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The EVFTA: New Trade and Investment Opportunities for Vietnam but New Risks for Thailand

The newly signed EU-Vietnam Free Trade Agreement (EVFTA) is the first free trade agreement concluded by Vietnam to liberalize trade in goods across almost the entire economy, though the EVFTA is not limited to just this and the agreement in fact extends to include the trade in services and investment, too, opening up the Vietnamese economy to a greater degree than have all the country's previous free trade agreements. **The EVFTA also marks a milestone in allowing foreign investors to compete in state-organized competitive bidding**, reducing the monopoly position of state enterprises, and promoting fair competition. These moves are not just of passing interest, since the EVFTA will help to open new opportunities for trade and investment in Vietnam and although the country may initially face challenges in adapting to the more stringent conditions that come with access to EU markets, **over the longer term, this will help to sharpen the cutting edge of the Vietnamese export sector, attract greater levels of foreign investment to the country, and ultimately, raise the Vietnamese economy's rate of expansion**. Most notably, the EVFTA will help Vietnam build both its competitiveness and the potential of its economy over the long run. **As for Thailand, the country is likely to suffer a number of negative side-effects as a result of these developments and Thai players are expected to see their ability to compete on price erode, while strengthening EU-Vietnamese supply chains may also expose Thailand to the risk of a shrinking share of both EU and Vietnamese markets in the coming period.**

The EVFTA is Vietnam's First FTA to Almost Entirely Liberalize Trade

On June 30, 2019, the European Union (EU) and Vietnam formally consented to adopt the EU-Vietnam Free Trade Agreement (EVFTA)[1/], which liberalizes the trade in goods and services, as well as freeing up investment regulations. In February, the EU parliament will vote on passing the EVFTA into law and once the EU and Vietnamese authorities have completed the necessary legal procedures, and then notified the other parties of this, the agreement will come into force one month later; it is expected that this will be some time in the first half of 2020. **The EVFTA marks another major step forward in the process of tying Vietnam into world markets for trade and investment, although several aspects of the agreement are particularly notable. (i) The EVFTA liberalizes almost 100% of Vietnam-EU trade, and is the most comprehensive trade agreement that Vietnam has agreed to date**[2/], so that when the two parties have completed the commitments agreed to under the agreement and thus reduced the import duties that they currently impose on one another, 99% of goods traded between the EU and Vietnam will be zero-rated (from the EU's side, 99.2% of imports from Vietnam will be customs and duty free, while 98.3% of imports to Vietnam from the EU will be exempt from duties). **(ii) Vietnam is only the second country in the ASEAN region to agree a free trade agreement with the EU**[3/] **(the other is Singapore). (iii) Vietnam is the first developing economy to agree a standards-based free trade agreement with the EU**[4/]**. That is, in addition to specifying quantitative measures to liberalize trade and investment (i.e. setting out how far import duties should be cut or specifying permissible levels of foreign shareholding), the agreement also covers qualitative matters such as setting standards, providing for equal access to markets and increasing the level of technological exchange between the signatories. These factors will then have a major role to play in supporting economic growth in the coming years.**

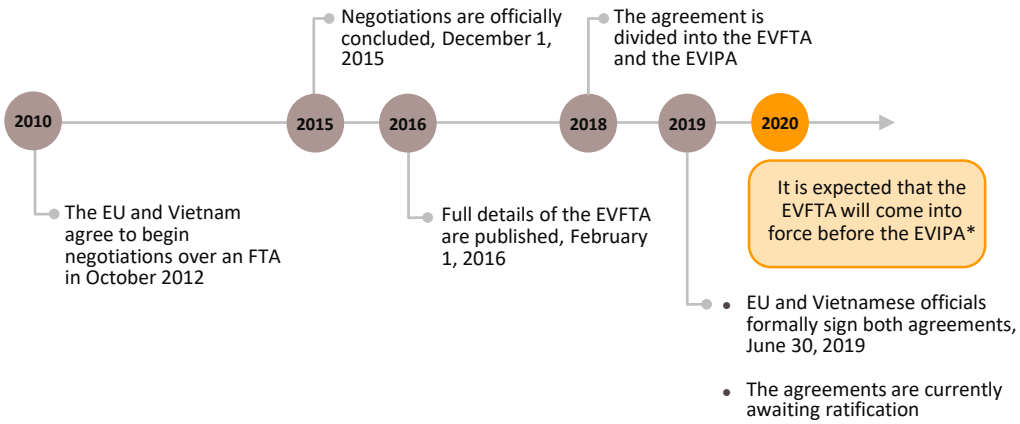
1/ EU and Vietnamese officials signed 2 agreements, the EU-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement, which covers investor protection, mediation and dispute resolution.

2/ At present, Vietnam is a signatory to 10 free trade agreements (including both bilateral and multilateral agreements). These are the ASEAN FTA, the ASEAN-Japan FTA, the ASEAN-China FTA, the ASEAN-South Korea FTA, the Vietnam-Japan FTA, the Vietnam-South Korea FTA, the Vietnam-Chile FTA, the Vietnam-Eurasian Economic Union FTA, the ASEAN-Hong Kong FTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

3/ The latest situation with other EU-ASEAN FTAs is that the EU-Singapore FTA (EUSFTA) has been agreed and will soon be enforced, the Philippines and Indonesia are currently negotiating with the EU, and Malaysia has temporarily suspended its negotiations (source: Ministry of Foreign Affairs). As for Thailand, the government is considering the possible costs and benefits for the country of negotiating an FTA and is in the process of gathering opinions from smaller stakeholders in preparation for restarting discussions with the EU over a prospective Thai-EU FTA (source: Department of Trade Negotiations, November 21, 2019).

4/ In addition to liberalizing trade in goods and services and in investments, high standard free trade agreements also typically cover customs rates and formalities, ease of trade, the activities of state enterprises, government procurements, laws relevant to trade competition, clarity and transparency in the application of the law, law governing trade and conflict resolution, the ease of doing business, and the strengthening of mutual capabilities and cooperation.

Figure 1: Progress on Negotiations over the EVFTA



Note: *Following the signing of the EVFTA and EVIPA agreements, these will now need to be ratified according to the legal procedures of each party. In the case of the EVFTA, this will need to be agreed to by the Vietnamese National Assembly, the European Council and the European Parliament, and while the EVIPA will also need to be voted on by the Vietnamese National Assembly, it will also need to be agreed to by each of the member states of the EU individually, and because of this difference, it is expected that the EVFTA will come into force before the EVIPA.

Source: Krungsri Research

Trade and investment in Vietnam will be thrown open by the EVFTA

The EVFTA is an extremely comprehensive bilateral free trade agreement that will almost entirely liberalize the trade in goods between Vietnam and the EU, thus making it the most far reaching of all the FTAs that Vietnam has negotiated to date. However, the agreement also extends to cover the service sector and in particular, it specifies the proportion of shares that investors from the EU and Vietnam may hold in operations in the other's service sector; under the EVFTA, these are set at a higher level than they are for investors from third party countries and in some cases, foreign investors may now hold up to 100% of shares in Vietnamese operations. Beyond this, the EVFTA is also the first FTA agreed by Vietnam to allow EU investors to bid on public sector contracts.

- **Liberalization of trade in goods**: Under the EVFTA, EU reductions in import duties will cover a greater number of Vietnamese goods and will be implemented at a more rapid pace than will Vietnam's cuts to duties on EU imports (Figure 2). These reductions are described below.

  - **The EU will immediately waive import duties on 85.6% of the items listed as imports from Vietnam as soon as the EVFTA is formally adopted, and over the following 8 years, the bloc will steadily increase the proportion of goods that are zero-rated, until this reaches a full 99.2% of all Vietnamese imports** (Table 1). The remaining 0.8% will be regulated under a tariff rate quota (TRQ) system, and the most important goods in this group will include canned tuna, rice, corn and sugar (Appendix 1).

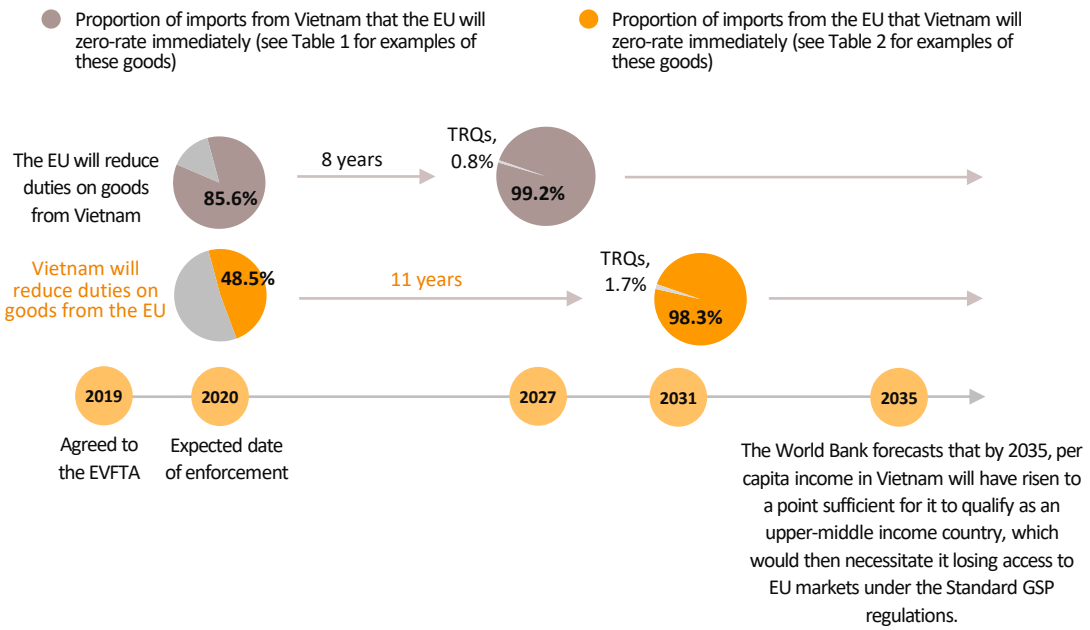
  - **Vietnam will, by contrast, zero-rate only 48.5% of the product categories covering imports from the EU immediately on the enforcement of the EVFTA, but over the subsequent 11 years, this will be expanded to include 98.3% of EU imports.** The 1.7% of goods for which duties will still be imposed will either have their duties further reduced according to an agreed timeframe or these will be governed by a TRQ regime, as agreed between Vietnam and the World Trade Organization (WTO).

