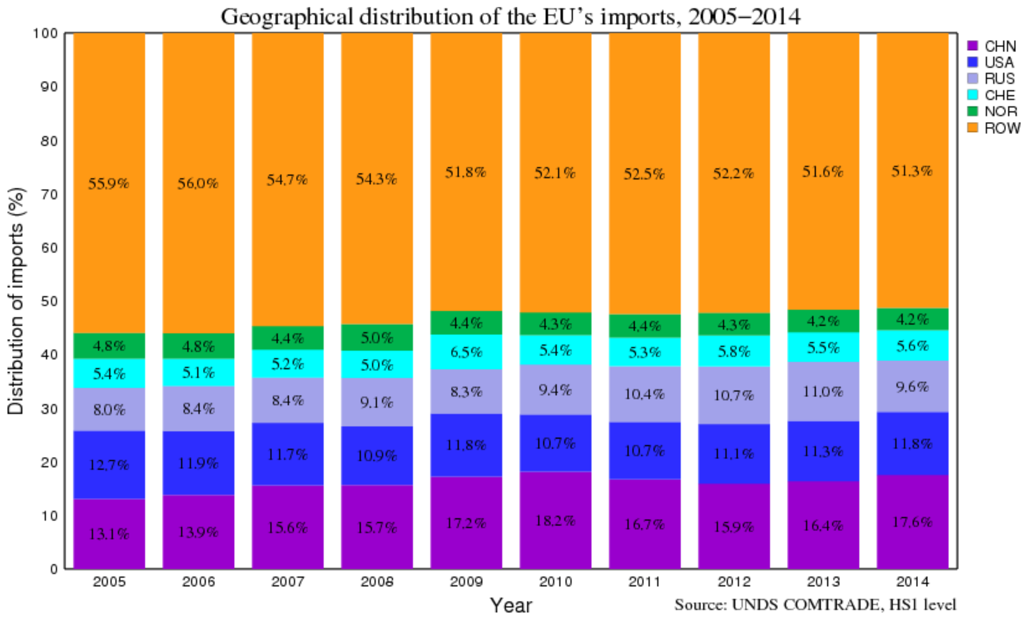
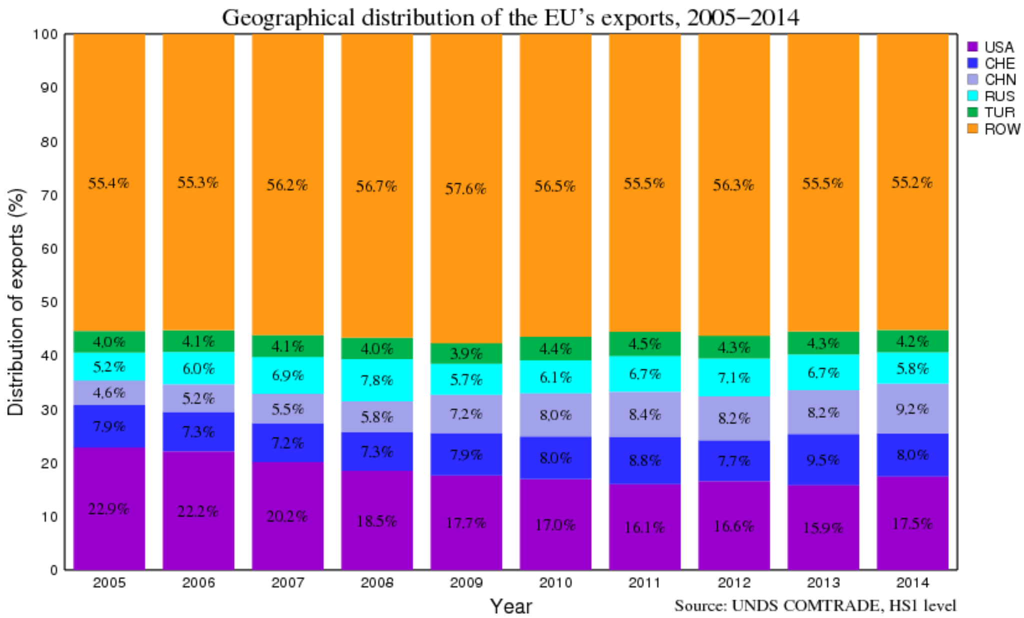


Figure 2-8: Distribution of EU’s exports by partners (%) (2005-2014)



Similar analysis has been applied to geographical distribution of the European Union’s imports and exports from 2005 to 2014. The EU’s trading patterns look rather diversified with an interesting fact that top export and import partners of the EU are the USA, China, Switzerland and Russia. Vietnam is not in the list of important trading partners with the EU. The very low share of trade between the EU and Vietnam suggests that positive trade effects from shallow integration are expected to be low for the EU. Also, with the most important export destination and import source of the USA (accounting for 17.5% of the EU’s exports and 17.6% of the EU’s imports in 2014), the recently announced negotiation of Trans-Atlantic

Trade and Investment Partnership (TTIP), the trade effects of the EU-VN should be considered with trade diversion if TTIP comes into reality.

Beside geographical distribution of exports and imports of the TPP countries, it is also importation to look at share of specific products in trade among participating economies because it helps identify the most important product categories to each economy. And if the FTA covers such commodities, the likeliness of trade creation will increase. Moreover, as for the RT3, the higher are the shares of trade between potential partners for a certain product; the lower is the potential of trade creation. It is because these products seem to be most efficiently sourced from existing suppliers before the FTA is formed.

This below section will present commodity structures of Vietnam and the EU. The HS-1996 will be used to identify main trading sectors between the EU and Vietnam, on the 2-digit level. Table 2-9 explores the top exports and imports of Vietnam to the EU. It is shown that Vietnam experienced a concentrated export profile on the HS 2-digit level as top 10 of exports contributed to 83.3% of Vietnamese exports to the EU. Also, top three exported products, which were electrical machinery (code 85), footwear (code 64) and articles of apparel and clothing (code 62) account for almost half of export shares (at 48.97%). The coverage of such categories under the FTA is crucial for the enhancement of welfare effects. It is also important, as the top 10 exports of Vietnam to the EU constitutes for 36.06% of its imports from the EU.

Table 2-9: Vietnam's top exports to the EU and corresponding imports (2005-2014, HS-1996 2-digit level)

No	Country	Product	Product Name	Export Values (1000 USD)	Export Shares	Import Values (1000 USD)	Import Shares
1	Vietnam	85	Electrical machinery and parts	36587553.74	22.57	5072010.708	9.32
2	Vietnam	64	Footwear, gaiters and the like	28919626.36	17.84	68027.016	0.12
3	Vietnam	62	Articles of apparel and clothing accessories, not knitted	13874089.59	8.56	114139.026	0.21
4	Vietnam	9	Coffee, tea, mate and spices	12716625.7	7.85	22290.827	0.04
5	Vietnam	84	Nuclear reactors, boilers, machinery, etc.	12077913.89	7.45	11768426.24	21.61
6	Vietnam	94	Furniture, bedding, mattresses, cushions, lamps and lights, etc.	9303082.394	5.74	252105.16	0.46
7	Vietnam	3	Fish and crustaceans and other aquatic invertebrates	8323394.285	5.14	934750.064	1.72
8	Vietnam	61	Articles of apparel and clothing accessories, knitted	5176976.695	3.19	46894.537	0.09

9	Vietnam	42	Leather goods, travel goods and handbags, etc.	4314795.231	2.66	77168.276	0.14
10	Vietnam	39	Plastic and articles thereof	3725894.762	2.3	1278517.041	2.35
	Top 10			**135019952.6**	**83.3**	**19634328.89**	**36.06**

Source: UNDS COMTRADE

Under the similar analysis, Table 2-10 sheds light on the EU's top exports to Vietnam and corresponding imports from 2005 to 2014, in terms of values and shares. As it can be seen that the EU's top 10 exports contributed for only 67.78% of its total exports to Vietnam, the EU is proven to have more diversified export profile. The corresponding import shares of the EU from Vietnam account for only 34.56% of the economy's total imports from Vietnam (with volume of more than 56 billions of USD), it however outbreaks export values (almost 37 billions USD). Top export products of the EU to Vietnam are machinery appliances (code 84) at 21.61% while top imports from Vietnam are electrical machinery and parts (code 85) at 22.57%.

Table 2-10: The EU's top exports to Vietnam and corresponding imports (2005-2014, HS-1996 2-digit level)

No	Country	Product	Product Name	Export Values (1000USD)	Export Shares	Import Values (1000USD)	Import Shares
1	The EU	84	Nuclear reactors, boilers, machinery appliances, etc.	11768426.24	21.61	12077913.89	7.45
2	The EU	88	Aircraft, spacecraft and parts thereof	5332701.314	9.79	188216.936	0.12
3	The EU	85	Electrical machinery and parts	5072010.708	9.32	36587553.74	22.57
4	The EU	30	Pharmaceutical products	4100870.716	7.53	72296.584	0.04
5	The EU	87	Vehicles except railway and parts thereof	2709521.781	4.98	1311316.073	0.81
6	The EU	90	Optical, measuring instruments and parts thereof	2308427.822	4.24	1128740.906	0.7
7	The EU	72	Iron and steel	1708407.855	3.14	521595.602	0.32
8	The EU	38	Miscellaneous chemical products	1421582.726	2.61	127705.892	0.08
9	The EU	39	Plastic and article thereof	1278517.041	2.35	3725894.762	2.3
10	The EU	41	Raw hides and skins and leather	1201289.315	2.21	307598.272	0.19
	Top 10			36901755.518	67.78	56048832.65	34.56

Source: UNDS COMTRADE

Therefore, it can be concluded that the coverage of these product sectors under the FTA is essential for the positive trade effects. Also, product sectors such as electrical machinery appliances and parts thereof (Code 84 and 85) are considered as key factors for trade liberalization between the two economies. Again, looking into both the EU and Vietnam's Schedule on reduction and/or elimination of custom duties of such products in the announced FTA, the majority of product codes under those sectors were listed with B5 or B10 staging categories[10]. It means that custom duties on originating goods shall be removed in six or eleven annual stages as soon as the Agreement enters into forces. The two economies will then have to delay the welfare enhancing effects of the Agreement into 5-year or 10-year times.

