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# EU-VIETNAM FREE TRADE AGREEMENT

Challenges of the “new-generation”  
European Union–Vietnam Free Trade Agreement  
(EVFTA)

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ANALYSIS

# Imprint

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# 1. Introduction

At the time of its implementation in mid-2020, the free trade agreement between the European Union and Vietnam (EVFTA in short) was seen as the “most ambitious” and “most comprehensive” new generation agreement that the EU has signed with a developing economy . As such, the trade deal is expected to bring in unprecedented opportunities and challenges to Vietnam.

For European observers, the deal marks an important step for the EU into the dynamic developing Asia region, where previously the presence of the bloc was relatively lackluster (with only three new generation FTAs with the developed economies of Singapore, Korea and Japan). Emerging as the EU's largest trading partner in the Association of Southeast Asian Nations (ASEAN) and one of the most free-trade activist in Asia , Vietnam was an excellent candidate for this position of forerunner in the EU's advance to the region. Then, by its turn, being the vanguard in the ASEAN, the EVFTA is even regarded as a model for trade and investment liberalization between the EU and the ASEAN, where the Union had changed its approach from negotiating an overall EU-ASEAN FTA to engaging separate, more rational and substantive arrangements with each ASEAN's partner.

From the perspective of Vietnam, this first 27-in-01 trade deal with the EU carries significant expectations, including economic interests, institutional reforms and sustainable developments. Of course, in return, Vietnam is to open its market to strong EU competitors, to pay high compliance costs, and to accept a more limited policy space. Such things that might happen to Vietnam are worth a reference for developing economies seeking to sign similar agreements with the EU.

This paper analyzes typical features of the “new generation” FTAs as they are concretized in the EVFTA (Part I). It then identifies the unprecedented opportunities that these “new-generation” commitments promise to bring to Vietnam and evaluates the costs that Vietnam has to pay for such a promising future (Part II). It seems that all these potential impacts from the EVFTA are indispensable for Vietnam to move forward in a changing world. Such impacts could, to some extents, have touches on the regional, or even global, FTA trends in the coming time.

## 2. An overview of the true “new generation” commitments in the EVFTA

Literally speaking, the concept of “a new generation of FTAs” was first introduced in 2006, by the European Commission (EC), as an important orientation in international trade policy of this bloc<sup>1</sup>. At that time, few people imagined that just a few years later, the “new generation FTAs” could become a general trend of world trade.

In the EC’s understanding, “a new generation of FTAs” are FTAs covering new trade trends that the WTO has not yet mentioned. It shall also be FTAs with a high degree of liberalization commitment by all partners (instead of just the EU side). They are also meant to promote common values of sustainable development that the EU is pursuing, thereby widely enhancing these values as well as ensuring the equal competitive positions among EU businesses and those of its FTA partners.

Clearly and strongly stated as it is, such new external trade policies of the EU however have had to wait for nearly a decade and a half to be realized with developing partners. Obviously not many developing economies are ready for such an ambitious and demanding FTA model. In fact, the trade deal that the EU signed with Vietnam is the first North-South FTA to combine all the characteristics of the “new generation FTAs” as it was described in its original conception.

### 2.1 An ambitious scope

The first feature of “new generation FTAs” could be found right in the EVFTA’s scope. Out of the 17 chapters of the trade deal full text, seven are focused on new trade aspects that have never been addressed by the WTO. Specifically, the trade deal contains engagements on liberalization of investment<sup>2</sup>, electronic commerce, government procurement, competition policy, state-owned enterprises/state monopolies<sup>3</sup>, and sustainable development, among many new others.

Such WTO+ issues covered in the EVFTA are not less than any new generation FTAs in the world up to the time of signing this deal. Compared with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a far-reaching new generation FTA (initiated and then withdrawn from

by the US) that Vietnam joined just before the EVFTA, this deal with the EU even surpassed that in some aspects, especially those of sustainable development.