The difference in the time periods over which EU imports will be zero-rated by Vietnam reflect the different roles played by these goods in the Vietnamese economy.

1) **The goods for which Vietnam will instantly zero-rate import duties are largely upstream or midstream products that are used as inputs to supply chains within the Vietnamese manufacturing sector**, though among these, particularly important are upstream goods that Vietnamese manufacturers are especially dependent on, whether that be because Vietnam lacks the requisite raw materials, its production capacity in that area is insufficient to meet demand, or national supply chains are simply not comprehensive enough. The most prominent goods in this group include (i) **textiles (e.g. threads, fibers and fabrics)**, crucially important inputs to the clothing and finished apparel industries (which with a 13% share of all Vietnamese good sold on international markets are the country's second most important exports) and (ii) **machinery and tools**, basic goods that are used in manufacturing and for which Vietnam has set special import duties under a number of different investment promotion schemes. Indeed, with a nearly 10% share, machinery and tools comprise the second most important group of imports (Table 2).

2) **By contrast, the EU imports for which Vietnam will only gradually reduce duties are typically goods that Vietnam already produces domestically, but in this case, local manufacturers will need time to adjust or to raise the quality of their operations so that they will be able to compete effectively with EU imports. Examples of these include chemicals, motorcycles and autos, and tools and components** (Table 2).

Figure 2: Timeline for Reduction in Import Duties for Trade between the EU and Vietnam, as Specified in the EVFTA



Source: European Commission, Krungsri Research

Table 1: Import Duties that will be Levied by the EU on the Most Important Vietnamese Imports, as Specified in the EVFTA

Goods	Proportion of all Vietnamese Exports Bound for EU Markets in 2018 (%)	Current Import Duties (%)	Import duties in the EVFTA	
			Categories for which Import Duties will be Immediately Zero-Rated on the Enforcement of the EVFTA	Categories for which Import Duties will be Gradually Zero-Rated Over a Timescale as Specified in the EVFTA
Electrical machinery and equipment and parts thereof (HS85)	42.2	0-14	• Most goods in this category will be zero-rated immediately, including, for example: - Almost all items classed as mobile phones (HS8517) - Diodes and transistors (HS8541) - Electronic integrated circuits (HS8542) - Some monitors and projectors (HS8528) - Items HS8501-8516	• Only a small number of goods will be gradually zero-rated, which will happen over 4-6 years. - Reception apparatus for radio-broadcasting (HS8527) - Some monitors and projectors (HS8528)
Footwear, and the like and parts of such articles (HS64)	13.7	3-8	• Less sensitive goods: Some of these will be zero-rated immediately, including: - Footwear (waterproof or not), with outer soles and uppers of rubber or plastics (HS6401 and 6402) - Other footwear (HS6405) - Parts of footwear (HS6406)	• Less sensitive goods: Some will be zero-rated within 4 years: - Ski-boots, snowboard boots and cross-country ski footwear, with outer soles of rubber, plastics, leather or composition leather and uppers of leather (HS640312) - Sports footwear, with outer soles of rubber, plastics, leather or composition leather and uppers of leather (HS64039113B) • Sensitive goods: These will be zero-rated over a period of 6-8 years, including: - Shoes with outer soles of leather
Articles of apparel and clothing accessories, knitted or crocheted, or not (HS61 & HS62)	10.5	0-20	• Some less sensitive goods will be immediately zero-rated, including: - Men's suits (HS6103) - Women's suits (HS6104) - Women's blouses and shirts (HS6106) - Babies' garments and clothes (HS6111) - Knitted or crocheted garments (HS6113, HS6114) - Women's ensembles (HS620421, HS620422, HS620423, HS620429) - Blankets and rugs (HS6301)	• Less sensitive goods: Some will be zero-rated over a 4-year period, including: - Coats and overcoats made from artificial fibers: men's (HS620130) and women's (HS620220) - Men's industrial trousers (HS620349) - Tracksuits (HS621133) • Sensitive goods: The most important goods that will be zero-rated over 6-8 years include: - Knitted or crocheted t-shirts (HS6109) - Cardigans (HS6110) - Coats and overcoats: men's (HS6201, except HS620130) and women's (HS6202 except HS620220)
Seafood (HS03)	1.9	0-20	• Some types of seafood will be zero-rated immediately, including: - Fresh fish (HS0301) - Tuna (HS0302 except HS03023980) - Mackerel (HS030245) - Fresh prawns (HS030622) - Fresh crab (HS030624) - Mollusca (HS030731) - Cephalopods (HS030741)	• Import duties will be equalized over 4-8 years, in particular for processed seafood, including: - Frozen filleted catfish (HS030462) - Freshwater fish meat that is fresh, chilled or frozen (HS030499)
Rice (HS1006)	0.8	EUR 65-211 per 1,000 kilograms	• Rice will be zero-rated according to its type, as per an agreed TRQ regime: ▪ Broken rice: Import duties will be halved immediately ▪ Duties will be zero-rated according to the following TRQs: - 20,000 tonnes of husked rice - 30,000 tonnes of milled and fragrant rice	• Broken rice: Duties for the remainder will be gradually equalized within 6 years.

Source: European Commission, Krungsri Research

Table 2: Import Duties that will be Levied by Vietnam on the Most Important Imports from the EU, as Specified in the EVFTA

Goods	Proportion of all Vietnamese Exports Bound for EU Markets in 2018 (%)	Current Import Duties (%)	Import duties in the EVFTA	
			Categories for which Import Duties will be Immediately Zero-Rated on the Enforcement of the EVFTA	Categories for which Import Duties will be Gradually Zero-Rated Over a Timescale as Specified in the EVFTA
Machinery, mechanical appliances and parts thereof (HS84)	20.8	0-45	• The majority of these goods will be zero-rated immediately, including: - Nuclear reactors and parts (HS8401, HS8402) - Boilers (HS8403) - Air turbines and aircraft engines (HS8410, HS8411, HS8412)	• Some goods will be gradually zero-rated over 4-11 years, including: - Aircraft engines (HS8407, HS8408, HS8409) - Pumps and compressors (HS8413, HS8414, HS8415) - Machinery parts (HS8417, HS8418)
Electrical machinery and equipment and parts thereof (HS85)	9.4	0-14	• Some items in this category will be immediately zero-rated, including: - Furnaces and ovens functioning by induction (HS8514, HS8515) - Almost all types of wired telephone sets (HS8517) - Railway equipment (HS8530) - LED and LCD lights (HS8531)	• Most of the goods that will be zero-rated over 4-8 years will be from the following: - Most types of heaters (HS8516) - Microphones and headphones (HS8518)
Medicines and medical supplies	8.3	0-8	• Almost all goods in this category will be zero-rated immediately.	• Tools and equipment that are used in the treatment of cancer, AIDS, and diseases that do not respond to other types of treatment (HS300691) will be zero-rated over 8-11 years.
Chemicals (HS28, HS29)	1.9	0-20	• Most goods will be immediately zero-rated, including: - Methanol (HS2905) - Halogenated derivatives of hydrocarbons (HS2903) - Colloidal metals, silver nitrate and gold compounds (HS2843) - Vitamins (HS2936)	• Some goods will be zero-rated over a period of 4-6 years: - Most goods for which duties are currently set at 5% will be zero-rated within 4 years, e.g. magnesium hydroxide (HS2816) - Goods for which duties are currently collected at a rate of 10-20% will be zero-rated over 6 years, e.g. ammonium chloride (HS2827)
Motor vehicles and parts thereof (HS87)	2.6	78	• Some goods will be zero-rated immediately, including: - Tracked vehicles (HS870130) - Cranes, mobile drilling derricks and fire engines (HS870510, HS870520, HS870530)	• Most goods will be zero-rated over 8-11 years, including: - Passenger vehicles that have an engine capacity of not over 1,500 cc. (HS87033120) - Motorhomes (HS87032192, HS87032292, HS87032340) - Auto parts (HS8714)
Fabrics (HS60)	0.4	12	• All goods in this category will be immediately zero-rated.	N/A

Source: European Commission, Krungsri Research

- **Liberalization of trade in service**: Under the EVFTA, the Vietnamese service sector will be liberalized to a greater degree than it has been under either WTO rules or the ASEAN FTA

  To date, Vietnam has opened its service sector to the outside world by reducing and then removing barriers to investment and operations based on the 12 main divisions of the service sector identified by the WTO[5/], although services have in addition been liberalized through the implementation of the ASEAN Free Trade Agreement (ASEAN FTA)[6/], the provisions of which go further than do the WTO regulations. However, **under the EVFTA, the service sector will be opened wider than was the case under any of these earlier agreements** and this will extend through 4 'modes'. Mode 1 covers the cross-border supply of services, Mode 2 consumption overseas, Mode 3 commercial presence and Mode 4 the presence of natural persons for the provision of services[7/] (in particular travel for business activities, such as to engage in negotiations or to transfer staff within a company). Table 3 shows that **Vietnam will liberalize modes 1 and 2 in almost all of the divisions of the service sector (some types of financial services and transport will be exempt from this), while for Mode 3, operators from the EU will be able to hold shares in Vietnamese companies at a higher ratio than can those from ASEAN member states. It is also notable that in some services, liberalization is total and investments may be made without restriction.** However, from the EU's side, liberalization will depend on individual countries and this will vary for different services[8/].