In addition to conclusion drawn from the data on HS 2-digit level, it is important to note that there might be inaccuracy in the analysis as HS 2-digit level is rather sensitive for level of disaggregation. The export concentration is therefore also examined on the HS 4-digit or HS 6-digit levels. The principle from that is the more diversified the export structure of the economy to its partner, the more likely it will bring trade creation. The Trade Concentration Index (TCI) was therefore explored under the Sussex Framework to compute bilateral export flows between partners, using trade flow data as inputs. The TCI is calculated as follow:

$$TCI\ by\ Product_{\ ij} = \sum_k \left(\frac{x_{ij}}{X_{ij}}\right)^2$$

from which x_{ij} is the country i's exports of product k to country j,
and x_{ij} is country's i's total exports to country j.[11]

From the formula, the TCI is calculated as the sum of the square of shares of export categories out of total bilateral exports and the TCI thus ranges from 0 (completely diversified) to 1 (completely concentrated).

Following the above calculation, the TCI for Vietnamese exports to the EU at 6-digit level in 2014 was 0.097 and the corresponding figure of European exports to Vietnam was 0.011. It is therefore suggested that export profiles of both Vietnam and the EU are extremely diversified, potential for trade creation within the formation of the FTA.

3.4. Reveal Comparative Advantage (RCA)

The underlying principle of RT4 is that the more different the comparative advantages across economics are, the higher likeliness of trade creation is. It is based on the fact that countries producing wholly different ranges of products will have limited scopes for further specialization. Revealed Comparative Advantage Index was then introduced under the Sussex

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[10] EVFTA, Annex 2-c-i, Annex 2-c-ii

[11] World Trade Organization, *A Practical Guide to Trade Policy Analysis*, WTO: Geneva, 2012, p.30

Framework to quantify the extent of comparative advantages among participating countries. The RCA is formulated as follow:

$$RCA_{iw}^{k} = \frac{(X_{ij}|X_{it})}{(X_{nj}|X_{nt})}$$

in which X represents exports, i is for an exporting country, j is for a particular commodity, t is for the set of all commodities and n is for set of other countries.[12]

RCA calculates the shares of exportation of a particular product in a country's total exports to the share of that product's exports in a comparator country's total exports. If a country's share of exports exceeds that of comparator country, the country is considered to have comparative in that product. If RCA of a country in a particular product is larger than 1, that country is assumed to have comparative product in that product. This section will investigate the RCA indices of top-15 product categories, HS 6-digit level of the two economies to the world in 2014. Corresponding RCAs of those products will also be analysed.

Table 2-11: RCAs for the top 15 exporting products of the EU (2014) – HS 6-digit

No	Country	Product Code	Product Name	Values (1000USD)	Shares	World Shares	RCA
1	The EU	271000	Petroleum oils and oils obtained from bituminous minerals other than crude	115204151.1	5.24%	5.44%	0.96
2	The EU	300490	Packaged medicines for retail	77054946.3	3.51%	1.25%	2.81
3	The EU	870323	Motorcars and other motor vehicles principally designed for the transport of person, cylinder capacity < 3000cc	76025298.89	3.46%	1.28%	2.7
4	The EU	880240	Airplanes and other powered aircraft of an unladed weight >15,000kg	45911797.23	2.09%	0.35%	5.98
5	The EU	870324	Motorcars and other motor vehicles principally designed for the transport of person, cylinder capacity > 3000cc	34932330.57	1.59%	0.57%	2.77
6	The EU	710813	Non-monetary: Gold including gold plated with platinum and other semi-manufactured forms	30653110.06	1.40%	0.21%	6.66
7	The EU	300210	Antisera and other blood fractions and modified immunological products	21566176.98	0.98%	0.44%	2.24
8	The EU	880330	Other parts of aero planes or helicopters	19684959.52	0.90%	0.32%	2.81
9	The EU	870332	Motorcars and other motor vehicles principally designed for the transport of person, cylinder capacity >1500cc but <=2500cc	19358163.17	0.88%	0.80%	1.11
10	The EU	841112	Turbo-jets of a thrust exceeding 25kN	16380887.45	0.75%	0.07%	10.2
11	The EU	710812	Non-monetary: Gold including gold plated with platinum and unwrought	15740441.76	0.72%	1.36%	0.53
12	The EU	854230	Electronic integrated circuits, monolithic, analog or analog/digital	14910959.96	0.68%	2.92%	0.23

[12] *Ibid*.p.26

13	The EU	841191	Parts of turbo-jets or turbo-propellers	14358478.38	0.65%	0.13%	5.04
14	The EU	870899	Other parts and accessories for the motor vehicles of 8701-8705	14297488.72	0.65%	0.59%	1.1
15	The EU	710231	Non-industrial diamonds unworked or simply sawn, cleaved or brute	14133967.06	0.64%	0.15%	4.21
	Total				**24.14%**	**15.88%**	
	Average						**3.29**

Source: UNDS COMTRADE

Table 2-12: RCAs for the top 15 exporting products of Vietnam (2014) – HS 6-digit

No	Country	Product Code	Product Name	Values (1000USD)	Shares	World Shares	RCA
1	Vietnam	852520	Transmission apparatus incorporating reception apparatus for radiotelephony...	21369105.52	14.28%	1.18%	12.06
2	Vietnam	270900	Petroleum oils and oils obtained from bituminous minerals, crude	7224230.188	4.83%	6.46%	0.75
3	Vietnam	090111	Coffee, not roasted, not decaffeinated	3267705.559	2.18%	0.10%	22.43
4	Vietnam	847130	Portable digital automatic data processing machines	3166515.001	2.12%	0.84%	2.52
5	Vietnam	100630	Semi-milled or wholly milled rice, whether or not polished/glazed	2852872.577	1.91%	0.11%	17.1
6	Vietnam	640399	Other footwear w/o out soles of leather, not covering ankle	2741164.752	1.83%	0.15%	12.16
7	Vietnam	030613	Shrimps and prawns, whether or not in shell, frozen	2490621.314	1.66%	0.09%	18.21
8	Vietnam	847160	Input or output units for digital automatic data-processing machines	2342867.087	1.57%	0.34%	4.57
9	Vietnam	854230	Electronic integrated circuits, monolithic, analog or analog/digital	2211454.459	1.48%	2.65%	0.56
10	Vietnam	640411	Sports footwear with outer soles of rubber or plastics and upper of textile materials	2202589.043	1.47%	0.03%	43.8
11	Vietnam	851790	Parts of electrical apparatus for line telephony or line telegraphy	2073873.766	1.39%	0.70%	1.98
12	Vietnam	030420	Herrings, fresh or chilled	2055155.062	1.37%	0.07%	19.51
13	Vietnam	854430	Ignition wiring sets and other wiring sets for vehicles, aircrafts or ships	1962344.483	1.31%	0.18%	7.16
14	Vietnam	080132	Cashew nuts, shelled	1930396.153	1.29%	0.01%	149.89
15	Vietnam	900691	Parts and accessories for photographic cameras	1840120.521	1.23%	0.01%	157.12
	Total				**39.92%**	**12.92%**	
	Average						**31.32**

Source: UNDS COMTRADE

Table 2-11 and 2-12 provides data on exported commodities from the EU and Vietnam to the world, present similarities and differences between export profiles of the two economies in

2014. Top-15 exporting categories of the EU contributed for only 24.14% of its total exports while contributing 39.92% of Vietnamese total exports. That means the EU's export profile is more diversified, underpinning the previous TCI analysis in RT3. Comparing the top-15 exporting products of the two economies, there is only one product category (HS 6-ditgit code 854230 – electronic integrated circuits) that can be found in top exported commodities of both the EU and Vietnam. As RCAs of both economies in this sector is below 1 (0.23 in the EU and 0.56 in Vietnam), the EU and Vietnam are disadvantage in such products compared to the world and there might be likelihood for trade diversion. Other products of disadvantages in the two economies are petroleum category (HS271000 in the EU and HS270900 in Vietnam). The recent FTA between the EU and Vietnam could lead for both economies sourcing these commodities from each other, displacing already more efficient suppliers.

Oh the other hand, major differences between 2 countries and variety of export profiles suggest relatively potential for trade creation. Also the value of RCAs enhances the significant polarity in comparative advantages of the two areas, increasing likeliness trade creation.

From Table 2-11, the average RCA of the EU's top-15 exporting commodities was 3.29. Thus, the EU seems to have comparative advantages in the aircraft and automobile industries, such as code 880240, code 841112 and code 841191 with very high RCAs of 5.98, 10.02 and 5.04 respectively. On the contrary, with the average RCA for top-15 exports of 31.32, Vietnam is considered to be very competitive in its export profiles (shown in Table 2-12). Electrical machine equipment parts (code 852520) is the most important product to Vietnamese exportation while it contributed more than 21 billion USD to Vietnam in 2014, and it has rather high RCA of 12.06. Moreover, Vietnam enjoys very high RCAs in a wide range of agricultural products such as cashew nuts (RCA of 149.89 for code 080132); fishery products (RCAs of 19.51 for code 030420 and 18.21 for code 030613); rice (RCA of 17.1 for code 100630); and coffee (RCA of 22.42 for code 090111). Other products of high competitiveness of Vietnam can be named is footwear (code 640411) with RCA of 43.8.