### 2.2 The “freest” commitments

The high level of liberalization and standards that Vietnam engages to in the EVFTA’s commitments strongly reflects the second “new-generation” feature of the deal. Detailed analysis and comparison upon Vietnam’s concrete commitments made in the EVFTA and those of its 14 FTAs concluded so far show that in many areas, this economy has offered its highest level of opening, liberalization or standards to EU than it has ever done toward to an FTA partner. And of course, they are usually higher than the ones it committed to in the WTO.

Let’s first take a look at the *tariff elimination that Vietnam promises for EU exports*, a convincing example for the country’s readiness to liberalize up its goods market. The percentage of tariff lines that Vietnam commits to removing for EU’s goods is the highest, up to 98.3%, compared to those Vietnam ever committed in any FTA, including the CPTPP. Vietnam’s schedule to fully open to the EU in the EVFTA is also the fastest among 14 FTAs that Vietnam has ever had.

<sup>1</sup> The “Global EU: Competing in the World”, at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:en:PDF>

<sup>2</sup> The WTO has an Agreement on Trade-Related Investment Measures (TRIMS), but this Agreement only includes a number of binding commitments related to State’s measures applicable to foreign investments, investors without commitments of opening and liberalization of investment (especially investment in the manufacturing sector).

<sup>3</sup> The WTO has the General Agreement on Tariffs and Trade (GATT) including regulations related to State-owned trading enterprises – the enterprises designated to carry out a number of exclusive import-export activities with a number of specific goods, which is different from the concept of State-owned enterprises/State monopolies in FTAs (State-owned enterprises or State monopolies in the supply of goods/services).

Table 1 | Tariff commitments of Vietnam in its FTAs

No	Vietnam's FTA	Tariff elimination schedule (End of schedule)	The percentage of tariff lines to be liberalized for FTA partner at the end of the schedule
1	ASEAN – China (ACFTA)	18 years (2020)	90% für ASEAN 86% für China
2	ASEAN – Korea (AKFTA)	15 years (2021)	86.3%
3	ASEAN – Japan (AJCEP)	18 years (2025)	87%
4	Vietnam – Japan (VJEPA)	18 years (2026)	90%
5	ASEAN – Australia, New Zealand (AANZFTA)	13 years (2022)	90%
6	ASEAN (CEPT/AFTA, danach ATIGA)	25 years (2018)	98%
7	ASEAN - India (AIFTA)	15 years (2024)	69.71%
8	Vietnam – Chile (VCFTA)	15 years (2029)	88.55%
9	Vietnam – Korea (VKFTA)	15 years (2029)	89.7%
10	Vietnam – Eurasian Economic Union (VN-EAEU FTA)	12 years (2027)	87.1%
11	CPTPP	16 years (2034)	97,8%
12	ASEAN – Hong Kong (AHKFTA)	12 years (2032)	72%
13	Vietnam – EU (EVFTA)	9 years (2029)	98,3%
14	Vietnam – United Kingdom of Great Britain and Northern Ireland (UKVFTA)	9 years (2029)	98,3%

Source: Author's synthesis from data of the Ministry of Finance and the Ministry of Industry and Trade of Vietnam

Regarding market access for services, the number of service sectors and sub-sectors that Vietnam opens to EU service suppliers in the EVFTA is significantly higher than what the country offers to the WTO as well as its previous FTAs' partners (except for ATIGA, CPTPP where some services are more liberalized, and others are stricter than EVFTA). For the sectors that are already open, in many cases, in the deal, it eases market access conditions for EU service suppliers compared to the general conditions applied under the WTO<sup>4</sup>.

As to investment liberalization, along with the CPTPP and RCEP, the EVFTA is one of the first FTAs that Vietnam has committed to market access for foreign investment in manufacturing sectors.

In fact, for its own interest, even without any specific commitment, Vietnam has always unilaterally opened its manufacturing sectors to foreign investors, including the EU, for decades<sup>5</sup>. And the market access made by Vietnam under the EVFTA is in many cases not larger than status quo. However, the deal's commitments are binding, with stable and predictable promises, which means a lot for EU investors, in comparison to the voluntary, unilateral and thus volatile offers that Vietnam made in the past.