- **Opening up investment**: Under the EVFTA, Vietnamese authorities are liberalizing investment to a greater degree than under any other FTA currently enforced in the country

  - **As with services, the new FTA provides for a greater degree of liberalization of rules over investment in manufacturing than do any of Vietnam's earlier FTAs and the country is being opened up in almost all areas without restriction.** Only a few parts of the Vietnamese economy are being protected (Appendix 3), while for the EU, only electricity production, distribution and transmission, natural gas production, distribution of fuels produced from natural gas, and steam and hot water generation are excluded from the provisions of the new agreement. In addition, **compared to the ASEAN FTA, the EVFTA frees up investment with fewer conditions, or with none at all.** For example, whereas under the ASEAN FTA, a certain proportion of raw materials and inputs had to be sourced locally, under the EVFTA, the pulp, paper and paperboard industries (ISIC2101), the rubber and plastic products industries (ISIC2520), and the domestic electrical appliances industries (ISIC2930) are liberalized without any conditions being imposed.

  - **As regards investment in services, in many areas, EU investors will be able to operate freely in the country and to hold up to 100% shareholdings in Vietnamese companies (a level that is higher than that currently permissible for investors from the ASEAN region).** Table 4 illustrates how in some cases the obligations made under the EVFTA are in fact more generous than those currently allowed for by Vietnamese national law and by the ASEAN FTA, which at present provides for the greatest freedom of investment for non-Vietnamese operators. For example, in the area of **retail and wholesale** businesses, EU investors may hold up to 100% of company shares without being required to pass an economic needs test (ENT) if they have invested for a period of 5 years or longer. EU investors may also hold up to 70% of the shares in **road, rail and water transport** companies, whereas under the ASEAN FTA, the greatest permissible shareholding for non-Vietnamese operators is only 49%, and then only in certain subsectors. From the other side of the agreement, **EU member states agree to fully open to investment from Vietnamese operators without restriction in the areas of postal and courier services, the retail and wholesale of motor vehicles, the wholesale of terminals for telecommunications equipment, and food retail businesses.** Different stipulations with a greater or lesser degree of freedom will govern other parts of the service sector.

Once the EVFTA comes into force, this will govern trade and investment occurring between Vietnam and all member states of the EU and so all pre-existing bilateral investment treaties (or BITs, of which there are 21) will become void.

5/ To provide a basis for negotiations over the provision of services, the WTO has divided the service sector into 12 subgroups (these classifications rely on the UN Central Product Classification (CPC)). These groups cover: business services, communication services, construction and related engineering services, distribution services, education services, financial services, environment services, health-related and social services, tourism and travel-related services, recreation, cultural, and sporting services, and other services. Member states of the WTO may liberalize each of these subgroups to a different degree.

6/ Within the ASEAN zone, liberalization of the service sector is governed by the ASEAN Framework Agreement on Services (AFAS), which has been in effect since 1995. The AFAS is based on the principle of progressive liberalization, and at present this process is at the stage of the 9th Package of Commitments (Source: The Association of the Southeast Asian Nations). However, almost all ASEAN member states (with the exception of the Philippines) have agreed to replace the AFAS with the ASEAN Trade in Services Agreement (ATISA) and if all members do indeed sign the latter agreement, this will then come into force within 180 days of the ASEAN Secretary-General being informed of this (information correct as of September 13, 2019).

7/ European Commission, "Specific Commitments on Cross-Border Supply of Services".

8/ European Commission, "Liberalization of Investment, Trade in Services and Electronic Commerce".

Table 3: Access to the Vietnamese Service Sector as Guaranteed under WTO regulations, the ASEAN FTA and the EVFTA

Services	Access to Subsectors Liberalized under WTO Regulations	Access to Subsectors Liberalized under the ASEAN FTA	Access to Subsectors Liberalized under the EVFTA
Communication services	Courier services (CPC7512): • Mode 1 and Mode 2 were liberalized. • **Mode 3 was liberalized with the condition that foreign operators could hold no more than a 51% share in a company, if they have invested for no more than 5 years**.	Courier services (CPC7512): • Mode 1 and Mode 2 were liberalized. • **Under Mode 3, from January 11, 2012, foreign operators were able to hold 100% shareholdings**.	Postal services (CPC7511) and courier services (CPC7512): • **Modes 1, 2 and 3 are liberalized unconditionally**.
Distribution services	Franchising services (CPC8929): • Modes 1 and 2 were liberalized. • **Mode 3 was liberalized with the condition that foreign operations could open up branches in Vietnam after a 3-year period of investment**.	Franchising services (CPC8929): • Modes 1 and 2 were liberalized. • **Under Mode 3, foreign operations could open up branches in Vietnam from January 11, 2010**.	Franchising services (CPC8929): • **Modes 1, 2 and 3 are liberalized unconditionally**.
Health-related and social services	Hospital services (CPC9311) and medical & dental services (CPC9312): • Modes 1 and 2 were liberalized. • **Mode 3 was liberalized with the condition that investments had to be of at least USD 20 m when establishing a hospital, USD 2 m when establishing a poly-clinic and USD 0.2 m when establishing a specialist unit**.	Hospital services (CPC9311) and medical & dental services (CPC9312): • **Modes 1, 2 and 3 were liberalized unconditionally**.	Hospital services (CPC9311) and medical & dental services (CPC9312): • **Modes 1, 2 and 3 are liberalized unconditionally**.
Tourism and travel-related services	Lodging services (CPC641), catering food (CPC642) and drink services (CPC643): • Modes 1 and 2 were liberalized. • **Mode 3 was liberalized with the condition that investment in construction, renovation and making acquisitions had to be made within the first 8 years**.	Lodging services (CPC641), catering food (CPC642) and drink services (CPC643): • **Modes 1, 2 and 3 were liberalized unconditionally**.	Lodging services (CPC641), catering food (CPC642) and drink services (CPC643): • **Modes 1, 2 and 3 are liberalized unconditionally**.
Maritime transport services	Passenger transportation less cabotage services (CPC7211) and freight transportation less cabotage services (CPC7212): • **Mode 1 was not liberalized for passenger transport**. • Mode 2 was liberalized. • **Mode 3 was liberalized with the condition that foreign operators could not hold more than 49% of company shares**.	Passenger transportation less cabotage services (CPC7211) and freight transportation less cabotage services (CPC7212): • Modes 1 and 2 were liberalized. • **Mode 3 was liberalized with the condition that foreign operators could not hold more than 49% of company shares**.	Passenger transportation less cabotage services (CPC7211) and freight transportation less cabotage services (CPC7212): • Modes 1 and 2 are liberalized. • **Mode 3 is liberalized with the condition that foreign operators may not hold more than 70% of company shares**.
Services auxiliary to all modes of transport	Storage and warehouse services (CPC742): • **Mode 1 was not liberalized**. • Mode 2 was liberalized. • **Mode 3 was liberalized with the condition that foreign operators could not hold more than 51% of company shares, though after 7 years, restrictions on shareholding were lifted**.	Storage and warehouse services (CPC742): • Modes 1 and 2 were liberalized. • **Mode 3 was liberalized with the condition that foreign operators could not hold more than 51% of company shares, though after January 11, 2014 restrictions on shareholding were lifted**.	Storage and warehouse services (CPC742): • **Modes 1, 2 and 3 are liberalized unconditionally**.

Source: WTO, ASEAN FTA, EVFTA, Krungsri Research

- **Opening up other activities: The EVFTA is a high-standard FTA and so the scope of its provisions extend beyond those of the other FTAs that Vietnam has previously negotiated. Thus, EU investors are now able to participate in competitive bidding organized by the government and so agree contracts with government agencies, while the EVFTA also protects the intellectual property rights of foreign investors.**

  - **Competitive bidding for public contracts**: **This is the first time that Vietnam has allowed foreign investors to participate in these processes.**

    - **The EVFTA allows for EU investors to participate in competitive bidding for public contracts that are awarded at the ministerial level**, for work on national infrastructure projects (e.g. roads and ports), for public utilities (including electricity distribution, railways and 34 state hospitals) or by the Hanoi or Ho Chi Minh city authorities. In addition, EU operators may also submit bids for contracts to supply the Vietnamese government under the Government Procurement Agreement (GPA).

  - **Protecting intellectual property rights and geographical indications (GIs): Both parties agree to fully protect these rights as they apply to the other party within 3 years of the day that the EVFTA comes into force. This is the first time that Vietnam has made such a commitment.**

    - **Both parties to the EVFTA consent to abide by the relevant international agreements, in particular the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement**, which sets out the minimum measures required to protect 7 types of intellectual property rights (copyrights and other related rights, trademarks, industrial designs, design of integrated circuits, undisclosed information and geographical indications).

    - **These measures will help to protect the benefits that arise from the application or exploitation of intellectual property for investors from both the EU and Vietnam, while those who suffer losses as a result of infringements of intellectual property rights will now have access to a mechanism for resolving these problems.**

    - **The EVFTA will compel Vietnam to protect 169 geographical indicators for EU products** covering wine, whiskey, champagne, bacon, cheese and ham, while **the EU will in turn be obliged to protect 39 Vietnamese GIs**, these covering tea, coffee, rice, oranges and pomelos; the majority of GIs that are protected under the EVFTA are agricultural and food products (Appendix 4).

  - **State enterprises and monopolies**: **Both parties agree to establish a business environment that supports fair, transparent and equitable competition, and to reduce the role of state monopolies by using 'commercial considerations' to ensure the non-discriminatory treatment of EU enterprises**. These include the specifying of the purchase prices and required qualities and marketing for purchases made by state enterprises. However, Vietnam has exempted some activities from the liberalization process, including privatization, the issuing or withdrawing of stocks and the restructuring of state enterprises, and the country has in addition entirely excluded 6 state enterprises from the application of these 'commercial considerations' and the requirements for transparency, these being the Vietnam Oil and Gas Group (Petrovietnam), Vietnam Electricity (EVN), Vietnam National Coal-Minerals Holding Corporation Limited (Vinacomin), State Capital Investment Corporation (SCIC) and Debt and Asset Trading Corporation (DATC).

  - **Dispute settlement mechanisms**: **The EU and Vietnam agree to set up effective mechanisms to avoid or to settle disputes through mediation** and, if necessary, the establishment of a committee to act as a middleman in resolving any outstanding issues.