To confirm the results of RCA indicators, RCA indices of top 15 product categories, HS 1996 4-digit level, of both economies in 2014 have also been looked into. Table 2-13 and 2-14 in Annex C compare information on comparative advantages in products of the EU and Vietnam. Again, those tables confirm comparative advantages of Vietnam in agricultural products such as coffee (code 0901), rice (code 1006) or aqua-cultural products (code 0304) and footwear (code 6403) or apparels (code 6203 and 6204) and those of the EU in aircraft and automobile industries (code 8802 or 8411). As from those table, Vietnam and the EU shared only one product category in the top 15 of exporting products which were telephone sets or apparatus for the transmission or reception of voice (Code 8517). Also, RCA of that product category in the EU was just 0.73 that means the EU is assumed to have less comparative advantages in that product. Vietnam, on the other hand, enjoyed the RCA index of 1.79 for telephone sets. Therefore, with the formation of FTA, the EU seems to be able to source from Vietnam these products. In short, RCA indicators suggest considerable potential for trade creation in the above-mentioned sectors within the EU-Vietnam FTA.

2.5. Similarity of product mixes in the two economies

As for the potential welfare of the FTA, similarity of production patterns among participating economies is assessed. The principle underlying RT5 is that the higher the similarity between countries is, the higher the potential for trade creation can occur. It is because integration enhance potential for countries to source the commodities from more efficient suppliers, replacing insufficient domestic suppliers.

The Finger-Freinin Index (FKI) is introduced under the SF to compute the overlap of trade among partners. The FKI is calculated as follow:

$$FK_{ij} = 1 - \left[\frac{1}{2}\sum_{k}\left|\left(X_{ik}/\sum\nolimits_{k} X_{ik}\right) - \left(X_{jk}/\sum\nolimits_{k} X_{jk}\right)\right|\right]$$

in which X_{ik} is country i's exports of product k and X_{jk} is country j's exports of product k[13].

The calculation of FKI should be via using production data. Due to unavailability of data, trade data is used as indirect reflection of production. The FKI takes the minimum value across the two partners from the shares of exports in each sector out of total exports, at HS 6-digit disaggregate level, and it ranges from 0 to 1. When the FKI is equal to 0, it means export profiles of two economies are totally different. The total overlap in export structures of two countries results in the FKI of 1. Also, the SF suggests that FKI of over 0.4 is considered as relatively high[14].

Using above formula, FKI for export profiles of the EU and Vietnam is 0.2, which constitutes relatively dissimilar export patterns between the two. Incomparable production mixes between the two economies provide little potential for trade creation from production side. The result is then proved by the fact from RT4 analysis as welfare effects of the FTA then is reasoned by different comparative advantages between the EU and Vietnam.

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[13] Finger, J.M. & Kreinin, M.E. 'A Measure of 'Export Similarity' and its possible use', *Economic Journal*, 89, 1979, pp.905-912

[14] *Ibid.*

2.6. Conclusion on shallow integration

In general, the conclusion of the EU-Vietnam FTA is considered to be quite for Vietnam to increase its exports to the EU. The breakdown of border barriers is potential for increasing trade between the EU and Vietnam, although the already low average tariff of the EU. It is because Vietnam would have opportunity to access to access to the largest market in the world, consisting of 28 Member States, and also access to other markets that the EU currently has agreement with. The recent withdrawal of the UK from the EU would also affect the market access of Vietnam to the EU. However, within the scope of this research, the UK market is still included, as the UK has not officially negotiated the exit to the EU. Secondly, with the fact that the EU is a natural trading partner of Vietnam, the second most important export destination and the fifth most important import source, Vietnam is expected to benefit from such welfare enhancement. This consideration is also confirmed with the increasing volumes of trade between Vietnam and the EU. Thirdly, the relative low TCI represents rather diversified export portfolio of Vietnam, leaving room for trade creation. Last but not least, very high competitiveness in main exporting sectors of Vietnam suggests considerable potential for trade creation for Vietnam in the EU market. Vietnam would continue to enjoy favourable trade in sectors such as agricultural products, footwear or electrical machine equipment parts.

As for the EU, the welfare gain deriving from shallow integration of the EU-Vietnam FTA seems to be moderate. The most considerable potential for trade creation is the liberalization of tariff barriers of Vietnam. With relatively high tariff profiles, Vietnam seems to create more opportunities for European exports. Also with the commitment to cut the tariffs line in protected sectors in 5 years and 10 years, market access level in the area covered by the FTA will increase promisingly[15]. Different from above promising welfare the non-natural trading partner status of Vietnam to the EU and also the dissimilarity in product mixes between the EU and Vietnam, reflecting through low FKI would also suggest less potential for trade creation.

Taken as a whole, shallow integration from the EU-Vietnam FTA suggest limited opportunities for the EU compared to Vietnam. However, during the negotiation, the EU put major efforts on regulatory barriers and other non-tariff barriers, which might suggest that the EU benefits the most from deep integration. The discussion on expected findings from deep

[15] See note 10

integration, dealing mostly with NTBs, regulatory barriers, is followed in the next section of this research.

CHAPTER 3: EXPECTED DEEP INTEGRATION EFFECTS

Within the SF, there were no rules of thumb introduced, but it is divided into quantitative and qualitative analysis. As for the quantitative analysis, some indicators were suggested then different aspects of the FTA to be examined through qualitative assessment. This section assesses on the potential effects from deep integration between the EU and Vietnam, using both quantitative and qualitative analysis.

3.1. Quantitative

3.1.1 Intra-industry trade (GLI)

The Intra-industry trade (IIT) is one of the main indicators, introduced under the SF to generate welfare gains. The IIT has three forms, which are trade of similar goods with similar qualities and prices, trade of similar goods with different qualities and prices, and trade of commodities within the same classification representing a vertical supply chain[16]. The SF uses Gruber-Lloyd Index (GLI) to assess existing level of IIT. The GLI across all goods is calculated as:

$$GLI_{ij} = 1 - \frac{\sum_k \left| x_{ij}^k - m_{ij}^k \right|}{X_{ij} + M_{ij}}$$

in which X_{ij} is export and M_{ij} is import from country i to country j. Also the average GLI is weighted by the share of each good in total trade between country i and j[17].

GLI measures the overlaps between exports and imports of all commodities. If there is no overlap between imports and exports, the GLI is 0 and no intra-industry trade occurs. In contrast, GLI equal to 1 means imports and exports are equal in all sectors.

Firstly, from the above calculation, the ITT level between the EU and Vietnam in 2014 is 0.059, which is considered to be rather low. That means the EU-Vietnam bilateral intra-industry trade accounts for only 5.9% of total trade. Table 3-1 also compares intra-industry level between the EU and Vietnam to each economy's intra-industry level to the world. The GLI of EU-World is at 0.505, which mean majority of EU's trade is intra-industry trade. Vietnam, on the other hand, has lower level of deep integration into the world.

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[16] Shelburne, R. & Jorge, G. 'The Role of Intra-Industry Trade in Service Sector', in Plummer, M. (ed.) *Empirical Methods in International Trade: Essays in Honour Mordechai Kreinin*, Edward Elgar Press, 2004, pp.110-128

[17] United Nations Conference on Trade and Development (UNCTAD), 'Module 5 – Practical regional trade analysis: Using international databases to analyse Regional Trade Agreements', *Teaching Material on Regional Trade Agreements*, 2010, p.145

Table 3-1: Comparative GLIs for EU-Vietnam, Vietnam-World and EU-World (2014, HS1996 6-digit level)

	EU – Vietnam	Vietnam – World	EU – World
Comparative GLIs	0.059	0.241	0.505

Source: UNDS COMTRADE

Low level of bilateral IIT suggests that the comprehensive FTA between the EU and Vietnam would increase potential for IIT between the two economies, also enormous welfare gains. Also, by dismantling barriers, Vietnam could also gain welfare with both the EU and the world. And welfare gain as intra-industry trade with the rest of the world for Vietnam seems to be larger than that with the EU.

3.1.2. Revealed Market Access (RMA)

Due to difference in intra-industry trade between countries, the SF also introduces Revealed Market Access Index (RMA) to assess potential welfare of deep integration. RMA is used to compare non-tariff barriers (NTBs) between two countries with a comparator economy. The level of exports into a market depends on the size of that market. Therefore, there are two forms of normalization, introduced by the SF to compare exports across two markets; one based on each receiving country's GDP and other based on total level of their imports. In this section, RMA normalized by imports will be used as below:

$$RMA^{k}_{ij_1j_2} = \left(\frac{x^{k}_{ij_1}}{x^{i}_{jk_2}}\right)\left(\frac{\sum_i M_{j_2}}{\sum_i M_{j_1}}\right)$$

where *k* is the industry, *i* is the country of origin, and j_1 and j_2 are the compared destination economies[18]

If the normalized value of exports for a commodity is less in one market than in the other, the value of RMA is less than 1. Even though RMA index is normalized by import demand, it still cannot capture other factors affecting integration such as tariffs, distance or common languages[19]. Therefore, comparator economies shall always be selected with careful consideration. Based on this foundation and due to the limitation of the research, the world was used as a comparator (assuming distance is similar) when NTBs in a particular country

[18] Rollo, J. 'Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on Selected Developing Countries', Report Paper, CARIS, p.67, (accessed on 10th July 2016), available at https://www.gov.uk/dfid-research-outputs/potential-effects-of-the-proposed-transatlantic-trade-and-investment-partnership-on-selected-developing-countries

[19] *Ibid.*

are examined. The RMA indices were calculated at the HS-2 digit level and were analysed for top 15 exports of a country to other.

