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EUROPEAN TRADE POLICY AND
INVESTMENT SUPPORT PROJECT

SUSTAINABLE IMPACT ASSESSMENT
EU-VIETNAM FTA

MUTAP ACTIVITY CODE: EU-2

FINAL REPORT

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Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ACP	African, Caribbean and Pacific countries
AD	Anti-Dumping measures
AEC	ASEAN Economic Community
AEO	Authorised Economic Operator
AIA	ASEAN Investment Agreement
AMS	ASEAN Member States
ASEAN	Association of South East Asian Nations
BOT	Build Operate Transfer
BSCI	Business Social Compliance Initiative
CARIFORUM	Caribbean Forum (Caribbean Community & Dominican Republic)
CGE	Computable General Equilibrium
CSR	Corporate Social Responsibility
CTC	Change of Tariff Classification
CVD	Countervailing Duties
DFQF	Duty Free Quota Free
EC	European Commission
ENT	Economic Needs Test
EPA	Economic Partnership Agreement
EU	European Union
EUCAAA	European Union Central American Association Agreement
EUCPTA	European Union Colombia Peru Trade Agreement
EUKFTA	European Union Korea Free Trade Agreement
EUROCHAM	European Chamber of Commerce in Vietnam
FLEGT	Forestry Law Enforcement, Governance and Trade
FSC	Forestry Stewardship Council
FTA	Free Trade Agreement
GAqP	Good Aquaculture Practices
GATS	General Agreement on Trade in Services
GI	Geographical Indications
GPA	Global Procurement Agreement
GTAP	Global Trade Analysis Project
IGA	ASEAN Investment Guarantee Agreement
IMF	International Monetary Fund
IP	Intellectual Property
IPRs	Intellectual Property Rights
ITC	International Trade Centre UNCTAD/WTO
IUU	Illegal Unreported and Unregulated Fishing
LEFASO	Vietnam Leather and Footwear Association
MNCs	Multi National Corporations
MOIT	Ministry of Industry and Trade
MS	Micro-Simulation
NTM	Non-Tariff Measure
OECD	Organisation for Economic Cooperation and Development
REACH	Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals
RVC	Regional Value Content
SMART	Single Market Partial Equilibrium Simulation Tool
SOE	State Owned Enterprise

SPS	Sanitary and Phytosanitary Standards
TASTE	Tariff Analytical and Simulation Tool for Economists
TBT	Technical Barriers to Trade
TPP	Trans Pacific Partnership
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
VBF	Vietnam Bar Association
VCA	Vietnam Competition Authority
VCAD	Vietnam Competition Authority Department
VCC	Vietnam Competition Council
VIETCRAFT	Vietnam handicraft exporters association
VIETFORES	Vietnam Timber and Forest Product Association
VHLSS	Vietnam Household Living Standard Survey
VPA	Voluntary Partnership Agreement
WIPO	World Intellectual Property Organisation
WITS	World Integrated Trade Solutions
WTO	World Trade Organisation

Executive Summary

Background to the negotiations…. Negotiations between the EU and ASEAN began in 2007 but these reached an impasse and both sides agreed to take a pause. The EU began negotiating with individual ASEAN Member States from 2009[1]. In June 2012, Vietnam and the European Union (EU) formally launched negotiations for a comprehensive free trade agreement. The parties undertook their eighth round of negotiations in June 2014, and both parties aim for a swift conclusion of the negotiations. The current study has been conducted with a view to assist in the development of Vietnam's negotiating strategy and consult with the business community and concerned stakeholders with regard to Vietnam's offensive and defensive interests.

The FTA agreement is expected to cover, at a minimum, the following areas: (i) Market Access for trade in goods: elimination of tariff and non-tariff measures, addressing SPS and TBT issues, trade facilitation and customs cooperation, and rules of origin; (ii) Commitments for liberalization of trade in services; (iii) Investment; (iv) Competition; (v) Intellectual Property Rights, including Geographical Indications; (vi) Government procurement; (vi) Regulatory environment; (viii) Sustainable development, including labour issues; and (ix) State-owned enterprises.