Table 4: Maximum Foreign Shareholdings in Major Parts of the Economy, as Determined by Vietnamese Law, the ASEAN FTA and the EVFTA

		Target areas	Maximum Foreign Shareholdings		
			Under Vietnamese National Law	**Under the ASEAN FTA***	**Under the EVFTA**
Most liberalized	**100%**	Electricity generation	Foreign investors may hold up to 100% of the shares in a company.	Not specified	EU investors are permitted to bid for contracts/invest in 3 segments: (i) Electricity generation, distribution and transmission (of power generated by that company) (ii) Natural gas production and fuels produced from natural gas (iii) Producing steam and hot water
		Goods distribution (retail/wholesale)	Foreign investors may hold up to 100% of a company but they need to pass an economic needs test (ENT)**.		Foreign investors may hold up to 100% of a company. Investors need to pass an ENT, although this requirement is waived for those who have invested for a period of 5 years or more.
		Construction	Foreign investors may hold up to 100% of company shares but the company must be established as a Limited Liability Company (LLC).	Foreign investors may hold up to 100% of company shares without restriction.	
	65-75%	Telecommunications: Services not including telecoms infrastructure	Joint ventures are possible, with foreign shareholding limited to a maximum of 65%.		Foreign investors may hold up to 75% of company shares (after a 5-year period of investment).
		Virtual private networks (VPNs)	Joint ventures are possible, with foreign shareholding limited to a maximum of 70%.		Foreign investors may hold up to 75% of company shares (after a 5-year period of investment).
	49-51%	Logistics	Joint ventures are possible, with foreign shareholding limited to a maximum of 49-51% (details depend on the exact area/type of business).		
Least liberalized	**49%**	Road, rail and water transport services	Joint ventures are possible, with foreign shareholding limited to a maximum of 49%.	Joint ventures are possible, with this largely unrestricted. In protected segments, particular restrictions may apply, e.g. for companies transporting between 2 locations, foreign ownership may not exceed 49%.	Joint ventures are possible, with foreign shareholding limited to a maximum of 70%.
		Insurance	Foreign shareholding is limited to a maximum of 49%.	Foreign investors may hold up to 100% of shares.	
		Listed companies	• The maximum foreign ownership is limited to 49% (although these restrictions are looser for some industries). • It is expected that this will be relaxed and the maximum permissible foreign ownership will be raised to 100%.	Not specified.	
	30%	Banking*	Foreign shareholding is limited to a maximum of 30%.		

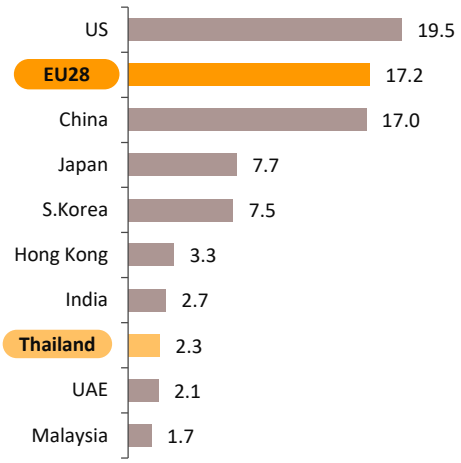
Note: * This is with the exception of FinTech businesses, which at present are not directly regulated.
**The economic needs test (ENT) evaluates the economic necessity of a business and is used to assess limitations on market access for second or more branches, as set out in Decree 09.
Source: Thomson Reuters, Economica Vietnam, WTO, ASEAN FTA, EVFTA, Krungsri Research

The EVFTA will generate trade advantages for Vietnam, as well as attracting investment and supporting greater economic growth

In the past, exports from Vietnam to the EU have grown strongly, partly as a consequence of the advantages accruing from having access to EU markets under the EU's Standard GSP agreement and the resulting lower duties that have been imposed on Vietnamese goods. The EU is in fact Vietnam's second most important export market and as of 2018, by value, it accounts for 17% of all Vietnamese exports (Figure 3). At the same time, the EU market has grown at the rapid average annual rate of 18.1%, somewhat faster than the average overall rate for growth in Vietnamese exports (17.5% per year). As stated above, this is partly because Vietnam has been able to export to the EU under its Standard GSP arrangement since 2009 and this has kept average duties collected by the EU at 2.8%, significantly below the average duty for all EU imports of 4.6% (Source: Eurostat), **Vietnam is one of two countries in the ASEAN region that enjoys this benefit** (Table 5), which zero-rates 66% of items imports to the EU, with the remaining 34% seeing only reduced rates of duty, although the exact rate depends on the class of goods being imported, and because of this, average duties under Standard GSP rules are lower than those collected by the EU on normal imports. That said, some product categories, and in particular 'sensitive goods' are excluded from this scheme and will face higher than average duties. This includes garments, leatherwear, and agricultural and food products (Figure 4).

Figure 3: Top 10 Vietnamese Export Markets, 2018

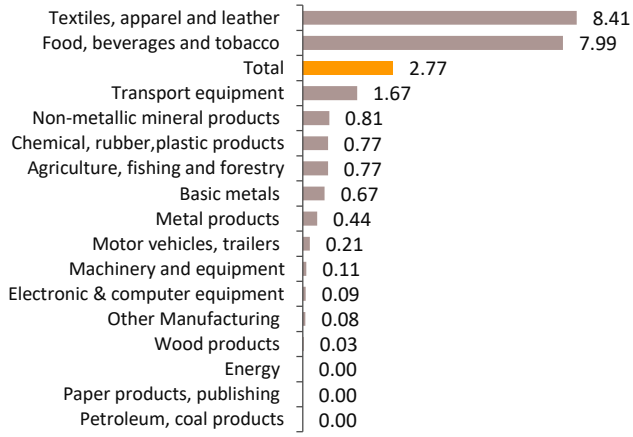
(% of all exports by value)



Source: Trademap, Krungsri Research

Figure 4: Effective Rate of Duty Collected by the EU on Imports from Vietnam

(% of the value of imported goods)



Source: GTAP, Trademap, Krungsri Research

Table 5: Access to Special EU Import Regimes Granted to ASEAN Member States

	Standard Generalized Scheme of Preferences (Standard GSP)	GSP Plus (GSP+)	Everything But Arm (EBA)
Measures	**Cuts** duty on imports of goods that represent 66% of all imports to the EU.	**Zero-rates duty** on imports of goods that represent 66% of all imports to the EU.	Zero-rates and quota-limited for imports of all goods entering EU markets (with the exception of imports of weapons and munitions).
Countries covered by the agreement	**Vietnam** and Indonesia	The Philippines	Cambodia, Lao PDR and Myanmar

Source: European Commission, Krungsri Research

- **The EVFTA will help increase Vietnam's competitiveness in EU markets, despite the termination of Standard GSP preferences**

  Generally speaking, there are two circumstances under which the EU will revoke access to its markets that have been granted under Standard GSP arrangements. These are (i) when a country has access to the EU under conditions that are equivalent to or better than those provided for by the Standard GSP agreement or (ii) when a country becomes an upper-middle-income or upper-income country. In the case of the former, it is clear that the EVFTA arrangements are more beneficial to Vietnam than are those of Standard GSP access to EU markets. Thus, **under the EVFTA, 85.6% of the list of goods imported from Vietnam will be zero-rated by the EU and within 8 years, this will extend to include almost all products, whereas the Standard GSP rules exempt only 66% of listed imports. Examples of goods that will be immediately zero-rated under the EVFTA but that face duties under the Standard GSP rules include tea and coffee** (3.4% of Vietnamese exports to the EU by value), **leatherwear** (2.5%) and **furniture and beds** (2.6%). However, the World Bank also estimates that Vietnam should become an upper-middle-income country by around 2035 and so the EVFTA will work as insurance allowing the country to preserve the export advantages that it enjoys when selling into the EU, and that its competitors, including Thailand, lack.

- **Trade liberalization is expected to lead to clear improvements in exports and investment for Vietnam**

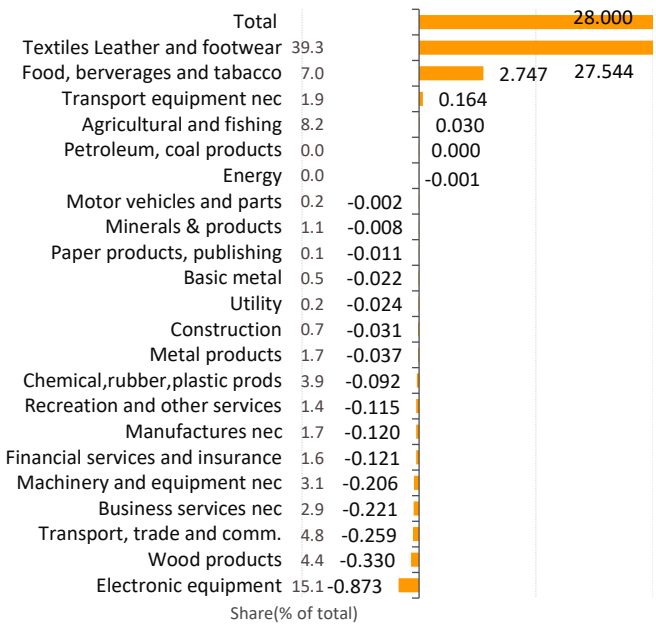
  Krungsri Research has used the Global Trade Analysis Project (GTAP) model to evaluate the initial impacts on exports, investments and the economy overall of the zero-rating of goods that will occur with the enforcement of the EVFTA. This analysis extends beyond Vietnam to include third-party countries, including Thailand, and the results of this are presented below.

  1) **The zero-rating of Vietnamese imports to the EU will boost total exports to the EU by 28%, with textiles and food the biggest winners.**

  The effect of the EVFTA on exports from Vietnam (Figure 5) will be to lift these by a full 28% by value. Product groups that will benefit the most from exemption from import duties will include textiles, leatherwear and footwear, followed by the food, beverages and tobacco product group, transport equipment, and agricultural, fishery and forestry goods, although the boost given to particular goods will depend on the difference between the custom duties before and after the introduction of the EVFTA; **product groups that will see a sharp drop in the duties collected on them by the EU will have a correspondingly steep increase in their price competitiveness and as such, demand for these should pick up strongly**. However, some goods may see a fall in exports as inputs are switched to the production of goods that have experienced the greatest positive impacts from the EVFTA or as they see their markets impacted by growing imports from the EU, and these will include electronics, and machinery and tools.