Table 3-2: RMAs for top 15 EU exports to Vietnam, with the world as comparator economy (2014, HS 1996 2-digit level)

No	Country	Product code	Product name	Value (1000USD)	To VN Shares	World Shares	RMA
1	The EU	84	Nuclear reactors, boilers, machinery & mechanical appliances; parts thereof	3368184.05	19.89%	16.66%	2.32
2	The EU	30	Pharmaceutical products	22335.364	8.75%	6.31%	55.13
3	The EU	88	Aircraft, spacecraft, and parts thereof	74960.959	8.34%	3.41%	20.53
4	The EU	85	Electrical machinery and equipment and parts thereof	10067208.09	7.14%	7.95%	0.48
5	The EU	90	Optical, photographic, cinematographic, measuring, checking, precision instruments, etc.	268418.358	4.89%	4.71%	1.68
6	The EU	87	Vehicles other than railway tramway roll-stock & accessories	251841.911	3.52%	10.51%	2.05
7	The EU	41	Raw hides and skins (other than fur skins) and leather.	30650.416	3.04%	0.20%	12.93
8	The EU	3	Fish & crustacean, mollusc & other aquatic invertebrate	869328.436	2.89%	0.20%	2.33
9	The EU	38	Miscellaneous chemical products	20617.557	2.66%	1.32%	5.95
10	The EU	39	Plastics and articles thereof	648665.83	2.61%	2.79%	1.76
11	The EU	23	Residues & waste from the food industry; prepared animal fodder	14394.689	2.46%	0.24%	14.85
12	The EU	72	Iron and steel	111669.605	1.71%	1.69%	1.4
13	The EU	71	Natural/cultured pearls, precious stones & metals, coin etc.	155981.278	1.69%	4.00%	3.1
14	The EU	11	Products of the milling industry; malt; starches; inulin; wheat gluten	3525.176	1.69%	0.15%	2.3
15	The EU	44	Wood and articles of wood; wood charcoal	87400.782	1.67%	0.66%	1.38

Source: UNDS COMTRADE

Table 3-2 examines market access level of Vietnam via looking to the European exports to Vietnam and the world, as comparator economies. After normalizing with imports, it is considerable that the EU exporting to Vietnam in those above products than to the world, except for only electrical machinery and equipment parts (code 85). It is assumed that distances between EU-Vietnam and EU-World are similar; the above RMAs suggest that market access barriers for those commodities in Vietnamese market are relatively low.

Table 3-3: RMAs for top 15 Vietnamese exports to the EU, with the world as comparator economy (2014, HS 1996 2-digit level)

No	Country	Product Code	Product Name	Values (1000USD)	To EU Shares	World Shares	RMA
1	Vietnam	85	Electrical machinery and equipment and parts thereof	10067208.09	34.25%	24.24%	2.3
2	Vietnam	64	Footwear, gaiters and the like; parts of such articles	3690897.482	12.56%	7.12%	2.93
3	Vietnam	84	Nuclear reactors, boilers, machinery & mechanical appliances; parts thereof	3368184.05	11.46%	5.98%	1.33
4	Vietnam	62	Art of apparel & clothing access, not knitted/crocheted	2175764.337	7.40%	7.00%	1.57
5	Vietnam	9	Coffee, tea, mate and spices.	1768404.182	6.02%	3.24%	4.83
6	Vietnam	94	Furniture; bedding, mattress, mattress support, cushion etc.	1086145.293	3.70%	3.34%	1.26
7	Vietnam	3	Fish & crustaceans, mollusc & other aquatic invertebrate	869328.436	2.96%	3.84%	2.39
8	Vietnam	61	Art of apparel & clothing accessories knitted or crocheted.	793934.5	2.70%	6.11%	1.26
9	Vietnam	42	Articles of leather; saddler/harness; travel goods etc.	684581.673	2.33%	1.56%	1.17
10	Vietnam	39	Plastics and articles thereof.	648665.83	2.21%	1.82%	1.49
11	Vietnam	8	Edible fruit and nuts; peel of citrus fruit or melons.	453249.354	1.54%	1.71%	2.28
12	Vietnam	73	Articles of iron or steel.	410832.352	1.40%	1.16%	1.08
13	Vietnam	16	Prep of meat, fish or crustaceans, molluscs etc.	335341.254	1.14%	1.34%	2.7
14	Vietnam	90	Optical, photographic, cinematographic, measuring, checking, precision instruments, etc.	268418.358	0.91%	2.05%	0.31
15	Vietnam	40	Rubber and articles thereof.	262745.335	0.89%	1.83%	0.63

Source: UNDS COMTRADE

Similar analysis applied to access NTBs in the European market, by measuring top Vietnamese exports to the EU and the world as comparator economy. Significant market access barriers for Vietnamese exports in the European Market are only for optical instrument (code 90) and rubber and articles (code 40).

Generally, it can be seen that bilateral trade between the EU and Vietnam do not experience considerable market access barriers. Therefore, if the FTA tackles NTBs in those above products to both Vietnam and the EU, welfare enhancement will increase for both, increasing potential benefit from deep integration.

3.2. Qualitative

3.2.1. Foreign Direct Investment & Trade in Services

Foreign Direct Investment

As for new-generation agreement, foreign direct investment (FDI) is a very important source for welfare gains from deep integration, as they enhance productivity via technology transfers, quality improvement and specialization[20].

Table 3-4: FDI inflows to the EU and Vietnam, from 2007 to 2015, (in billion USD)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015
EUU	1,661.98	1,077.16	445.48	601.53	841.42	699.91	622.25	402.04	515.20
VNM	6.7	9.579	7.6	8.0	7.43	8.368	8.9	92.0	118.0

Source: Worldbank

As from Table 3-4, there has been contrast trend in FDI inflows between the EU and Vietnam. Vietnam has enjoyed sharp increase in FDI inflows, from more than 6.7 billion USD in 2007 to 118 billion USD in 2015; the inbound investment into the EU on the other hand has dropped by two-third in less than a decade (from 1,661.98 to 515.20 billion USD). Firstly, reported by the Deustche Bank, the European Union has lost its position as first-ranked recipient of FDI. Also, among total inward FDI flows into the EU, 60% of them is intra-EU investment, which is considered as a shift of capital among the EU member states[21].

To examine the barriers to FDI inflows into a country, the OECD introduced FDI Regulatory Restrictiveness Index (FRRI). Due to lack of data, only FDI Regulatory Restrictiveness Indices of majority of the EU countries are presented in Table 3-5 in the Annex B. It can be seen that FRRIs of European countries are relatively low. Average FRRI of European countries is 0.035. Beside rather low restrictiveness in FDI, there are some sectors that are rather restricted to FDI in the EU. The liberalization of such FDI sectors under the EU-Vietnam FTA will enhance the welfare gains of deep integration. Table 3-6 listed top 10 restricted sectors for investment into the EU market. The most restricted sector in the EU market can be named as real estate investment, fisheries, air, etc. From the EU's Schedule of

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[20] Organisation for Economic Co-operation and Development (OECD), Foreign Direct Investment for Development – Maximising Benefits, Minimising Costs, OECD Secretariat: France, 2002, p.12, (accessed on 10th July 2016), available at https://www.oecd.org/investment/investmentfordevelopment/1959815.pdf

[21] Vetter, S., 'Recent Trends in FDI Activity in Europe – Regaining lost ground to accelerate growth', *Deustche Bank Research*, 2014, p. 8, (accessed on 10th July 2016), available at https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000340841/Recent+trends+in+FDI+activity+in+Europe%3A+Regaining.PDF

Commitment, it can be seen that the majority of such sectors are listed as "UNBOUND". Limited access to sectors such as legal, accounting or auditing will be granted to Vietnamese companies[22].

Table 3-6: The EU's top 10 restricted investment sectors (by average FRRI, 2010-2015)

	Sector	**Average FRRI (2010-2015)**
1	Real estate investment	0.285
2	Fisheries	0.271
3	Air	0.263
4	Legal	0.238
5	Accounting & audit	0.22
6	Electricity generation	0.203
7	Radio & TV broadcasting	0.191
8	Electricity	0.191
9	Electricity distribution	0.178
10	Maritime	0.153

Source: OECD

Secondly, the volume of FDI inflows, shown in Table 3-4, indicates that there might be significant barriers to investment in Vietnam, compared to the EU. Recently, the developing countries, especially in the South East Asia, have been known as the growing destinations for FDI[23]. As a country in the South East Asia (SEA), Vietnam is gradually known as rather open to FDI because of the growing market, natural resources and export-oriented economy[24]. Thus, due to significant increase in FDI inflows for the recent years, it seems that Vietnam has generally liberalized investments into the country.

To conclude, trade in services and investments are among core chapters of the EU- Vietnam FTA. There is high potential for welfare gain from deep integration to the EU as Vietnam has committed to open up to investments in manufacturing of key sectors such as food and beverages, fertilizers and nitrogen composites, tires and tubes, gloves and plastic products, ceramics and construction materials. Vietnam also committed to remove restrictions on the assembly of marine engines, agricultural machinery, domestic appliances and bicycles[25].

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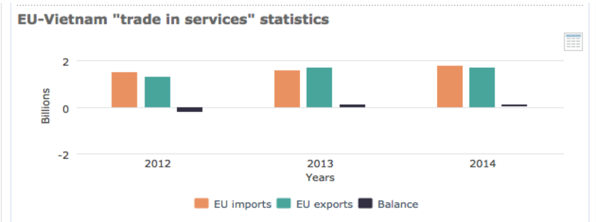
[22] EVFTA, Annex 8-a
[23] See note 21
[24] Sjoeholm, F. 'Foreign Direct Investments in Southeast Asia', *IFN Working Paper*, No.987, 2013, (accessed on 22nd October 2016), available at http://www.ifn.se/wfiles/wp/wp987.pdf
[25] See note 2

Moreover, for the EU services operators, Vietnam has committed to gradually improve access to many sectors such as business, environment, postal and courier, banking, insurance and maritime transportation. It is expected to be a crucial achievement for the EU enterprises as the access goes beyond both WTO commitments and any other FTAs Vietnam has concluded[26].