In the area of government procurement, Vietnam also has made its most liberal market opening in the EVFTA than ever before. It is important to note that before the deal, Vietnam had only committed to opening its government procurement market for CPTPP partners. Perhaps the extraordinary level of liberalization of EU's intra-bloc government procurement and EU members' offers to Vietnam encouraged this developing country to make broader access for EU partners than CPTPP ones. Concretely, Vietnam's commitments are broader, not only in the number of procuring entities that will open to EU's contractors (including the two largest cities - Hanoi and Ho Chi Minh City, while the CPTPP covers only central entities), but also at the minimum procuring value threshold that must be opened to EU contractors (lower thresholds, equal to higher number of bidding packages must be opened, than those of the CPTPP)<sup>6</sup>.

Relating to rules affecting trade “behind the border”, together with the CPTPP, the EVFTA stands as the deal with highest standards that Vietnam has ever engaged to. This “high standard” is seen in commitments not only in areas that are not covered by the WTO (so there are no WTO standards to compare, e.g. competition, e-commerce, etc.) but also in WTO traditional issues, which made EVFTA's rules “WTO+” in many instances.

<sup>4</sup> See “Summary of EVFTA” (VCCI, 2020, p.134)

<sup>5</sup> See Vietnam Law on Foreign Direct Investment Incentives 1996, Enterprise Law 1999, Enterprise Law and Investment Law (2005, 2015, 2020)

<sup>6</sup> See “Summary of CPTPP” (VCCI 2018, p.114), and “Summary of EVFTA” (VCCI 2020, p.150)

**Table 2 | Examples of Vietnam's service sectors that are more open regarding scope and conditions under the EVFTA compared to the WTO**

Service sector	Service sub-sector
Business service sectors	Services provided by nurses, physiotherapists and paramedical personnel (CPC 93191) Interdisciplinary R&D services (CPC 853) Rental/leasing services without operators relating to ships (CPC 83103) Building-cleaning services (CPC 874) Specialty photographic services except aerial photographic services (CPC 87504) Packaging services (CPC 876) Trade fair and exhibition services (CPC 87909**)
	Rental/leasing services relating to other machinery and equipment (CPC 83109) Management consulting services (CPC 865)
Communication services	Postal services (CPC 7511**)
	Telecommunications services
Distribution services	Commission agents Wholesale, Retailing
Environmental services	Sanitation and similar services (CPC 9403)
	Nature and landscape protection services (CPC 9406)
Financial services	Insurance services
	Banking services
Social services and health services	Hospital services (CPC 9311) Dental services (CPC 9312)
	Health services and social services: Social services (CPC 933, including CPC 9331 and 9332)
Transport services	Maritime passenger and freight transportation (CPC 7211 and CPC 7212) Maintenance and repair of aircraft (CPC 8868**)
	Maintenance and repair of vessels (CPC 8868*)
	Transport agency services (CPC 748*)
	Container station and depot Services
	Consolidation services
	Container redistribution services
	Maintenance and repair of vessels (CPC 8868*)
	Ground-handling services, except maintenance and cleaning of aircraft, ground transportation, airport management and flight assurance services.
	In-flight meal delivery services
	Maritime cargo-handling services (CPC 741)
Dredging Services	

Source: Author's comparison from Vietnam's Schedules of Commitments in the EVFTA and in the WTO

### WTO+ commitments on intellectual property in the EVFTA

The EVFTA's Chapter on Intellectual Properties (IP) focuses also on two main groups of rules provided for in the TRIPS of the WTO, namely the standards of protection offered to specific type of IP, and the IP enforcement requirements. While underlining the TRIPS' core principles, the EVFTA set out considerable new and higher-standard rules in both categories.

As to IP standards of protection, in each of the WTO seven types of IP, the EVFTA adds specific rules which either ease the eligibility of IP, extend protection time or recognize concrete rights of IP right-holders (for example, commitments on additional rights of authors and related; trademark protection for not only visible objects but also sound; automatic protection of 179 EU's geographical indications...).