Vietnam and the EU are complementary partners…. Currently, the European Union (EU) is a major trading partner of Vietnam, with Vietnamese exports reaching €21.3 billion in 2013. About one quarter of Vietnam's export go to the EU, while 13 per cent of Vietnam's imports originate from the EU. As a result, Vietnam has witnessed a trade surplus in goods with the EU, which has been growing over time. Since 2009, exports to the EU have grown by a phenomenal rate (28 per cent per year) while imports from the EU have only grown by 11 per cent a year. The net effect in the trade balance has been to raise the trade surplus by 39 per cent per annum in favour of Vietnam. The major exports to the EU are footwear, furniture, frozen fish and coffee, whereas the major imports are aircraft, cruise ships, motor vehicles and manufactured goods.

Statistics on services are limited but according to GTAP statistics from 2007, Vietnam holds a deficit in commercial services with the EU. Although it enjoys a large surplus in travel, it has a deficit in transportation services. Investment from the EU in Vietnam has also been significant, much in line with the large inflows from all countries since Vietnam joined the WTO. FDI flows have recently slowed down, though they remain at around US$7 billion a year.

The degree of trade complementarity between Vietnam and the EU appears to be quite high. Trade complementarity is higher with the EU than some ASEAN countries, although it appears lower than with Japan or Malaysia. Vietnam trades proportionately less with the EU than would be expected based on the importance of the EU in world trade. The results indicate that there may be opportunities to expand trade between the EU and Vietnam. Moreover, a simple static trade flow analysis indicates that there is potentially an additional US$100 billion which could be generated in trade, if Vietnam could only increase production (and exports to the EU) in products it currently exports to the rest of the world.

[1] Negotiations with Singapore and Malaysia began in 2010. Negotiations with Thailand began in 2013.

However, the level of trade is constrained by at the border and behind the border measures

Restrictions in trade in goods... Vietnam's simple average tariff applied to EU products reached 10.4 per cent in 2013. A few minor products retain tariff rate quotas, such as those relating to eggs, sugar, tobacco, and salt. EU exporters to Vietnam also face significant barriers on specific items, most notably on alcohol and tobacco products, 100 per cent, and motor vehicles, especially motorcycles. Livestock products also face a significant tariff, as do some textiles. Vietnam's merchandise exports to the EU face an average tariff of 4.6 per cent, but this hides a number of tariff peaks. The highest tariff is on garlic, 300 per cent, but there are also very high tariffs on beef and dairy products. Taking into account trade flows, the most significant tariffs in the EU are on textiles and clothing, footwear and frozen fish fillets, sectors where Vietnam enjoys very high comparative advantage. Despite relatively low tariffs, there are a number of measures applied by the EU and Vietnam which restrict trade and investment in one form or another. These behind the border restrictions, which include non-tariff measures related to SPS or norms and standards to export restrictions and the like are reviewed in the study.

Restrictions in Services... Both the EU and Vietnam have undertaken significant commitments at the WTO under the GATS. Vietnam undertook specific commitments under the GATS in 11 services sectors (out of 12 services categories) and 110 subsectors (out of 155). The Vietnamese have indicated that 100 per cent foreign ownership is permitted in most of the services sectors and subsectors under Vietnam's GATS Schedule. Vietnam's commitments in services in bilateral or regional agreements have not gone beyond its GATS commitments. The EU undertook commitments in 12 service sectors and in 115 subsectors (out of 155). It is important to note the degree of restrictiveness applied by countries in the field of services, as reported by the business community. The results reveal major restrictions applied by the EU for professional services. Vietnam maintains significant restrictions on mode 3 (the right of establishment) mainly through the requirement of joint ventures with a majority share for the Vietnamese party.

Overall, the study estimates that the benefits of the FTA will be large for Vietnam... Using general equilibrium (CGE) and partial equilibrium models, the study estimated the expected impacts arising from a negotiated FTA agreement between the EU and Vietnam using a standard Sustainability Impact Assessment Framework with a time horizon until 2025. Vietnam is projected to grow significantly as a result of inflows of capital and on-going productivity improvement. The FTA is estimated to generate an additional 7-8% of GDP above the trend growth rate until 2025.