Trade in Services

Due to the constraint of available data, mutual trade in services between the EU and Vietnam were not statistically analysed. However, from European Commission Trade Division, the bilateral trade in services between the EU and Vietnam has been slightly increased over years.



Source: European Commission

The reduction of barriers in trade in services is expected to provide a surge of investment inflow from the country benefitting liberalization. It reasons in the high-profitability of most services industries and in the economic structures of trade in services[27]. Investment inflow in services come along with market access restriction listed in the WTO schedule of commitments of each country as “mode 3 – commercial presence” liberalization, very classic pattern of FDI. However, the WTO commitments of Vietnam do not allow the entrance of foreign services suppliers in most attractive sectors such as financial services, telecommunication, and transportation. The high quality of European services sectors would match with underdeveloped and highly closed services sector in Vietnam.

According to European Commission, Vietnam has gone well beyond its WTO and other FTAs commitments in many aspects. For example, Vietnam offered market access to many services sectors such as building cleaning services, packaging services, and trade fairs and exhibitions services. For higher education services, for

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[26] See note 5

[27] Philip, J. et. al, “The Free Trade Agreement between Vietnam and the European Union: Quantitative and Qualitative Impact Analysis”, MUTRAP Report, October 2011, p.56, accessed on 10th January 2017, available at http://www.eurochamvn.org/sites/default/files/uploads/pdf/FTA9-%20EU-VN%20FTA%20assessment.pdf

the first time, Vietnam opened cross border services. In distribution services, Vietnam committed that after 5 years of the EVFTA enforcement, retailers will no longer have to undergo economic needs test (ENT) for opening outlets in Vietnam. Or as for financial services, Vietnam also committed on market access and national treatment cross border financial data processing and to advisory, intermediation and other securities related to trading for own account or for account of customers as long as they are permitted to Vietnam's own financial services suppliers.

3.2.2. Non-tariff barriers to trade

This section will focus on qualitative assessment of non-tariff barriers (NTBs) to trade. Due to the fact that there has not been any comprehensive database on NTBs, Market Access Database of the EU is used to have an overview on NTBs in Vietnamese market and the WTO Case Database is used to assese the EU's market access.

Firstly, from the EU's Market Access Database, different measures are being applied on wide of sectors. Table 3-7 shows information on barriers to imports from the EU to Vietnamese market[28].

Table 3-7: Current barriers to the EU's imports to Vietnam

No	Measures	Sectors	Barrier title
1	Custom Procedure	Wines and Spirits	(*) Restrictions on customs clearance for wines and spirits, mobile phones and cosmetics
2	Other NTMs	Agriculture & Fisheries	(*) Price controls on dairy and other type of products
3	IPR	Pharmaceuticals	(*) Pharmaceuticals: Trading Rights & Data Exclusivity
4	SPS	Agriculture & Fisheries	(*) Ban on imported animal offal
5	Investment Related	Services	(*) Equity cap
6	Trade in Services	Distribution Services	(*) Economic Need Text for the distribution sector
7	Other NTMs	Other Industries	(*) Non-deductibility of advertising and promotional expenses
8	Government Procurement	Horizontal	(*) Preferential use of domestic materials in public procurement

[28] European Commission, *Market Access Database*, accessed on 10th September 2016, available at: http://madb.europa.eu/madb/barriers_result.htm?redisplay=true&measures=none&sectors=none&countries=VN&d-49653-p=1

9	IPR	Other Industries	(*) Protection of Intellectual Property Rights
10	SPS	Agriculture & Fisheries	SPS import ban on animals and animal products related to Bovine Spongiform Encephalopathy (BSE)

Source: EU Market Access Barriers Database
(*) is to mark "key barrier" which is considered as trade barrier to be prioritized.

In general, SPS and IPRs are rather popular in Vietnam. Government Procurement and Custom & Administrative Procedure are also listed. In addition to the EU Market Access Database, USTR's Market Access Barriers also confirms on different barriers to trade in Vietnam. Import bans in some products such as second-hand consumer goods or used spare parts for vehicles are still used in by Vietnam.

Looking into situations on market access of both economies, it can be said if such NTMs are covered under the EU-Vietnam FTA, there will be significant potential for welfare gains for the EU, compared to Vietnam.

SPS & TBT

Firstly, as for SPS and TBT, they are measures being used commonly in many countries, not just in Vietnam and the EU. As from the recent announcement of EVFTA, different SPS and TBT related issues were put onto table to strengthen disciplines of WTO SPS and TBT agreement. SPS chapter of the agreement aimed at facilitating trade in plant and animal products. These provisions confirmed on the welfare for EU companies producing those animal products, underlying above information from EU Market Access Database. Also, both the EU and Vietnam agreed principles of regionalization and recognition of the EU as a single entity that helps promote trade facilitation between the two economies[29].

Secondly, as for the TBT, Vietnam has agreed to engage international standards into its regulations. The EU companies producing wide range of commodities, including electrical appliances, IT, and food and beverages will get better access to Vietnamese market, under such provisions. There is also a specific annex addressing non-tariff barriers to automotive sector. Vietnam has committed to recognize the EU whole vehicle certificate of conformity, within 5 years after the enforcement of the agreement[30]. Additionally, Vietnam for the first time has accepted the marking of origin as "Made in EU" for non-agricultural products, except for pharmaceutical products.

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[29] See note 2
[30] *Ibid.*

Last but not least, the agreement also address provisions on custom & administrative procedures, import and export licensing to facilitate trade between the EU and Vietnam, also to boost competitiveness of other suppliers.

3.2.3. Intellectual Property Rights

Under negotiation in the IPRs chapter, different forms of intellectual properties are covered such as geographical indicators, trademarks, copyrights, trade secret and patterns. IPRs are also mentioned as key barriers to trade of Vietnam's market.

Firstly, Vietnam is listed in 2013 Special 301 Report for widespread counterfeiting and privacy (2013 Watch List)[31] of the United States. Vietnam has committed to a high level of protection, beyond the standards of WTO TRIPS agreement. The EU innovation, artworks and brands will therefore be better protected against being unlawfully copied[32]. Among main achievements of the FTA, Vietnam commits to accede to the WIPO Copyright Treaty and the WIPO Performances and Phonogram Treaty (known as "Internet Treaties"), which help to prevent authorised access to and use of creative works on the Internet or other digital networks[33]. Vietnam has promised to provide adequate legal protection and remedies against the circumvention of technology measures to protect holders' rights and to prohibit the deliberate alteration or deletion of electronic "rights management information". These commitments are expected to ensure that rights holders can effectively use technology to protect their rights and to license their work online.

Secondly, protecting European Geographical Indications is one of the significant achievements covered in the EVFTA. Geographical Indications are distinctive sigh used to identify a product, originating from a territory of a particular country or region where its quality reputation is linked to its geographical origin. Vietnam commits to protect 169 European foods and drink products from a specific geographical origin at a comparable level to that of the EU legislation. This means that products such as Champagne, Scotch whisky or Roquefort cheese will be reserved in Vietnam and Moc Chau tea, Buon Ma Thuot coffee on the other hand will be recognised as such in the EU. In general, farmers and businesses producing with traditional methods kinds of foods and drinks will benefit the most. These

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[31] The Special 301 Report identifies trade barriers to US companies, regarding the intellectual property law in other countries, with which the US has trade relationship. The Special 301 Report is announced annually by USTR under Section 301 as amended of the Trade Act 1974. The 2013 Special 301 Report is available at http://www.mpaa.org/wp-content/uploads/2014/02/2013-Special-301-Report.pdf

[32] See note 2

[33] EVFTA, Chapter 12, Section B, Article 4.1

protections will assure that Vietnam will be applied with appropriate administrative sanctions as soon as the FTA enters into force.

Last but not least, the EU pharmaceutical sector will benefit from improved data protection. With an important share of European exports to Vietnam (with approx. 8% in 2015)[34], pharmaceutical products are mentioned in a specific annex, in which both the EU and Vietnam agreed on provisions facilitating trade in these products. Vietnam will be considered as an attractive market for producers of pharmaceutical products, enable better access to quality medicine for the population. Vietnam commits to provide regulatory data protection to pharmaceutical, including agro-chemical products, for 5 years. Also, IPRs provisions will provide an extension of patent protection, up to 2 years, to compensate for delays in the marketing approval of pharmaceutical products if approval process takes more than 24 months. Additionally, Vietnam will withdraw existing clinical trials requirements on ethnicity that were not in line with international standards, especially those of the International Conference on Harmonisation odd Technical Requirements for Registration of Pharmaceutical for Human Use.

3.2.4. Government Procurement

Public procurement accounts for a substantial share of world trade flows and it has been considered as a main topic for new-generation trade agreement. In the EU, public purchase of goods and services is estimated to contribute to 16% of GDP[35]. On the other hand, Vietnam is among the countries with highest ratio of public investment to GDP worldwide, maintaining at around 15% since 1995 with large part invested in infrastructure[36]. Therefore, Vietnamese market of public sectors has been very attractive to the EU that makes Government Procurement an important chapter of the EVFTA. Within the EVFTA, the EU and Vietnam have agreed on disciplines inline with the WTO Government Procurement Agreement (GPA). It is expected to create potential welfare gains for both, as Vietnam is not yet member of the GPA, only as the observer. According to the EU, the government chapter of the EVFTA achieves a certain level of transparency and procedural fairness that are comparable to other FTAs of the EU and other developed and more advanced developing countries[37]. The EU

[34] See note 2, p.30
[35] See note 2, p.57
[36] *Ibid.*
[37] See note 5

businesses will be the first foreign companies to get that level of access to Vietnamese procurement market[38].