Figure 5: Impacts of the EVFTA on Vietnamese Exports to the EU

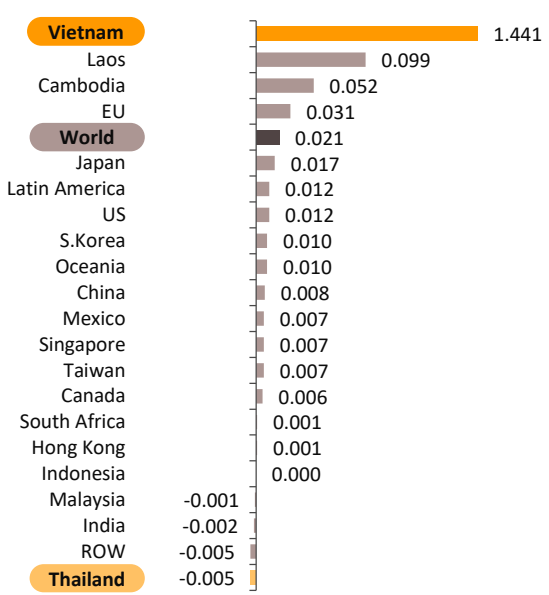
(% change in the value of exports)



Note: Calculated using the GTAP model and 2011 data.
Source: GTAP, Trademap, Krungsri Research

Figure 6: Impacts of the EVFTA on Total National Exports

(% change in value of exports)



Note: Calculated using the GTAP model and 2011 data.
Source: GTAP, Trademap, Krungsri Research

Comparing the impacts of the EVFTA on Vietnam and other countries, the value of Vietnamese exports are expected to grow by 1.44%. Other countries will also see benefits for their export sectors and overall, the world economy will expand by 0.02% but the situation for Thailand is less positive, and of all the countries affected, **Thai exports are likely to see the strongest negative impacts** (Figure 6).

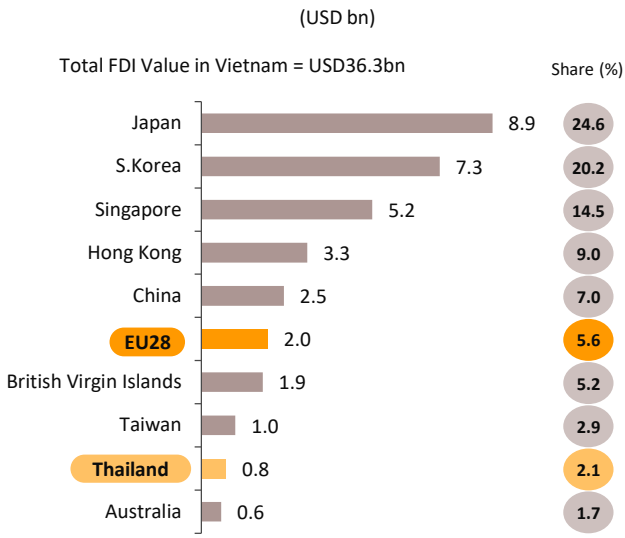
2) Investment in Vietnam is expected to grow by 5.5% as companies move to the country to take advantage of its preferential trading arrangements

Currently, the EU is the 6th most important source of investment funds for Vietnam and foreign direct investment (FDI) from the bloc comes to a total of roughly USD2bn per year, or 5.6% of all FDI received by the country (Figure 7). In terms of investment targets, the biggest recipients of EU FDI are manufacturing, electricity generation and real estate.

In the recent past, FDI from the EU has grown at the healthy rate of 10.5% per year (CAGR 2009-2018) and, reflecting investors' continuing interest in the Vietnamese economy, FDI from most of the major economies in the EU has risen at double-digit rates in this period (Figure 8). Given these trends and the boost to investment that the EVFTA will provide, investment will likely continue to be attracted to the country.

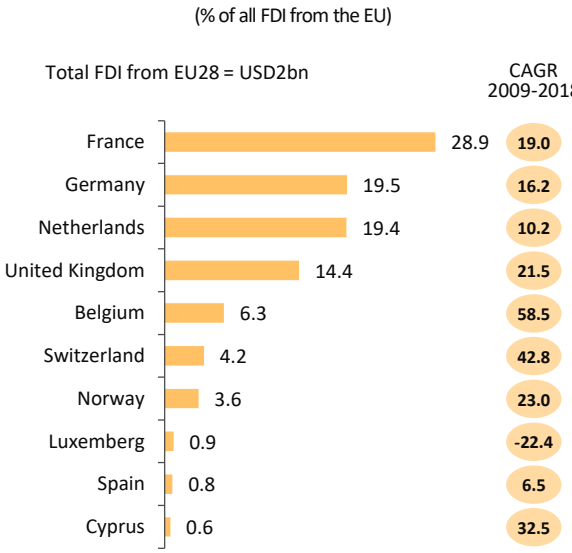
Figure 9 illustrates the impact of EVFTA customs and duty exemption on investment, and while this is forecast to rise by 5.5% in Vietnam, this will be offset by losses in other countries, including Thailand. These shifts will be partly driven by the natural drive to increase investments and to expand production facilities in Vietnam.

Figure 7: Value of FDI* in Vietnam, 2018



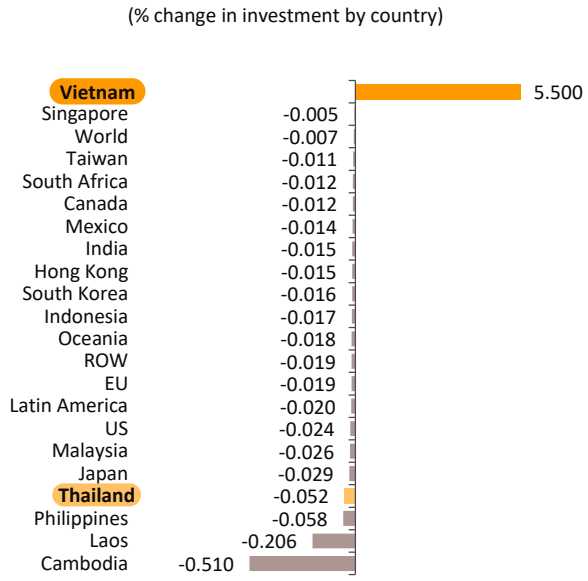
Note: *Registered capital
Source: CEIC, Krungsri Research

Figure 8: Proportion of FDI* Going to Vietnam from EU Member States, 2018



Note: *Registered capital
Source: CEIC, Krungsri Research

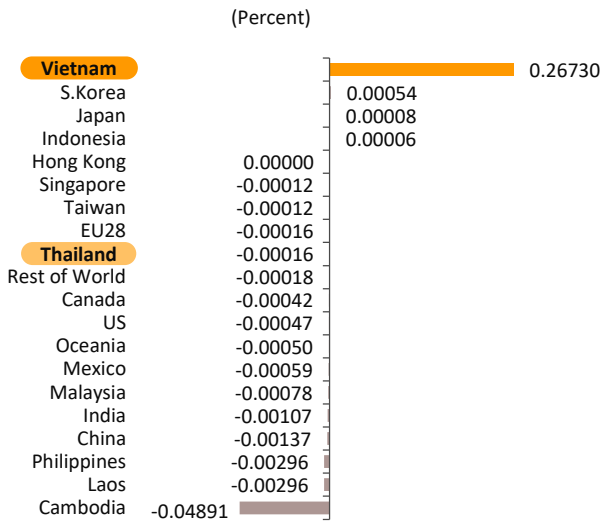
Figure 9: Impacts of the EVFTA on Investment Globally



Note: Calculated using the GTAP model and 2011 data.
Source: GTAP, Trademap, Krungsri Research

In light of the boost to exports and investment, and the lift given to competitiveness by exempting Vietnamese exports to the EU from its import duties, Vietnam's economy is forecast to grow by 0.267%, while for many other countries, including Thailand, the economic impacts are expected to be negative. Most seriously affected will be Cambodia since the country's exports are strongly reliant on the EU (the bloc accounts for 40% of all Cambodian export sales) and the structure of Cambodian exports is similar to those of Vietnam, with a strong emphasis on clothing and finished garments.

Figure 10: Impacts of the EVFTA on the GDP of other Countries



Note: Calculated using the GTAP model and 2011 data.
Source: GTAP, Trademap, Krungsri Research

- **Together with the increased cooperation in other spheres as set out in the EVFTA, liberalizing services and investment will continue to have positive impacts on Vietnam over the long term.**

  The analysis outlined above evaluates the impacts of the EVFTA only with regard to the liberalization of the trade in goods (or of zero-rating trade between Vietnam and the EU) but the provisions of the EVFTA extend beyond this and the agreement will have significant impacts on trade and investment opportunities in Vietnam and thus on future economic growth. Details of this are given below.

  - **The EVFTA opens the trade in services and investment to a deeper and broader extent and this will help to attract a greater flow of investment funds to Vietnam.** Thus, under the EVFTA, EU investors will be able to own shares in businesses in a wider range of economic sectors and at a greater concentration of shareholding than was possible under Vietnam's earlier FTAs.
  - **The EVFTA also allows for the liberalization of access to competitive bidding for public contracts**, and this will represent a further means by which additional funds will be pulled into the country and the Vietnamese economy developed. EU investors will be able to participate in government bidding and to join in public sector investment projects for the first time, while in turn, Vietnam will benefit from being able to recruit personnel from a much wider pool and to attract partners that have a greater range of experience and access to more advanced technology, and this will then allow for more efficient use of resources.
  - **Increased cooperation between the EU and Vietnam will in addition help to develop and to expand the Vietnamese economy over a longer time frame** because in addition to providing for liberalization of the rules governing trade in goods and services and investment, the EVFTA also covers measures that will make business competition fairer, reduce the power of monopolies, protect intellectual property rights and promote greater cooperation between the signatories. These aspects of the agreement will then help to raise the standards prevailing in the Vietnamese economy with regard to trade and investment and bring these closer to international norms. Progress towards these goals is also being helped by developments within the country, such as the reform of state enterprises and increases in national competitiveness that are being made through, for example, upgrades to national infrastructure and development of the domestic industrial sector (e.g. by strengthening the auto assembly industry and expanding the auto supply chain), and overall, the expectation is that these moves will help to increase the capabilities of the Vietnamese economy in the coming period.