The study compares concessions made in other recent FTAs to determine the likely scenarios. The main result to emerge from the analysis is that Vietnam appears to benefit greatly from an FTA with the EU, even under a modest liberalisation scenario. The analysis from both the CGE and partial equilibrium models indicates that the industrial sector in Vietnam will experience the largest net gains from an FTA. The textile and clothing, and footwear sectors in particular, are expected to significantly benefit from the FTA. There are also gains in agriculture, though meat and dairy production could be adversely affected by liberalisation.

The level of ambition in services liberalisation would determine the degree of benefits accruing to the EU in services, since the EU is a net exporter of services to Vietnam and is likely to continue remaining so. Investment flows, which are estimated to increase from the EU, are likely to lead to further dynamic gains.

Trade flows will intensify with the entry in force of an FTA… Vietnam's exports to the EU are estimated to increase by an additional 10% until 2025, as a result of a negotiated agreement. The trade balance with the EU will deteriorate owing to additional imports of capital goods from the EU, though it will remain positive until 2025. The size of the trade balance will depend on the level of investment flows, intermediary inputs and other macroeconomic and monetary variables.

But the benefits will depend on the quality, scope and implementation of the agreement… The sector level analysis identifies a number of behind the border measures, which constrain the full potential of liberalisation. Tackling these issues will be as important as the easier tariff negotiations and exchange on commitments. The two parties must at a minimum ensure that they cooperate better, improve transparency and predictability in their policies and establish an effective dispute resolution framework. In terms of rules of origin, it is desirable that the rules of origin on textiles be simplified and regional cumulation should be encouraged to ensure that the efforts for regional integration at the ASEAN level are not undermined by the agreement.

The study looks briefly at a number of trade related areas, such as the treatment of SOEs, investment provisions, competition, government procurement, trade facilitation, standards and TBT measures, intellectual property rights, rules of origin and labour standards. Many of these areas need to be well articulated in order to ensure that the agreement can truly deliver opportunities for the private sector. We caution nevertheless on the inclusion of some provisions which are best addressed by non-trade policies, such as competition, labour or environmental policies. We highlight the implications of tightening regulations (e.g. for IPRs) and liberalising some areas (e.g. government procurement) which are beneficial from an economics standpoint but which could have short-term effects on the competitiveness of industries in Vietnam.

In the context of on-going negotiations, the benefits may be overstated… The FTA is expected to be signed by October 2014 and would likely enter into force the following year, owing to the ratification process of the 28 Member States of the EU. From an EU perspective, any agreement with Vietnam is likely to be viewed as a model for agreements with other ASEAN FTAs, with Thailand, Malaysia and others. Other countries will demand similar access. This may lead to trade diversion as Vietnam's preferential access is eroded. Equally from the perspective of Vietnam, we also noted the impact that a Trans Pacific Partnership (TPP) agreement is likely to have on the FTA with the EU, if it is concluded more or less at the same time. We expect trade to be significantly diverted away from the EU towards the US, Japan, Australia and other TPP markets. The impact on investment from a TPP, together with the expected surge in investment from the EU, may lead to some overheating of the economy and possibly asset price inflation, which should be dealt with carefully through macroeconomic policies.

The environmental impact will be modest… The FTA seems to have very limited impact on the environment. This is because Vietnam's growth will inherently be detrimental to CO_2 emissions and other polluting issues. In order to safeguard forestry resources, adoption of the implementation of the Voluntary Partnership Agreement and the Forestry, Law Enforcement Governance and Trade (FLEGT) provisions are recommended. Meanwhile, the environmental risks linked to high growth sectors, such as garments (dying and bleaching) can be addressed through cooperation and capacity building with regard to regulations and their enforcement. Increases in fishery exports are not expected to become unsustainable since the majority of experts stem from aquaculture, and good aquaculture practices (GAqP) and capacity building to enforce Illegal, Unreported and Unregistered (IUU) fishing. Overall, these environmental issues are best addressed with environmental policies, not trade policies. The EU could support Vietnam in its efforts to mitigate externalities generated by its rapid economic transformation, but we believe that incorporating such provisions in a trade agreement would have very limited benefits and could be used as a means to introduce protectionist measures by the EU. Experience of using trade policies to target environmental goals, such as border taxes for carbon intensive goods, are often poorly targeted and distortionary. In a bilateral case, they merely encourage trade diversion.