The overview of Vietnamese thresholds (in SDR[39]) and coverage in the EVFTA is illustrated in the Table 3-9.

Table 3-9: Vietnamese thresholds (in SDR) and coverage in the EVFTA[40]

	Section A: Central Level of Government Entities		**Section B: Sub-Central level of Government Entities**		**Section C: Other covered entities**	
	All ministries, social security office and two other entities equivalent to ministries		Two major cities: Hanoi and Ho Chi Minh city		Two utility-related State owned Enterprises; two major universities, two major research institutes and 34 public hospitals	
	Goods and services	Construction services	Goods and services	Construction services	Goods and services	Construction services
At entry into force	1,500,000	40,000,000	3,000,000	40,000,000	3,000,000	40,000,000
After transition period of 15 years	130,000	5,000,000	1,000,000	15,000,000	1,000,000	15,000,000

Firstly, in term of market access, the EU companies will be able to bid for public contracts with Vietnamese companies for (i) Vietnamese ministries at central level, including infrastructure such as roads and ports, and two ministry equivalent entities (Committee on Ethnic Minority Affairs and Government Inspectorate), (ii) Two important state-owned enterprises which are Electricity of Vietnam (EVN) and Vietnam Railway (VNR), (iii) 34 public hospitals directly under the administration of the Ministry of Health, (iv) two major universities, and (v) two major cities, Hanoi and Ho Chi Minh City, which stand for 50% of procurement at sub-central level[41].

Secondly, as for goods procurement, Vietnam offers a large coverage of products, except several agricultural products. It is worth noted that all pharmaceutical products purchased by the Ministry of Health, or public hospitals and Hanoi and Ho Chi Minh city's Department of

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38 See note 5

39 SDR – Special Drawing Rights are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund (IMF).

40 EVFTA, Annex 9-c

41 *Ibid.*

Health, are covered in the EVFTA. A specific scheme for pharmaceutical products has been agree in the specific annex. Vietnam may set aside scheme as below:

Table 3-8: Respective Percentage of contract value of pharmaceutical products[42]

Year	1st – 2nd	3rd – 9th	10th - 15th	16th onward
Percentage of contract value	100	65	60	50

After the transitional period of two years from enforcement of the agreement, EU suppliers will have legally secured market access into Vietnam. The share of domestic suppliers will be diminished over 15 years to the final share of 50%. The remainder will be open to all producers with market access rights.

Finally, Vietnam offers a number of service sectors, including majority of computer-related services. For public works, Vietnam commits to offer basically all construction services, including under the Ministry of Transport and notably to include dredging services, which are important for many EU member states[43].

3.2.5. Other trade-related issues

Trade and Sustainable Development

Topics for Sustainable Development have been covered in many new generation agreements. The EU aims to ensure that trade policy supports sustainable development, within not only the EU but also with its partners countries. Therefore, a comprehensive chapter on Sustainable Development of the EVFTA aims at (i) promoting mutual supportiveness between trade and investment, labour and environmental issues and (ii) ensuring that increased trade and investment do not threat to labour and environmental protection.

Firstly, as for labour matters, core labour standards of the International Labour Organization (ILO) were addressed with specific commitments. They are (i) freedom of association, (ii) forced or compulsory labour, (iii) child labour and (iv) non-discrimination in respect of employment and occupation.

Secondly, on the environment, the EVFTA includes commitments to effective implementation by each country of the UN Convention on Biological Diversity (CBD), the UN Convention on International Trade in Endangered Species (CITES) and the UN Framework Convention on Climate Change (UNFCCC). Also, there is a dedicated article on climate change that

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[42] See note 2, p.30
[43] *Ibid.*

underlines common commitments of both the EU and Vietnam to achieve climate change objectives.

Thirdly, there is specific attention to trade and investment practices for fostering sustainable development, including fair and ethical trade and other voluntary sustainable schemes from where international principles and OECD guidelines on responsible business conduct are made. Furthermore, there will be a special Committee on Trade and Sustainable Development to specifically monitor the implementation of Trade and Sustainable Development provisions[44]. At domestic level, each country will consult with Domestic Advisory Groups (DAGs) to comprise independent civil society representatives and to include employers and workers' organisations, business groups and environmental organisations[45].

Last but not least, the EVFTA includes a special annex, the Green Tech Annex[46], on non-tariff barriers affecting the renewable energy. The annex contains specific rules for the renewable energy sector, focusing on the use of international standards in such sector. The Annex is expected to bring benefits for both countries when trade and investment in renewable energy sector are fostered. Such commitment will help to boost the EU's investment in such sector into Vietnam and in return, Vietnam will profit from the EU's know-how and rely on the EU's considerable in this sector.

Competition Policy and State-Owned Enterprises

Competition policy is also a particular interest to both side of the EVFTA because anti-competition behaviour and subsidies are behind-the-border barriers. Ensuring a common level of playing ground for both European and Vietnamese companies will help to allocate scarce resources.

Firstly, the EU and Vietnam have agreed on the obligation to maintain competition laws and relevant authorities to apply the law in a transparent and non-discriminatory manner. Companies operating in Vietnam should respect the same competition principles as in the EU. On the other hand, they have the rights to be respected in the competition procedures and they can ask Vietnamese authorities to ensure an efficient competitive environment.

Secondly, the EVFTA points out certain kinds of subsidies that can hinder competition and trade. Both economies therefore agreed to limit the potential negative effects of the subsidies. Both the EU and Vietnam have achieved to levelling the playgrounds for companies of the

[44] EVFTA, Chapter 15, Art.5
[45] *Ibid.*
[46] 'EU and Vietnam hold fifth round of negotiations for a free trade agreement', *European Commission*, 2013, accessed on 12th October 2016, available at: http://trade.ec.europa.eu/doclib/press/index.cfm?id=984

two[47]. Vietnam agrees to notify not only subsidies to goods but also to services. This commitment is beyond the WTO rules.

(i) Enterprises of both economies have opportunities to alert their governments to potential subsidies with negative effects for their business. The Government then will act on their behalf to consult with other party of the FTA to get information and further to find a satisfactory solution.

(ii) Unlimited guarantees are not allowed and subsidies to ailing companies are not possible without a viable restructuring plan.

(iii) Both countries can provide aid to public services and continue to subsiding services of general economic interest.

3.3. Conclusion on expected deep integration effects

After having provided analysis on quantitative and qualitative perspectives for deep integration, main conclusions on welfare effects are drawn.

Firstly, looking at quantitative indicators, low intra-industry trade between the EU and Vietnam can promote further specialization between the two and large welfare gains then will be followed. Moreover, as for the RMA values, the two economies seem not to face significant barriers to their bilateral trade. Also, the removal of NTBs will expect better potential for trade between the EU and Vietnam.

Secondly, as looking into qualitative analysis, different measures in NTBs were found in different sectors, naming at agricultural and fishery products, pharmaceutical products or services. This research found that structural issues relating to FDI attraction is revealed. IPRs also bring certain concerns for the EU due to importation of counterfeited products in Vietnam. Competition policy related to FDI and services are also considered as importation to bilateral trade between two economies. Also, trade related issues of sustainable development are significant important to promote trade between the EU and Vietnam.

As the result, with detailed analysis on different regulatory barriers that are included in the EVFTA, it is clear that the EVFTA would lead to enormous welfare enhancement to both countries. With more complete market development and trade liberalization, the EU seems to gains better because it market access to the Vietnamese market will be more significant. In order for Vietnam to gain significant welfare, the country has to gradually improve its

[47] See note 2

domestic market level. From regional perspective, Vietnam can totally gain from welfare effects with deeper integration into similar market countries in the EU.

CHAPTER 4: OPPORTUNITIES, CHALLENGES AND RECOMMENDATIONS FOR VIETNAM

From above results of shallow and deep integration of EVFTA, there are some conclusions drawn on opportunities and challenges for Vietnam. Based on that, this section will be followed with some recommendations for Vietnam on the enforcement of the EVFTA.

4.1. Opportunities for Vietnam

Firstly, from the data on trade between Vietnam and the EU, it can be seen that EVFTA would be essential to boost exports from Vietnam to the EU. The EVFTA will confirm and maintain the importance of the EU's market to Vietnam's exports, among top exports' destinations. The EU's large size of market, accounting for 500 million consumers and 21 million small and medium-sized enterprises (SMEs)[48] will benefit Vietnamese exports in many key sectors such as footwear, agricultural products or electrical machine parts. The EU's market to all 28 state members will be opened to Vietnam, and also of markets of countries with which the EU currently has FTAs. Confirming with the above result on the bilateral intra-industry trade between the EU and Vietnam, the FTA will also be beneficial for products from Vietnam, especially key product sectors.

Secondly, the EVFTA will be significant momentum for the EU's FDI inflows to Vietnam. Potential welfare gains from liberalization on the assembly of marine engines and agricultural machinery will create opportunities for Vietnam to access advanced technology from the EU. The EU has significant comparative advantages in aircraft and automobile industries; the EVFTA will bridge technological know-how from the EU to Vietnam and help to accelerate the industrialization and modernization of Vietnam. According to the Delegation of the European Union to Vietnam, electricity production and manufacturing sector are among the most prominent sectors for EU investors. There have been 590 manufacturing projects, accounting for 6.62 billion USD and 19 projects in electricity production and transmission, accounting for 3.54 billion USD by EU investors in Vietnam.

Last but not least, the EVFTA is the new generation agreement with many beyond-trade issues to be addressed. Vietnam has committed to liberalize trade in different aspects such as NTBs, intellectual property rights, government procurement and sustainable developments. These commitments will contribute into country's trade policy reform. By participating in the

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[48] 'The European Single Market', *European Commission*, accessed on 12th October 2016, available at https://ec.europa.eu/growth/single-market_en

EVFTA, Vietnam will have to peacefully resolve its policies to align with commitments in the EVFTA.