Regarding IP enforcement, the EVFTA provides for various stronger enforcement measures than those in the TRIPS Agreement (more severe border measures, the right to take urgent measures, requirements for stronger reactions against certain kinds of IP rights infringements, etc.) or increases the severity of sanctions for acts of infringing upon IP rights (more infringement subject to criminal sanctions, detailed criminal proceedings requirements, etc.).

## 2.3 A deal for the sake of sustainable development

Up to now, the EVFTA is considered as the trade deal with the broadest and strongest commitments on sustainable development that Vietnam has ever made. Specifically, not only mentioning labor and environment like the CPTPP, the EVFTA commitments also extend to other arising aspects such as renewable energy, corporate social responsibility, protection measures for vulnerable and disadvantaged groups, etc. Such commitments are expected to ensure diverse sustainable values in trade and investment practices in Vietnam.

### EVFTA Chapter on Trade and Sustainable Development

As indicated by its title, the chapter covers a wide range of non-trade but trade-related sustainable issues, not only labor and environment (including climate changes, biodiversity, legal timber, etc.) but also further areas supporting trade and investment in favor of sustainable development (such as sustainable renewable energy and energy efficient goods/services, voluntary sustainable assurance schemes, corporate social responsibility).

To facilitate and supervise the implementation, the deal also embeds a permanent mechanism of cooperation for the two parties to work together on sustainable issues, a periodical review of the impact to the deal's implementation on sustainable development, a Committee on Trade and Sustainable Development and a system of domestic advisory group(s) composing of independent representative organizations of economic, social and environmental stakeholders.

Many of the commitments in this chapter are completely new to Vietnam, especially those requiring Vietnam to join concerned labor and environmental conventions to which Vietnam has never been a party. These commitments ask Vietnam to adhere not to some specific obligations but to whole new systems and frameworks of globally-recognized sustainable rules.

Some contents in the deal are more familiar to the country, such as commitments on trade and sustainable management of forests, forest products, living marine resources, aquaculture products, etc. The plus of the deal in terms of sustainable value lies in the details and scope of commitments that Vietnam made.

## 3. Vietnam's opportunities from the EVFTA, and the price to pay

Every economy entering into a trade deal expects profits therefrom, generally in the form of an increase in trade and investment with the FTA partner. And it is to be ready to pay the price, typically manifesting through more fierce competition in internal markets opening to competitors from FTA partners. For Vietnam, opportunities and costs from a "new-generation" trade deal like the EVFTA are much higher than usual.

### 3.1 Unprecedented opportunities...

Many in Vietnam take the EVFTA as a highway connecting Vietnam's economy with one of its biggest trade and investment partners in the world. Such an express and priority way promises both monetary benefits and many others.

#### Numerous potential benefits

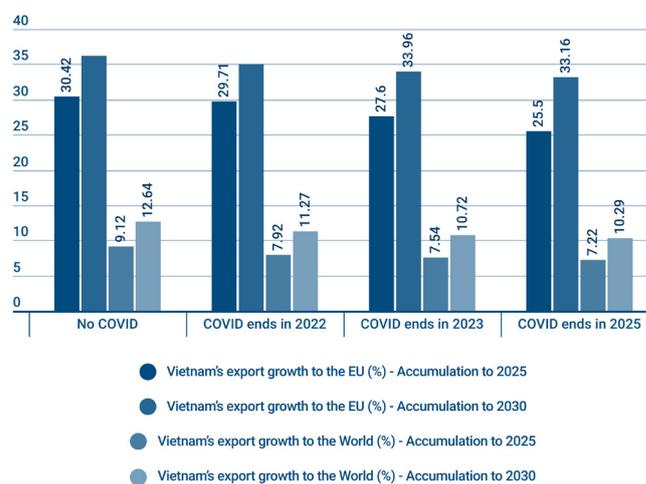
EVFTA promises to bring in diverse **monetary opportunities** for this developing economy, especially in terms of import and export, development of the service market, attraction of foreign investment and promotion of efficient public spending.