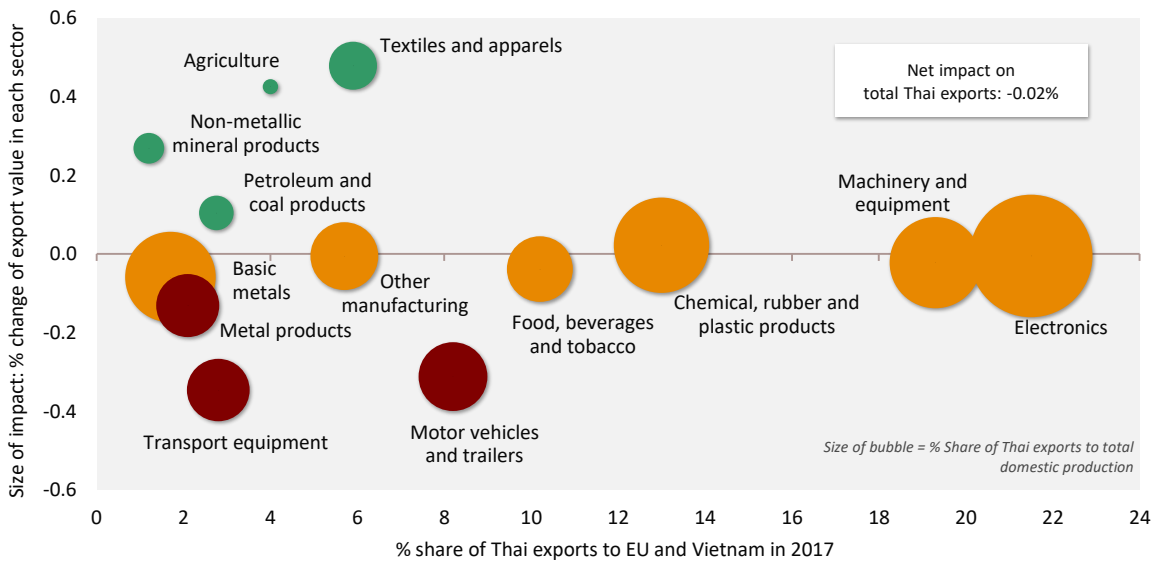
The EVFTA may have negative impacts on the Thai economy due to Thailand's relative disadvantages with regard to EU customs duties and the greater integration of EU-Vietnamese supply chains.

- **The enforcement of the EVFTA may have net negative effects on Thai exports to Vietnam and the EU**

Taking into account the effect of the trade diversion and investment relocation that is likely to come in the wake of the enforcement of the EVFTA, third party countries are forecast to experience some negative consequences, and the analysis given above (figures 6 and 9) shows that total Thai exports are expected to see a 0.005% drop, while investment inflows to the country will fall by 0.052%; although these impacts may appear to be only slight, it should be noted that Thailand is in fact among the countries expected to be most heavily impacted by these changes to international trade.

Considering in particular Thai exports to markets in the EU and Vietnam (Figure 11), the waiving of import duties by the two parties to the EVFTA will have the net effect of reducing Thai exports by -0.02%. Many of the more important export goods are likely to see negative impacts from this, and this will include especially goods that have a higher degree of added-value, such as the transport equipment and consumer goods categories, i.e. transport equipment (down -0.35%), autos and auto parts (-0.31%) and food, beverages and tobacco (-0.04%), capital goods and intermediate goods used in manufacturing, i.e. machinery and equipment (-0.02%), and electronics (-0.005%). These goods also tend to be more dependent on markets in the EU and Vietnam and so manufacturers of these will need to watch developments carefully in the near future. However, **suppliers of raw materials and upstream goods may have the opportunity to benefit from the changing international scene by increasing exports through supply chains that will expand in step with trade liberalization.** These winners will include textiles (up 0.48%), agricultural goods (up 0.43%), non-metallic mineral products (up 0.27%), and petroleum and coal products (up 0.10%) but unfortunately, most of these goods have only low levels of added-value so the size of these positive impacts on the Thai economy will be limited.

Figure 11: Net Effects of the EVFTA on Thai Exports to the EU and Vietnam



Note: Calculated using the GTAP model and 2011 data.
Source: GTAP, Trademap, Krungsri Research

Table 7: Summary of the Impacts of the EVFTA on Thailand

	Products Positively Affected	Products Negatively Affected
Characteristics	• Low levels of added-value • Labor-intensive production • Contribute only slightly to the overall value of Thai exports • Only weakly reliant on export markets	• High levels of added-value • Labor- and capital-intensive • Contribute strongly to the overall value of Thai exports • Heavily reliant on export markets
Example industries	• Textiles • Agricultural goods • Non-metallic mineral products • Petroleum and coal products	• Autos and auto parts • Machinery and equipment • Food, beverages and tobacco • Electronics

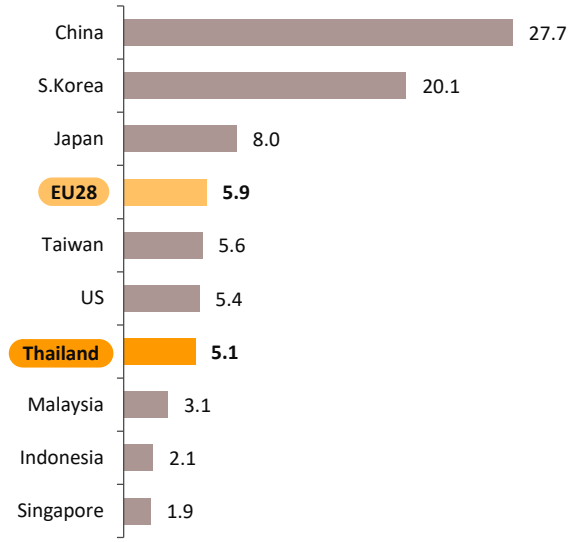
Source: Krungsri Research

- **Thai exports to Vietnam will drop by 0.17% as a result of the loss of relative advantages in customs rates**

At present, Thailand is an important source of imports to Vietnam (Figure 12). This is because Thai exports are attractive to Vietnamese buyers since both countries are signatories to the ASEAN FTA and so Thai exports have an advantage with regard to their customs rates, but once the EVFTA comes into force, the customs rate levied on EU goods imported into Vietnam will fall from an average of 4.8% (Figure 13) to 0%, and so importers will tend to import more goods from the EU at the expense of Thai products. **Work by Krungsri Research shows that in fact, the introduction of free trade between the EU and Vietnam will lead to a -0.17% decline in the value of exports from Thailand to Vietnam (Figure 14) because in the first year of the EVFTA's operation, 48.5% of products imported from the EU to Thailand will be zero-rated. Goods categories that will tend to be negatively affected in the initial period will include polyethylene (HS390120, HS390210) radio transmitters, modems and wireless LAN equipment (HS851762), diodes and semiconductors (HS854140) and circuit boards (HS854231).**

Figure 12: Top 10 Sources of Imports to Vietnam, 2018

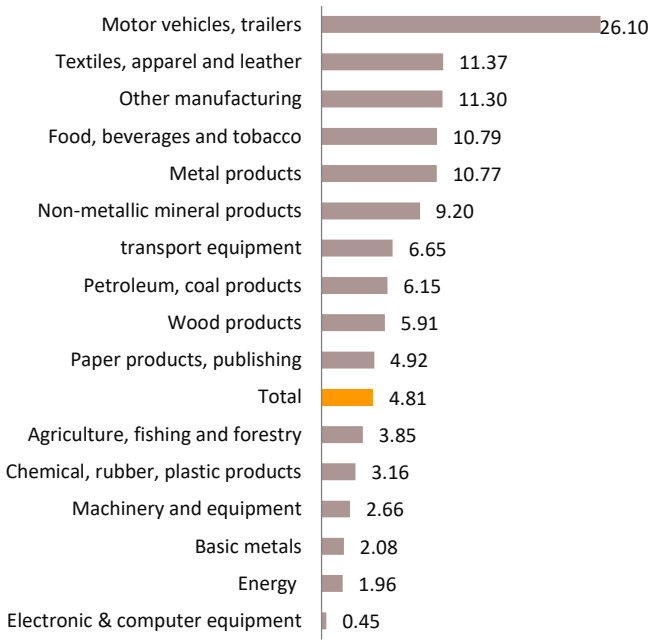
(% of imports by value)



Source: GTAP, Trademap, Krungsri Research

Figure 13: Effective Customs Rates Levied on EU Goods by Vietnam at Present

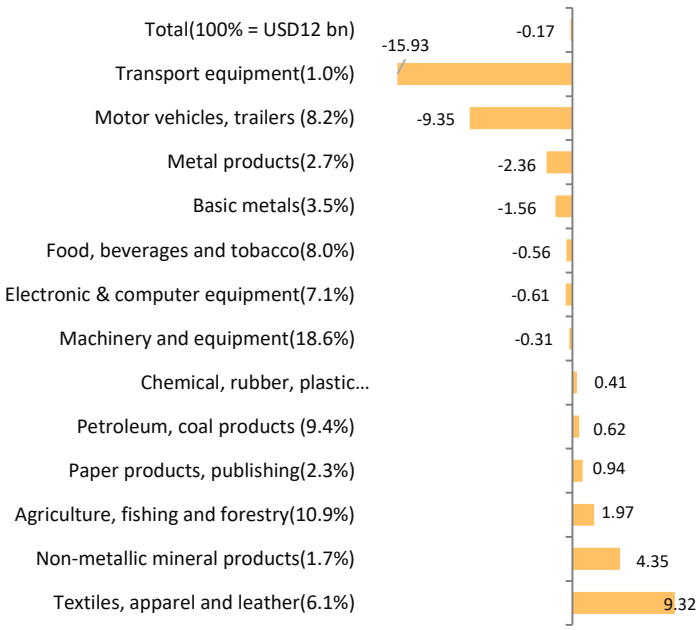
(Percent)