4.2. Challenges for Vietnam

Beside opportunities, the EVFTA will also pose different challenges for Vietnam.

Firstly, the EVFTA challenges Vietnam in maintaining competitiveness of Vietnamese products. Beside an FTA with Vietnam, the EU is currently negotiating FTAs with many Asian countries, especially ASEAN countries like Thailand, Malaysia, the Philippines and Indonesia. These countries have similar exporting patterns with Vietnam and can compete with Vietnam. Also, if the TTIP is going to be concluded in the far future, Vietnam may face problems in exporting to the EU.

Secondly, many products that Vietnam mainly exports to the EU are under categories of which tariffs will be slowly reduced over long period of time. Vietnam, therefore, may not be able to increase the exports to competitive products from other countries quickly enough to occupy the EU markets. After the certain period of time, Vietnam might lose the welfare as the loss of competitiveness in the EU's market as well as domestic industries. Also, Vietnam might also have to face strong pressure from the EU on trade in services. The EU's firms with experiences in management and quality will bring great challenges for Vietnamese enterprises, especially logistic industry, seaports or financial services.

Last but not least, the issues of NTBs will be significant challenges for Vietnamese enterprises. The increases of export volume arising from low tariffs might lead to more NTMs to be applied. Also, as the majority proportion of Vietnamese exports to the EU includes agricultural products and labour-intensive produces, it is very likely that the regulations on environment or labour will be applied against Vietnamese products into the EU. Therefore, it is important for Vietnamese enterprises to increase the share of processed and high-value added products, as well as apply better management practices to meet standards and requirements of the EU markets.

4.3. Recommendations for Vietnam

Based on above analysis, some recommendations are suggested for Vietnam to take opportunities and to overcome challenges from the enforcement of the EVFTA.

Firstly, Vietnamese firms should take advantages of European technology know-how to improve the quality of products and to increase exportations of higher-value added products. By doing so, Vietnamese firms can maintain competitiveness within the EU markets and also to avoid NTMs. Vietnamese government can support the amelioration of enterprises competitiveness by calling the EU corporations into establishing joint ventures or 100% foreign-invested enterprises in Vietnam. Through that mechanism, advanced technologies as well as managing experiences will be transferred to Vietnamese companies. Also, from those experiences, the EVFTA will help to upgrade Vietnamese standards from the EU's institutions.

Secondly, the EU is the mega market with combination of 28 country markets. Beside traditional markets such as France, Germany, etc., Vietnamese enterprises should explore new markets within the EU to reduce dependence on traditional markets. Also, different market the EU has different favourites in certain products; Vietnamese enterprises should also explore new products to those markets.

Thirdly, to support businesses with better preparations for the implementation of the EVFTA, the government should implement better mechanisms to equip firms with understanding about the EVFTA, education and propaganda on the EU market information such as quality standards, labour or environmental requirements. Different contacts between the government and public through activities such as training workshops, seminars or dialogue conferences to introduce about the EVFTA to different community groups should be implemented. Those activities will be useful channels to prepare businesses with better capacity to improve quality and value of products, better capacity to fight against different NTBs, and to revise domestic policies to further support exporting enterprises.

Last but not least, the reform of Vietnamese current legislation system is also an important step toward the EVFTA. Vietnam should take advantages from the EU's commitments to support Vietnam technically into the implementation of the FTA.

CONCLUSIONS

This research focuses on the expected welfare effects of the recently concluded free trade agreement between the EU and Vietnam, basing on the guidelines of the Sussex Framework. At first, the study provides analysis on potential trade creation and trade diversion created from shallow integration, using statistical data on trade in goods. The results of shallow integration analysis shows that Vietnam might gain potentially from the FTA due to the breakdown of tariffs, the natural trading partners as the EU is among the main export destinations of Vietnam. On the other hand, the welfare gains might be more limited to the EU than to Vietnam due to dissimilarity in production patterns, non-natural trading partners of Vietnam to the EU.

Secondly, the research studies the potential for welfare gains from deep integration from using both quantitative and qualitative analysis. The quantitative analysis shows that the two economies seem not to face significant barriers to their bilateral trade. The removal of NTBs therefore will expect better potential for trade between the EU and Vietnam. Also, by looking into qualitative analysis, different measures of NTBs were pointed, especially in agricultural and fishery sectors, pharmaceutical sector or services. However, potential for welfare gains will likely be enormous from deep integration due to the commitments of both economies in IPRs, FDI policy or other trade related issues such as sustainable development. With higher level of market development and trade liberalization, the EU seems to gain more significantly than to Vietnam.

In order for Vietnam to enhance welfare gains from the integration, there has been analysis on opportunities and challenges for Vietnam, followed by policy recommendations. Vietnamese government is expected to support firms with understanding about the EVFTA, market information on quality standards, labour and environmental requirements, building capacity to improve quality and value of exporting products. Also, revision of domestic policies is also recommended for Vietnam to further support domestic enterprises not only to promote exports to the EU, but also to enhance competitiveness of enterprises in the domestic market as the future entrance of EU enterprises to Vietnam. In term of enterprises, Vietnamese enterprises are recommended to improve the quality of products so as to align with higher standards of the EU market so as to increase exports of higher value-added products and also to avoid NTMs. Also, Vietnamese enterprises are suggested to explore new market within the EU as Vietnam will enjoy duty-free quota-free access to the 28 member states of the EU and also markets with which the EU has already had agreements.

In conclusion, it can be said that the EVFTA could lead to interest of both economies.

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ANNEXES

ANNEX A

List of country codes, as used in WITS System

CHE	Switzerland
CHN	China
EU	European Union
JPN	Japan
KOR	Korea, Republic
NOR	Norway
OAS	Other Asia, nes[49]
ROW	Rest of the world
RUS	Russia Federation
TUR	Turkey
USA	United States

[49] As from WITS, Taiwan, China is disseminated as “Other Asia, nes“ (artificial country code OAS)

ANNEX B

Figure 2-3: Applied tariffs of the EU on imports from Vietnam by product (2014, Simple Average, HS 2-digit level)