As for exports, the expectation comes from the EU's commitments to tariff elimination of 85.6% for Vietnamese goods as of 2020 and for almost all of tariff lines by 2028. A free access right to the market of the world's 2nd largest purchasing power, high income population, having complementary product structure and no FTA with any of Vietnam's direct competitors (especially in ASEAN as well as in Asia), surely offers this export-oriented economy with unique opportunity. Sectors that Vietnam does well in and the EU has high demand for, such as tropical agricultural products, seafood, textiles, footwear, etc. are among the most potential beneficiaries. Their tens of millions of laborers, especially those in sensitive and low-income rural areas, could draw certain benefits.

Studies forecasting Vietnam's export growth to the EU thanks to the EVFTA have all led to very optimistic figures, both in the scenario of with and without COVID-19<sup>7,8</sup>.

In reality, the first positive impacts of the deal on Vietnam's exports are evident after the first years of implementation. In the first 7 months of 2020, before the EVFTA took effect, Vietnam's exports to the EU decreased by 5.9% compared to the same period in 2019, together with the decline in demand of the EU in periods of economic shutdown due to pandemic. The situation completely reversed in the last 5 months of

Figur 1 | Impact of the EVFTA on Vietnam's exports



Source: Report on Impact Assessment of the EVFTA on Vietnam after COVID-19 pandemic, Ministry of Planning and Investment, 2/2022

2020 with EVFTA taking effect, while the EU's total imports from the world still decreased by 20%, Vietnam's total exports to this market increased by 3.8%<sup>9</sup>. This momentum continued, although production in Vietnam was severely disrupted in the last half year of 2021 under negative impact of the 4th wave of COVID-19, yet exports from Vietnam to the EU in 2021 still continuously increased by 14.1% compared to 2020<sup>10</sup>.

Regarding imports, Vietnam commits to eliminating 48.5% of tariff lines for goods imported from the EU right at the EVFTA's beginning and 98.3% of tariff lines by 2031. Calculations by the Ministry of Planning and Investment of Vietnam show that Vietnam's imports from the EU are forecasted to increase by more than 30% in 2025 compared to a scenario without EVFTA<sup>11</sup>. In fact, over the first 20 months of implementation, the growth rate of imports from the EU is always higher than that of Vietnam's exports.

Although an increase in imports is rarely counted as a benefit from a trade deal (in the calculation of an export-driven economy), with the EVFTA, the benefits from imports are highly appreciated by many Vietnamese businesses. They find this deal an excellent opportunity to procure machinery, equipment and technology, raw materials (for textile, plastic productions among others) at reasonable prices with good quality from the world's top sources of high and modern tech-

<sup>7</sup> See The economic and social effects of the EU Free Trade Agreement with Vietnam\* (OFSE 2018, p.27-28)

<sup>8</sup> See Report on Impact Assessment of the EVFTA on Vietnam after COVID-19 pandemic (MPI 2022, p.31-34)

<sup>9</sup> See Report on Vietnam Import and Export (MOIT 2020, p.171)

<sup>10</sup> Statistics by Vietnam Custom at <https://tongcuc.customs.gov.vn/portal/index.jsp?pagelid=3521>

<sup>11</sup> See Report on Impact Assessment of the EVFTA on Vietnam after COVID-19 pandemic (MPI 2022, p.34-35)

nologies<sup>12</sup>. Some sectors even hope for a chance to modernize and improve production capacity and competitiveness of products from taking advantage of EVFTA commitments in this respect.

Relating to services, although the market access that Vietnam commits to EU strong service providers could cause heavy pressure on Vietnamese players, the deal is still seen as beneficial in some ways. For instance, the presence of EU competitors could help push the competition in Vietnam service markets to become more dynamic, especially in manufacturing-supporting services such as finance, telecommunication, energy or logistics. This can help reduce service costs, which are very high in Vietnam, benefitting service users and consumers.