The impact on poverty will be positive, though modest… The FTA also seems to have a limited, though positive, impact on reducing poverty levels in Vietnam. Vietnam's achievements in poverty alleviation have been extolled by the development community, and this performance is forecasted to continue with or without the FTA. The FTA does nevertheless present some additional reduction in the poverty headcount and a pro-gender result arising from the increase in activity in the textile and clothing sector. **But inequality will increase…** The level of inequality will however rise as a consequence of the FTA, such that mitigating measures should be adopted to address this outcome.

Despite the positive expected outcomes from an FTA, the Agreement must be carefully negotiated and drafted to incorporate some of Vietnam's interests…

Since the benefits from an FTA come in a narrow range of sectors for Vietnam, it is important that these not be exempt, and that tariff reductions are not replaced with non-tariff barriers. The issue for Vietnam is what to trade-off for giving up some of its defensive interests such as automotive sector and processed agriculture. The EU has demands for more relaxed investment rules and tighter intellectual property rules. Vietnam should relinquish its tariff protection, and press for better access for the movement of natural persons. This would allow more Vietnamese workers to be employed on a temporary basis in Europe. This would benefit both Vietnam and the EU.

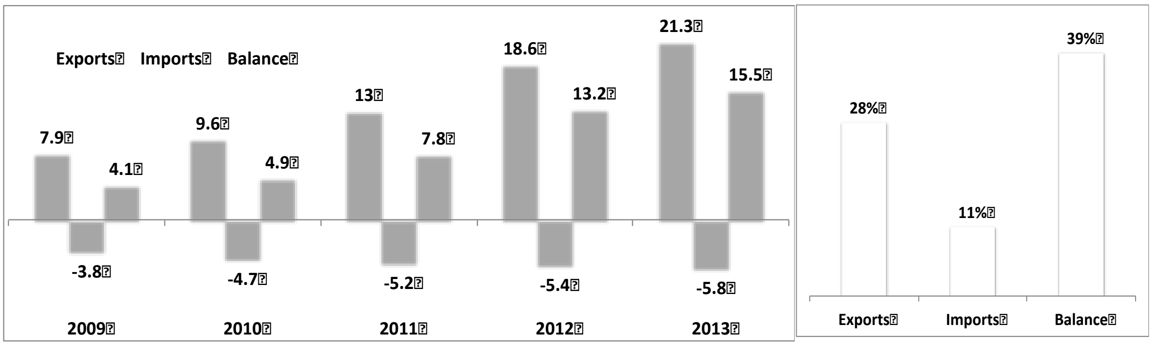
Vietnam should also include safeguard measures, in line with the WTO Agreement on Safeguards and Agreement on Special safeguards in Agriculture in order to be able to protect its industries when these are adversely affected by unforeseen import surges, which and is proved to cause injury to its industries.

I - Introduction to the EU-Vietnam Trade and Investment Relations

I.1. Overview of EU-Vietnam trade, investment and ODA relations

Currently, the European Union (EU) is a major trading partner of Vietnam, with exports reaching €21.3 billion, according to figures from the EU. About one quarter of Vietnam's export go to the EU, while 13 per cent of Vietnam's imports originate from the EU. Vietnam has witnessed a growing trade surplus in goods with the EU (see Figure 1). Since 2009, exports have grown by a phenomenal rate (28 per cent per year) while imports from the EU have only grown by 11 per cent a year. The net effect in the trade balance has been to raise the trade surplus by 39 per cent per annum in favour of Vietnam.