Source: GTAP, Trademap, Krungsri Research

Figure 14: Impact of EU-Vietnam Free Trade on Exports to Vietnam from Thailand

(% of value of exports)

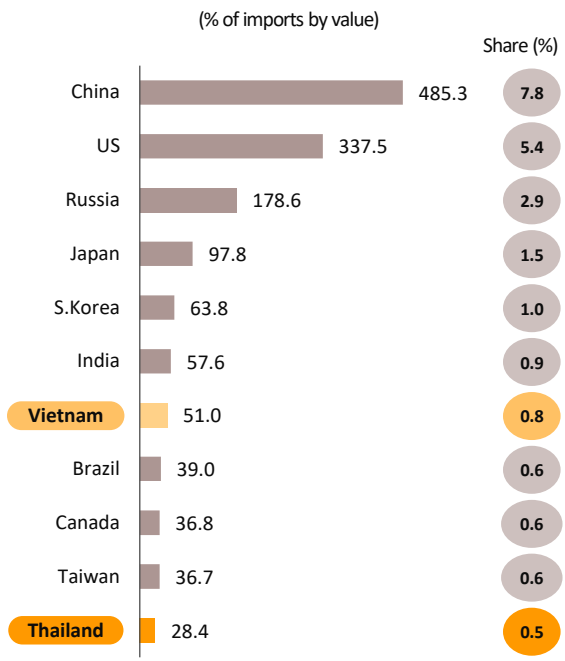


Note: Calculated using the GTAP model and 2011 data.
() = %share of Thailand's exports to Vietnam as of 2017
Source: GTAP, Trademap, Krungsri Research

- **Exports of clothing and leatherwear from Thailand to the EU will be more strongly affected than will other product categories**

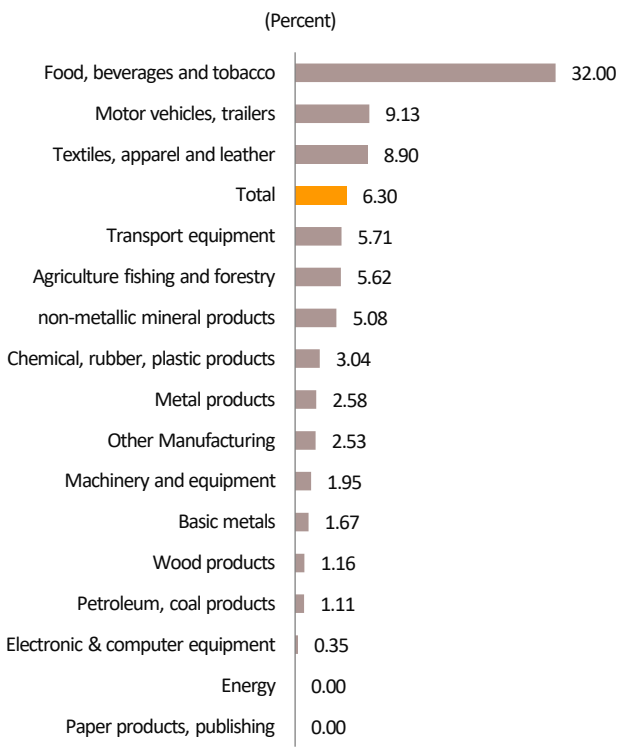
Currently, the EU imports a greater proportion of goods from Vietnam than it does from Thailand (Figure 15) but the bloc buys broadly similar categories of goods from the two countries. The most important exports to the EU are of machinery and electrical equipment, clothing, seafood and chemicals but the EU collects duties at an average rate of 6.3% on Thai goods (Figure 16), which is significantly higher than both the average of 2.7% that it levies on Vietnamese goods and the average for all imports to the EU of 4.6% (Source: Eurostat). In light of this, **when the EVFTA comes into force and the EU waives duties on imports from Vietnam for a full 85.6% of product categories (see Table 1 for details), Thai goods will inevitably lose their price competitiveness relative to Vietnamese alternatives and as such, the value of Thai exports to the EU is expected to fall by -0.098% (Figure 17).** Goods that are most likely to be initially affected by this will include clothing and leatherwear, food, beverages and tobacco, agricultural, fishing and forestry goods, and transport equipment.

Figure 15: Sources of Imports to the EU, 2018



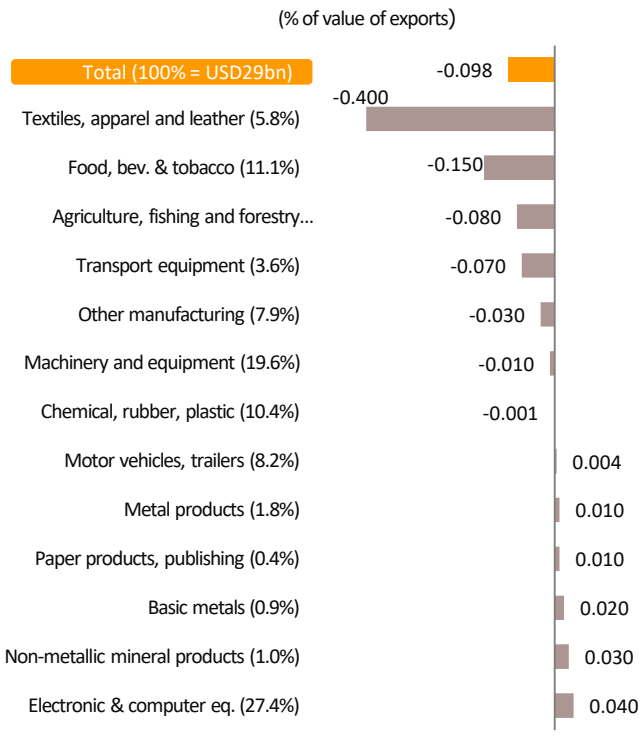
Source: ITC Trademap, Krungsri Research

Figure 16: Effective Customs Rate Levied by the EU on Thai Imports



Source: Trademap, Krungsri Research

Figure 17: Impact of EU-Vietnam Free Trade on Thai Exports to the EU



Note: Calculated using the GTAP model and 2011 data.
() = %share of Thailand's exports to Vietnam as of 2017
Source: GTAP, Trademap, Krungsri Research

- **The EVTFA provisions for the liberalization of trade and investment and for increased cooperation between the EU and Vietnam will pose rising challenges to Thai exports**

  Although the extent of the impacts on Thai exports of zero-rating customs duties for Vietnamese exports to the EU may appear small, in the near future, the ability of Thailand to attract inward investment and to sell on export markets will come under increasing threat from a rising number of challenges. These are outlined below.

  - **Thai exports are likely to face higher levels of competition as a result of Vietnam's increased capabilities.** Within the **Vietnamese market**, the EVFTA will help manufacturing industry to develop and to steadily build its competitiveness, while **the increasing openness of the Vietnamese economy to outside investment will help to attract greater levels of investment inflows, both from the EU and from other countries**, as investors look to participate in Vietnamese supply chains and to take advantage of Vietnam's advantageous position with regard to EU import duties and so boost their exports to the bloc. With regard to **EU markets**, **Thai exports may find themselves having increasingly to fight for market share, especially within some of the more important export categories, which overlap to a fairly high degree with Vietnamese exports to the EU**, including for example machinery and tools, electrical appliances, knitted and crocheted garments, fish and crustaceans, chemicals and motor vehicles; this is important because the EU sits behind only China and the United States in terms of its importance to Thai exporters and as of 2018, 9.7% of Thai exports went to the EU so changes in this market are likely to be felt strongly within the Thai export sector.
  - **The impact of the EVFTA on output and employment in Thailand is naturally expected to be particularly marked on businesses that are more dependent on exports to the EU and to Vietnam.** These include **fruits and nuts** (36% of nuts exported from Thailand are sold on Vietnamese markets) and **beverages** (26%), as well as product groups from outside the 10 most important, including **knitted and crocheted fabrics (34%), which will come under pressure from the immediate waiving of import duties by the EU, and tobacco (40%)**.

The EVFTA may present short-term challenges to Vietnam but the agreement will support long-term economic growth, while increasing Thailand's exposure to risk

The EVFTA, which should come into force during 2020, represents a major step for Vietnam in opening up new opportunities for trade and investment, as well as for reforming and developing the domestic economy but the agreement is, as described above, more far reaching than any of Vietnam's earlier FTAs and because of this, the country may experience significant teething problems as the private and public sectors adjust to meet these new requirements. (i) **Manufacturers may find it difficult to meet the EVFTA's rather strict requirements over sourcing goods**, with this being especially difficult for garment manufacturers, the country's second most important export industry. This is because Vietnam lacks a significant fiber and textile industry, a crucially important upstream supplier of inputs to its textile factories, and so the latter have to import 60-80% of their raw materials (mostly from China and elsewhere in the ASEAN region). However, the EU has specified that imports of clothing from Vietnam have to be made from inputs sourced from either Vietnam or South Korea (South Korea also has a bilateral trade agreement with the EU). (ii) **Signing the EVFTA makes it necessary for Vietnam to overhaul and to develop a range of different standards**, including those on sanitary and phytosanitary measures (SPS) and the ambient air quality standards, and meeting these goals will require the investment of time, money and human resources. (iii) **The EVFTA also compels Vietnam to develop its economy and its governance in a number of different ways**, including reform of state operated enterprises and other parts of the state system, increasing fair and open competition, improving the protection of human rights and raising labor standards.

Krungsri Research believes that overall, the EVFTA will have a positive impact on the development of the Vietnamese economy over the long term, especially on exports and investment and this will lead to a greater level of economic growth. Analysis using the GTAP model (Table 8) shows that **exempting all Vietnamese imports to the EU from customs duties will have positive impacts across the Vietnamese economy,** leading to a 28.0% rise in the value of Vietnamese exports, a 5.5% increase in investments, and a 0.267% combined boost to economic growth. **Exports that will benefit most strongly from this will include textiles, leatherwear and footwear, food, beverages and tobacco, transport equipment and agricultural, fisheries and forestry goods.** However, from Thailand's point of view, this is an unwelcome development because the impacts of EVFTA enforcement will be largely negative, and total exports, investment and economic growth will all suffer as a result. Although the analysis indicates that in strictly numerical terms, the initial impact will be limited, Thailand will (apart from the signatories themselves) be among the countries most heavily affected by the EVFTA, with exports of transport equipment, consumer goods, machinery and equipment, and electronics the most seriously disrupted. Most importantly, **the signing of the EVFTA will help lift total Vietnamese exports even further and there is a danger of Vietnamese exporters increasingly leaving their Thai competitors further and further behind.** Indeed, in 2019, with a value of USD 263 bn compared to USD 246 bn, Vietnamese exports pulled ahead of those from Thailand for the first time (Figure 18).