As for *foreign direct investment* (FDI) attraction, with clear promises on detailed standards and modern principles of investment protection (including the non-discrimination and non-interference rules), and its first-to-commit market access schedule for manufacturing sectors in the EVFTA, Vietnam might gain an advantage in the consideration of investment destinations of EU investors. At the same time, with the EVFTA and 14 other FTAs, Vietnam becomes an exclusive hub connecting nearly 60 dynamic economies in the world. These comprehensive and resonant effects are expected to attract FDI inflows from all over the world into Vietnam, thereby bringing foreign capital, technologies, experiences, skills etc. to Vietnam<sup>13</sup>.

Finally, by enhancing imports and exports with the EU and attracting more FDI from all over the world in manufacturing, the deal is expected to be an impetus for Vietnam to participate better in *global supply chains*<sup>14</sup>.

### Much more is expected

Monetary benefit set aside, the deal is also expected to bring institutional reforms in Vietnam.

Frankly speaking, institutional reform is an intrinsic demand of each economy in the context that all economies have to compete to attract investment, promote innovation, and free up development resources. However, with an economy in transition, still impacted by the habits and behaviors of a bureaucratic and non-market economy, like Vietnam, reform sometimes only can accelerate thanks to outside pressure. And the EVFTA is expected to be one of the best pressures in this way<sup>15</sup>.

The deal's *rule commitments*, in their turn, are expected to lead to reforms of legal institutions and practices of Vietnam in relevant respects. The ones on competitive and equal envi-

ronment among business entities (Chapter of Competition), the strict requirements of intellectual property protection, thereby promoting the creation and development of the knowledge economy (Chapter of Intellectual Property), the concrete regulations of the rights and obligations of state-owned enterprises in commercial activities (Chapter of State-owned enterprises), the unified and foreseeable management regulations of telecommunications and e-commerce (Chapter of Services, E-commerce), etc. to name a few.

As for government procurement, on the one hand, the deal allows Vietnamese traders to directly access many bidding packages in the huge government procurement markets of the EU, thereby increasing export opportunities for Vietnam. On the other hand, Vietnam's opening of its market to EU contractors and the implementation of EVFTA's high-standard rules in covered procurements, is expected to make the Vietnamese market more transparent and competitive, thereby increasing the efficiency of Vietnam's government spending.

Finally, the deal is believed to give a meaningful chance for sustainable development in Vietnam.

Not surprisingly, the commitments on trade and sustainable development in the deal reflect the EU's standards and values. Accepting to commit and then implement these social-environmental standards that are considerably high compared to the common standards of the world helps Vietnam ensure the harmonization between social-environmental protection and economic activities. Vietnamese laborers, businesses and the environment will benefit from the implementation of these commitments. This is also a premise for Vietnam to continue developing steadily, and achieve the goal of sustainable development.

From another perspective, especially for Vietnamese exports, Vietnam's adherence to EU sustainable development standards might serve as a meaningful guarantee and endorsement for Vietnamese exported products vis-à-vis increasing boycotts from green and smart consumer campaigns around the world. The implementation of such commitments can also be a kind of insurance for Vietnam in the trade relation with developed countries who care increasingly more about fighting against child and forced labor, illegal timber trading, illegal, unreported and unregulated fishing – IUU, among many sustainable development concerns.

Heading to a greener economy, the deal is also expected to help draw FDI inflows, especially those of European origin, into sectors that the country will need in the future, such as green energy, high-tech food-processing industries, clean and energy-saving manufacturing, etc<sup>16</sup>.

<sup>12</sup> [https://www.tapchiconsan.org.vn/web/english/international/detail/-/asset\\_publisher/ZeaSwfJtMgN/content/implementation-of-the-european-union-vietnam-free-trade-agreement-initial-impacts](https://www.tapchiconsan.org.vn/web/english/international/detail/-/asset_publisher/ZeaSwfJtMgN/content/implementation-of-the-european-union-vietnam-free-trade-agreement-initial-impacts)

<sup>13</sup> <https://en.handan.vn/business/item/7754102-receiving-high-quality-fdi-waves-from-eu.html>

<sup>14</sup> <http://ven.vn/evfta-expected-to-drive-greater-vietnamese-participation-in-global-supply-chains-43945.html>