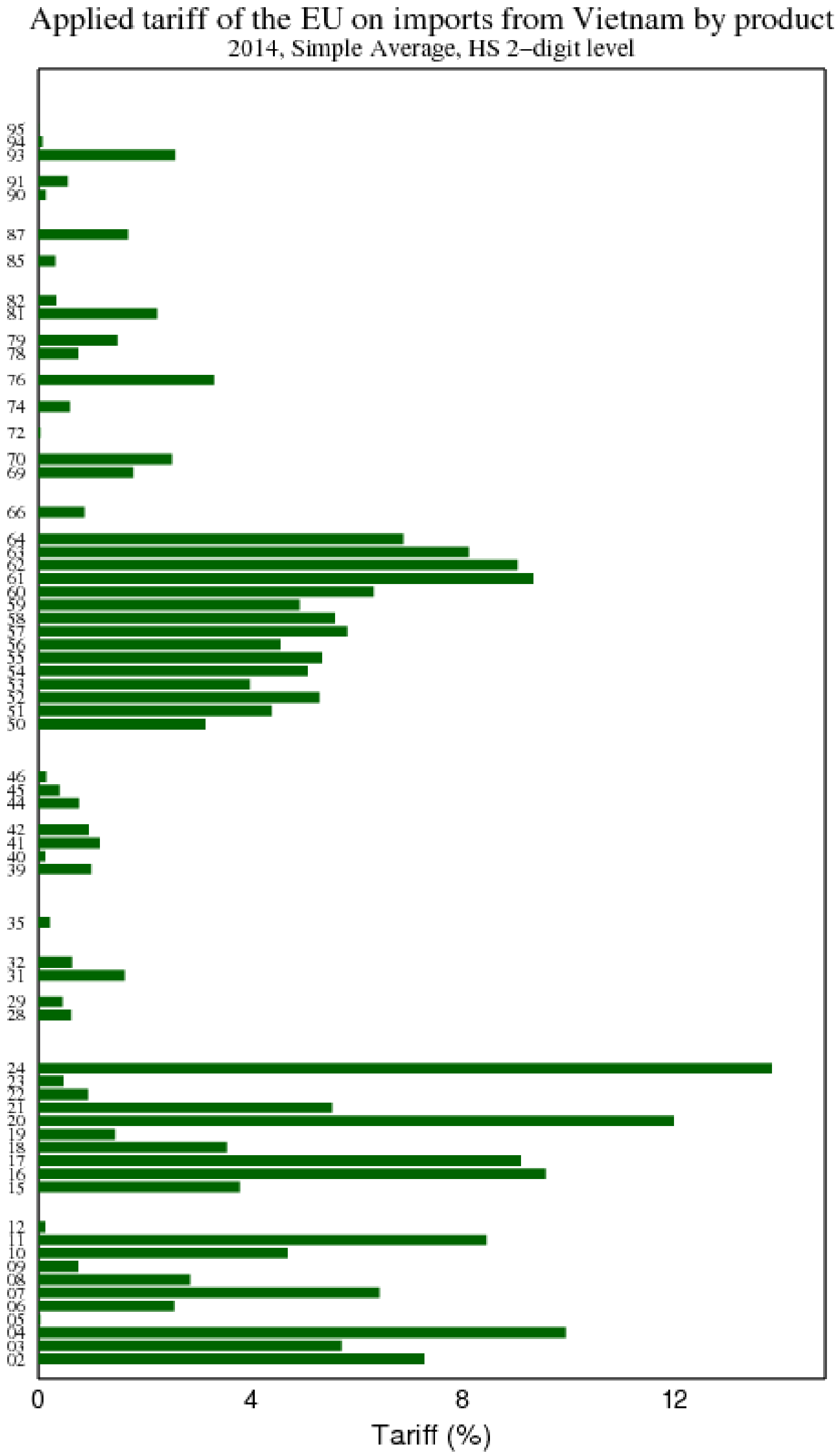
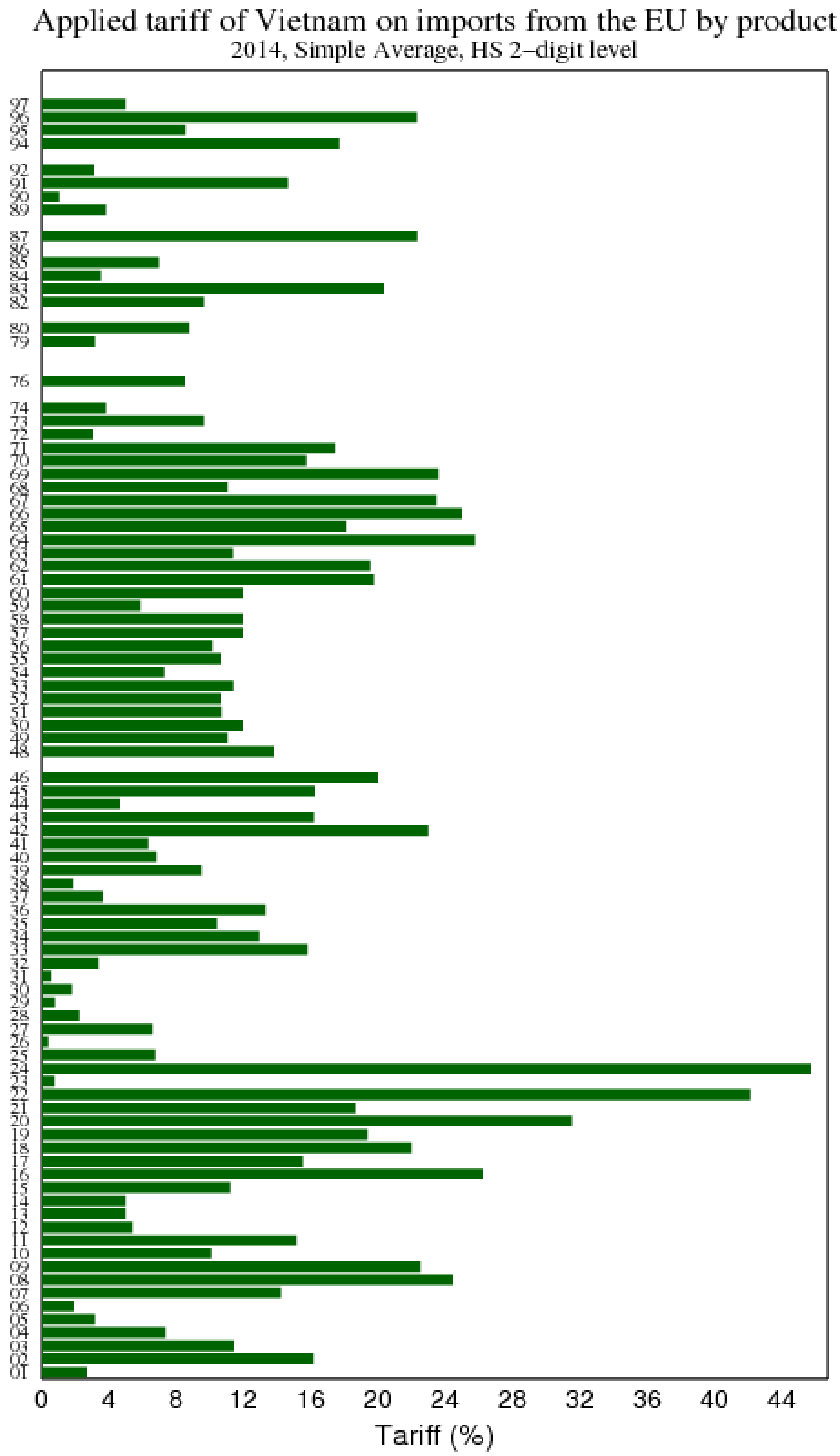


Figure 2-4: Applied tariffs of Vietnam on imports from the EU by product (2014, Simple Average, HS 2-digit level)



ANNEX C

Table 2-13: RCAs for the top 15 exporting products of the EU (2014) – HS 4-digit

No	Country	Product Code	Product Name	Value (1000USD)	Shares	World Shares	RCA
1	The EU	8703	Motor cars and other motor vehicles; principally designed for the transport of persons, including station wagons and racing cars	152887089.3	6.96%	3.65%	1.91
2	The EU	2710	Coal; briquettes, ovoid and similar solid fuels manufactured from coal	115204151.1	5.24%	5.57%	0.94
3	The EU	3004	Medicaments; consisting of mixed or unmixed products for therapeutic or prophylactic use, put up in measured doses or packed for retail sale	103955114.9	4.73%	1.54%	3.07
4	The EU	8802	Aircraft n.e.c. in heading no. 8801; spacecraft (including satellites) and suborbital and spacecraft launch vehicles	55610305.03	2.53%	0.44%	5.71
5	The EU	8708	Motor vehicles; parts and accessories, of heading no. 8701 to 8705	52425997.25	2.39%	2.12%	1.13
6	The EU	7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form	46422306.03	2.11%	1.39%	1.53
7	The EU	8411	Turbo-jets, turbo-propellers and other gas turbines	42197697.83	1.92%	0.34%	5.63
8	The EU	3002	Human blood; animal blood for therapeutic, prophylactic or diagnostic uses; antisera, other blood fractions, immunological products, modified or obtained by biotechnological processes; vaccines, toxins, cultures of micro-organisms (excluding yeasts) etc.	35236320.54	1.60%	0.61%	2.64
9	The EU	8803	Aircraft; parts of heading no. 8801 or 8802	23644369.92	1.08%	0.37%	2.92
10	The EU	9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight testing instruments	22963534.07	1.05%	0.55%	1.91
11	The EU	8479	Machinery and mechanical appliances; having individual functions, n.e.c. in this chapter	22264658.64	1.01%	0.41%	2.46
12	The EU	8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves	21869105.94	1.00%	0.45%	2.22
13	The EU	8471	Automatic data processing machines and units thereof, magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included	21470541.49	0.98%	2.32%	0.42
14	The EU	7102	Diamonds, whether or not worked, but not mounted or set	20638507.57	0.94%	0.53%	1.77
15	The EU	8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data	19047392.2	0.87%	1.20%	0.73
	Total				34.41%	21.49%	
	Average						2.33

Table 2-14: RCAs for the top 15 exporting products of Vietnam (2014) – HS 4-digit

No	Country	Product Code	Product Name	Value (1000USD)	Shares	World Shares	RCA
1	Vietnam	8525	Transmission apparatus for radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras, digital cameras and video camera recorders.	21749186.02	14.53%	1.27%	11.4
2	Vietnam	2709	Petroleum oils and oils obtained from bituminous minerals; crude	7224230.188	4.83%	7.42%	0.65
3	Vietnam	8471	Automatic data processing machines and units thereof, magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included	6099109.085	4.08%	2.12%	1.92
4	Vietnam	6403	Footwear; with outer soles of rubber, plastics, leather or composition leather and uppers of leather	4290750.264	2.87%	0.30%	9.67
5	Vietnam	6404	Footwear; with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials	3667128.874	2.45%	0.13%	18.77
6	Vietnam	9403	Furniture and parts thereof, n.e.c. in chapter 94	3430547.232	2.29%	0.48%	4.78
7	Vietnam	901	Coffee, whether or not roasted or decaffeinated; husks and skins; coffee substitutes containing coffee in any proportion	3311395.619	2.21%	0.17%	13.25
8	Vietnam	8517	Telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of voice, images or other data	3059444.063	2.04%	1.15%	1.79
9	Vietnam	1006	Rice	2936931.047	1.96%	0.13%	14.56
10	Vietnam	6204	Coats; women's or girls' overcoats, car coats, capes, cloaks, anoraks, ski-jackets, wind-cheaters, wind-jackets and similar articles	2766755.364	1.85%	0.33%	5.63
11	Vietnam	8544	Insulated wire, cable and other electric conductors, connector fitted or not; optical fibre cables of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	2719062.151	1.82%	0.66%	2.76
12	Vietnam	306	Crustaceans; in shell or not, live, fresh, chilled, frozen, dried, salted or in brine; smoked, cooked or not before or during smoking; in shell, steamed or boiled, whether or not chilled, frozen, dried, salted or in brine; edible flours, meals, pellets	2553754.261	1.71%	0.14%	12.22
13	Vietnam	6203	Suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts	2452843.803	1.64%	0.23%	7.00
14	Vietnam	304	Fish fillets and other fish meat (whether or not minced); fresh, chilled or frozen	2415085.853	1.61%	0.11%	14.18
15	Vietnam	6110	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	2337234.8	1.56%	0.24%	6.38
	Total				47.45%	14.88%	
	Average						8.33

ANNEX D

Table 3-5: Average FDI Regulatory Restrictiveness Index of the EU member states (2010-2015)

No	Country	Average FRRI (2010-2015)	No	Country	Average FRRI (2010-2015)
1	Austria	0.106	13	Latvia	0.029
2	Belgium	0.04	14	Lithuania	0.035
3	Czech Republic	0.01	15	Luxembourg	0.004
4	Denmark	0.033	16	Netherlands	0.015
5	Estonia	0.02	17	Poland	0.072
6	Finland	0.019	18	Portugal	0.007
7	France	0.045	19	Slovak Republic	0.049
8	Germany	0.023	20	Slovenia	0.007
9	Greece	0.032	21	Spain	0.021
10	Hungary	0.029	22	Sweden	0.059
11	Ireland	0.043	23	United Kingdom	0.061
12	Italy	0.052	24	EU Average	0.035

Source: OECD Statistics