The benefits arising from the EVFTA will not just originate in the zero-rating of Vietnamese exports to the EU. Rather, Vietnam will also benefit from the lower cost of its goods and Vietnamese exporters will be presented with increasing opportunities to integrate into EU supply chains, while the additional provisions of the agreement, which are more far reaching than any of Vietnam's other FTAs, will help to facilitate the entry of foreign investors into government auctions for public contracts, to reduce the influence of state monopolies and to develop fair competition in Vietnamese markets. Raising standards in this way will then help to build competitiveness in the economy and this will provide Vietnam with an important opportunity for boosting exports, attracting greater investment inflows and developing the economy.

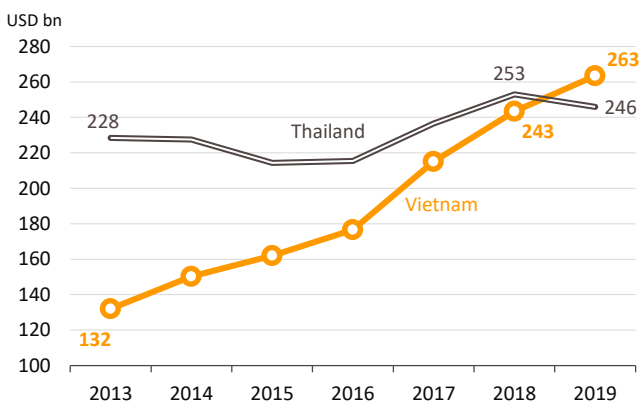
Table 8: Impacts of the EVFTA on Vietnam, the EU and Thailand

(% change in value)

Indicators	Vietnam	Thailand
Export	28.0	-0.005
Investment	5.5	-0.052
GDP	0.267	-0.00016

Source: GTAP, Trademap, Krungsri Research

Figure 18: Value of Thai and Vietnamese Exports



Source: Vietnam's General Statistic Office, Thaliand's Ministry of Commerce, Krungsri Research

Appendix

Appendix 1: Tariff-Rate Quotas for Customs-Exempt Imports from the EU to Vietnam, as Specified in the EVFTA

Products	Tariff-Rate Quotas (TRQs)
Bird eggs and egg yolk (HS0408.11.80, 0408.19.81, 0408.19.89, 0408.91.80, 0408.99.80)	500 metric tonnes per year
Garlic (HS 0703.20.00)	400 metric tonnes per year
Sweetcorn (HS0710.40.00A, HS2001.90.30A และ HS2005.80.00A)	5,000 metric tonnes per year
Broken rice (HS1006.10.21, 1006.10.23, 1006.10.25, 1006.10.27, 1006.10.92, 1006.10.94, 1006.10.96, 1006.10.98 1006.20.11, 1006.20.13, 1006.20.15, 1006.20.17, 1006.20.92, 1006.20.94, 1006.20.96, 1006.20.98)	20,000 metric tonnes per year
Milled rice (HS1006.30.21, 1006.30.23, 1006.30.25, 1006.30.27, 1006.30.42, 1006.30.44, 1006.30.46, 1006.30.48, 1006.30.61, 1006.30.63, 1006.30.65, 1006.30.98, 1006.30.67, 1006.30.92, 1006.30.94, 1006.30.96)	30,000 metric tonnes per year
Milled rice (HS1006.10.21,1006.10.23, 1006.10.25, 1006.10.27, 1006.10.92, 1006.10.94, 1006.10.96, 1006.10.98, 1006.20.11, 1006.20.13, 1006.20.15, 1006.20.17, 1006.20.92, 1006.20.94, 1006.20.96, 1006.20.98, 1006.30.21, 1006.30.23, 1006.30.25, 1006.30.27, 1006.30.42, 1006.30.44, 1006.30.46, 1006.30.48, 1006.30.61, 1006.30.63, 1006.30.65, 1006.30.67, 1006.30.92, 1006.30.94, 1006.30.96, 1006.30.98) This group includes jasmine rice types Jasmine 85, ST 5, ST 20, Nang Hoa 9 (NàngHoa 9), VD 20, RVT, OM 4900, OM 5451 and Tai Nguyen Cho Dao	30,000 metric tonnes per year
Tapioca flour (HS1108.14.00)	30,000 metric tonnes per year
Tuna (HS1604.14.11, 1604.14.18, 1604.14.90, 1604.19.39, 1604.20.70)	11,500 metric tonnes per year
Processed fish paste (HS1604.20.05)	500 metric tonnes per year
Sugar and products with a high sugar content (HS1701.13.10, 1701.13.90, 1701.14.10, 1701.91.00, 1701.99.10, 1701.99.90, 1702.30.50, 1702.90.50, 1702.90.71, 1702.90.75, 1702.90.79, 1702.90.95, 1806.10.30, 1806.10.90)	20,000 metric tonnes per year
Other sugars (HS1701.14.90)	400 metric tonnes per year
Mushrooms (HSs 0711.51.00, 2001.90.50, 2003.10.20, 2003.10.30)	350 metric tonnes per year
Ethanol (HS2207.10.00 and 2207.20.00)	1,000 metric tonnes per year
Mannitol, dextrin and related products (HS2905.43.00, 2905.44.11, 2905.44.19, 2905.44.91, 3505.10.10, 3505.10.90 และ 3824.60.19)	2,000 metric tonnes per year

Source: European Commission, Krungsri Research

Appendix 2: Liberalization of Services as Regulated by the EVFTA

Services	Examples of Liberalization
All services	• Share-holding: Vietnam agrees to allow investors from the EU to hold shares in Vietnamese corporations at levels described below. ▪ For public listed companies in the service sector in areas for which **explicit regulations over investment have not been issued**, EU investors may hold shares without restriction. ▪ For public listed companies in the service sector in areas for which **explicit regulations over investment have been issued but the degree of share-holding has not been specified**, EU investors may hold up to 49% of issued shares. ▪ For public listed companies in the service sector that are **not covered by the EVFTA, including joint-stock commercial banks**, EU investors may hold up to 30% of issued shares. Ownership of shares in other companies is as per the provisions for each industry. • As regards employment of foreign nationals, businesses receiving EU investment may transfer employees from partner businesses and may employ at least 3 foreign managers, executives or experts.
Horizontal commitments	**Under the EVFTA, Vietnam will open its service sector to investors from the EU, with the exception of certain reserved industries, most of which are connected to national security.** • **EU investors may establish business ventures of 4 different types**: (i) business cooperation contracts that are agreed between at least 2 parties (and at a minimum, the signatories must be entities authorized to enter into such an agreement by Vietnamese law); (ii) joint ventures; (iii) companies that are 100%-owned by foreign investors; and (iv) representatives' offices. • **EU investors will receive 'national treatment' status with the exception of certain areas**, for example with regard to the receipt of funds for research and development, education, public health and audio-visual support.
Banking	• **Mode 1 (cross-border supply): EU investors may offer the following financial services**: (i) To transmit and to process financial data for providers of financial services and (ii) to manage all types of assets and investments, pension funds, deposit accounts and trusts. • **Mode 2 (consumption abroad): EU investors may use international banking services without restriction.** • **Mode 3 (commercial presence): EU investors may establish banking services in Vietnam** with the following conditions: ▪ Overseas financial institutions must be established only in the manner permitted by the Vietnamese authorities. ▪ The proportion of shares held by overseas financial institutions in financial organizations operated by the Vietnamese government must be equal to those held by Vietnamese banks. ▪ The proportion of shares held by EU financial institutions and individuals in commercial banks that are joint ventures must not exceed 30% of all registered shares in that bank. ▪ Overseas financial institutions may issue credit cards on the basis of 'national treatment'.

Source: European Commission, Krungsri Research

Appendix 3: Reserved Industries that are Protected from the EVFTA's Liberalization of Investment

• Communications and publishing, e.g. newspaper publishing and related activities, printing, and radio and television broadcasting	• Cabotage transportation services
• Manufacturing and distributing cultural products	• Fishing and seafood
• Producing and broadcasting television programs and films, together with related activities	• Forests and hunting
• Education services (primary and secondary level)	• Lotteries and gambling
• Private investigation and security services	• Civil control
• Measuring and surveying land	• Manufacturing arms
• Surveying and drilling gas and oil wells, and extracting mineral reserves and other natural resources	• Managing ports and airports
• Generating and distributing electricity, including from hydroelectric and nuclear sources	• Subsidies

Source: European Commission, Krungsri Research

Appendix 4: Most Important EU and Vietnamese Geographic Indicators

Country	Products
EU	
Austria	Pumpkin seed oil, bacon, spirits
Cyprus	Spirits, wine, beer, hops, marzipan, sausages, ham
Germany, Romania, Slovakia	Wine
Denmark	Cheese
Spain	Olive oil, saffron, oranges, mandarins, ham, cheese, nougat, wine, spirits
Finland, Cyprus, Lithuania, Poland, Sweden	Spirits
France	Cheese, ham, prunes, spirits, wine
Greece	Table olives, olive oil, cheese, spirits, wine
Italy	Vinegar, cheese, ham, kiwi fruit, apples, mortadella, spirits, wine
The Netherlands	Cheese, spirits
Portugal	Pears, cheese, wine
The United Kingdom	Salmon, spirits
Vietnam	**Tea, coffee, pomelos, dragon fruit, star anise, lychees, rice, oranges, star fruit, grapes, custard apples, cinnamon, chestnut, honey, apricots, sea salt, fish extracts, squid**

Source: European Commission, Krungsri Research

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