<sup>15</sup> <http://english.vietnamnet.vn/fms/business/171613/institutional-reforms-hastened-by-evfta.html>

<sup>16</sup> Contributions at the Forum "EVFTA – Opportunity for strategic cooperation towards sustainable development" – HCMC, July 2020. See news at <https://en.vcci.com.vn/experts-evfta-looks-towards-sustainable-development>

### 3.2 ... But yes, they're expensive!

There is no free lunch! And the EVFTA is no exception. For a developing partner like Vietnam, the price to pay for such a "new generation" FTA are a combination of not only competitive pressures, but also of compliance costs and policy-space limitations. However, when taking into account all relevant contexts, this appears a good trade-off.

#### Stiffer competition, but not insurmountable

EU businesses are strong competitors in many aspects. For trade in goods, the EU is the world's leading exporter of machinery and equipment, pharmaceuticals, automobiles, many agricultural products, etc. As to services, many European names in financial services, logistics, telecommunications, etc. stand among the global leaders. The EU also features as one of the world's largest exporter of intellectual property.

Thus, generously opening its home market to goods and services from a strong competitor like the EU will certainly make competition more difficult for comparable Vietnamese goods and services.

When looking into the situation, there are nevertheless several reasons to believe that such challenges are not as tough as they seem to be. Firstly, most of the goods that are expected to be increasingly imported from the EU thanks to the EVFTA are among those that Vietnam is hungry for. Those products are either necessary for Vietnam's manufacturing production (like equipment, machinery, textile or footwear materials, etc), help fill the gap of supply due to low capacity of domestic producers (pharmaceutical) or serve only high-income consumer segments. They will mostly, as a result, not directly compete with Vietnamese competitors<sup>17</sup>. Secondly, as to services, the experience of WTO integration in services shows that the more pressure applied, the more motivated Vietnamese service suppliers are to improve their competitiveness and self-improvement. Moreover, in many service sectors, competition and cooperation are always intertwined. Vietnamese service enterprises, while competing, can still cooperate with EU partners to develop, especially in areas that Vietnam has only conditionally opened to the EU. Thirdly, before the EU, Vietnam has also opened its markets (for example, under the CPTPP) to partners with competitive strengths similar to the EU, so businesses and the economy have been prepared to a considerable extent on how to face the challenges from the EVFTA.

#### High but necessary compliance costs

With high standards of commitments in most respects, the deal requires Vietnam to adjust many relevant regulations accordingly, both existing and ones to come. In most cases,

such works of adjustment and the implementation that follows would incur high costs, not only for governmental entities and private sector but also for concerned social groups.

For instance, to be in compliance with EVFTA commitments on labor and environmental, manufacturers may have to spend more to adjust production processes, ameliorate working conditions, improve technologies to process noise pollution, dust, waste, enhance traceability, etc., in order to meet higher standards and requirements. Such additional compliance costs would be heavy for many small or micro sized businesses that are often chronically deprived of resources<sup>18</sup>.

In some cases, costs are not simply monetary. Let's take the freedom of association as an example. Vietnam has never had such a regulation before, and the existing unique trade union system has been operating so far under a completely different mechanism. To execute the obligation, Vietnam needs to set up a whole new system legally, institutionally and practically. It then has to build awareness and skills from the first steps for government officials, entrepreneurs and workers. All those costs will surely not be limited to question of money.

For commitments that might not require immediate action but bind Vietnam's hand for the future, such as those concerning the treatment and protection promises to offer the EU's investors under the EVFTA, compliance costs may also include damages payments, which happen when Vietnamese government agencies lose their cases in international investment disputes with foreign investors lawsuits due to violations of such promises.

Even with these high compliance costs, Vietnam is nevertheless not in a dilemma. In many cases, the concerned commitments are completely in line with Vietnam's long-term policy goals (for example, raising the level of environmental protection, improving working conditions for workers, etc.). With or without the promises, the country is more or less prepared to pay the costs. In many other cases, high standards are expected or scheduled only for the future, Vietnam thus has time to move forward incrementally. Finally, Vietnam is not alone in liquidating the charges, the EU has committed in the deal to technical assistances to assist this developing partner to fulfill complicated commitments.

#### More limited policy space, but still enough to navigate

Wide in scope and high in standard, many "new generation" commitments in the EVFTA not only bind Vietnam "at the border" but also intervene in policies "behind the border" such as competition policy, trade and investment governing, intellectual

<sup>17</sup> See Guide to the EU-Vietnam Trade and Investment Agreement (DEV 2019, p.30-33)

<sup>18</sup> <http://tapchimoitruong.vn/news-13/evfta-and-environmental-challenges-21912>, <https://vir.com.vn/opportunities-and-challenges-for-vietnamese-smes-under-evfta-83377.html>

property protection, e-commerce management, etc. As a result, the remaining policy space where Vietnam could act freely and unboundedly in related aspects is significantly narrowed down.

For example, with commitments on competition and State-owned enterprises, Vietnam will have to think carefully before undertaking any measures to subsidize, support or interfere in the market. Likewise, the options remaining for Vietnam to implement its desired industrial policies to uphold certain sectors, create momentum for certain groups, or to temporarily aid some players are quite limited. Policy choices in many cases are thus quite constrained.

Viewed from another angle however, the policy space being narrowed by the EVFTA and other new-generation FTAs is not always a deadlock. In recent years, even without these commitments, Vietnam has already limited itself in many areas, by its own laws and regulations, in the hope of attracting investors with a transparent, foreseeable, stable and safe business environment. The commitments in the "new-generation" deal only turn these voluntary choices of Vietnam into permanent and binding ones, therefore helping to sweep out any risk of an overturn in policy. Current Vietnamese policies in telecommunications, competition, state-owned enterprises, e-commerce, etc. are among the excellent examples.

Moreover, in spite of the binding rules, crucial exceptions are still there in the deal (on national defense, public order, etc.) to allow the economy to take immediate measures that might go beyond any limits imposed where necessary and justified.

## 4. Outlook

**To summarize**, the “new generation” EVFTA will bring Vietnam both special opportunities and significant challenges in economic, institutional and sustainable development. Having all factors calculated, the scales seem to tip in favor of the opportunities.

What happens in fact then lies at the hand of Vietnam, its government and its businesses. Whether Vietnam is determined enough to take advantage of the EVFTA to reform radically and in good faith (instead of just to meet commitments), for the sake of its people and businesses (instead of fear of surveillance from FTA partners)? Whether Vietnamese businesses have enough initiative and capacity to turn such potential opportunities into real ones (instead of simply missing, or grasping at straws)? The choice to prosperity is always conditional, and comes at a cost.

Obviously, besides the EVFTA and FTAs, there are many other unknowns that are not in the hands of Vietnam. The unpredictable development of the COVID-19 pandemic, the extreme fragility of supply chains, and the never-before-seen uncertainties in global geopolitics are variables that can only be prepared for but controlled. The economy can only adjust to adapt but not escape from this changing game. Vietnam therefore needs a little luck for all its intentions with the EVFTA.

On a wider scale, the mere fact that Vietnam signed the new-generation trade deal with the EU has encouraged many developing economies to think thoroughly about a trade deal with EU (Indonesia, Thailand, Philippines, Malaysia, India, to name a few). In its turn, the EVFTA's implementation, especially successes or failures, gains or missing, by Vietnam, with or without EU's support, is believed to touch even more strongly the FTA trends, both global and EU-related ones. On the one hand, they can serve as vivid lessons and convincing motivations for developing economies, in ASEAN or elsewhere, who are seeking while still hesitating an ambitious “new-generation” FTA with the “demanding” EU or developed countries. On the other hand, they could be useful experiments for the EU itself to fully execute its trade policy while being reasonable and helpful enough with future developing partners.

Then, the trade deal worths special attention and efforts and supports in implementation, by Vietnam at first sight, but also by the EU, for a better outcomes for not only both sides but also to contribute to the free, sustainable and inclusive future of North-South trade deals.

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