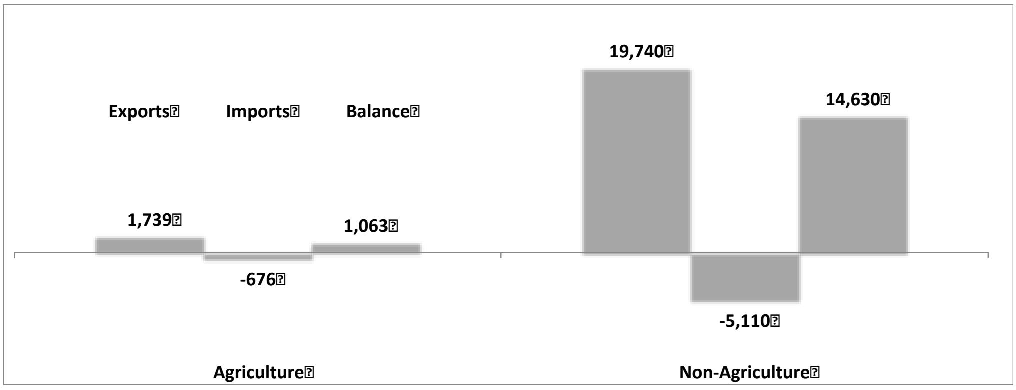
Figure 1. Vietnam- EU Trade in goods & Growth of trade between Vietnam and the EU (EURO Billions and average growth per annum 2009-13)



Source: Authors calculations based on Eurostat (2014) *European Union Trade in Goods with Vietnam*, April

The major exports to the EU are footwear, furniture, frozen fish and coffee, whereas the major imports are aircraft, cruise ships, motor vehicles and manufactured goods. Segmenting trade according to the WTO's definition of agricultural and non-agricultural goods leads to the observation that the greatest volume of trade is in non-agricultural goods (particularly textiles, clothing and footwear), while agricultural trade is very low (see Figure 2). Surprisingly, the trade surplus is proportionally higher in non-agricultural products than in non-agricultural products, something which is quite rare to see in trade between a developing and a developed country[2].

Figure 2. Vietnam-EU trade in 2013 by AMA and NAMA (EURO Billions)



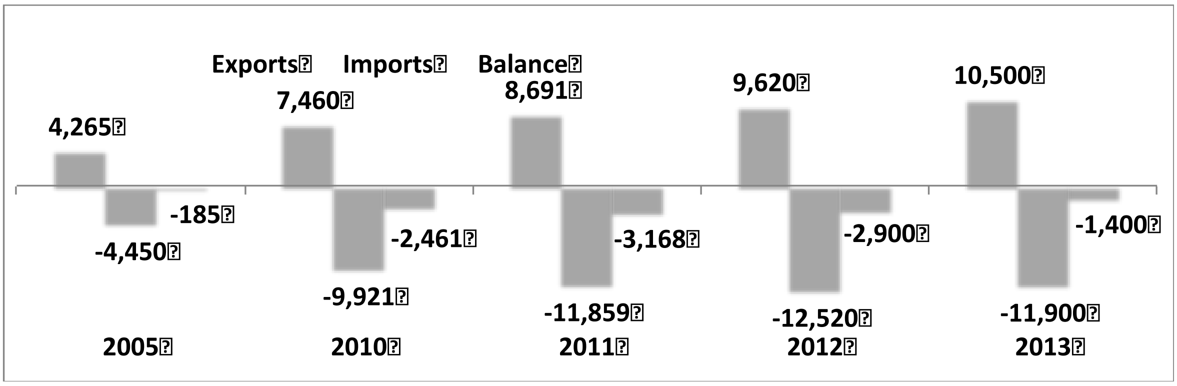
Source: Eurostat (2014) European Union Trade in Goods with Vietnam, April

There are limited statistics on trade in services between the EU and Vietnam, although there are statistics for trade between the EU and ASEAN. The EU recorded a small surplus for trade in services, which amounted to €3.5 billion in 2011 (in comparison to a €26.4 billion deficit for trade in goods with ASEAN). While the EU registers a deficit for travel and transportation services, it records a large

[2] Calculated as the trade balance to total trade flows

surplus for other services, and in particular professional services. More precisely, the surplus on other business services arises from exports of financial services, computer services, royalties and license fees, merchanting and technical consultancy. Vietnam trade in services has been relatively buoyant but has systematically recorded a deficit. Vietnam's trade deficit has been growing in the last five years, reaching €1.4 billion in 2013 (see Figure 3). Although exports of services increased by 8 per cent per annum since 2009, imports rose by 18 per cent.

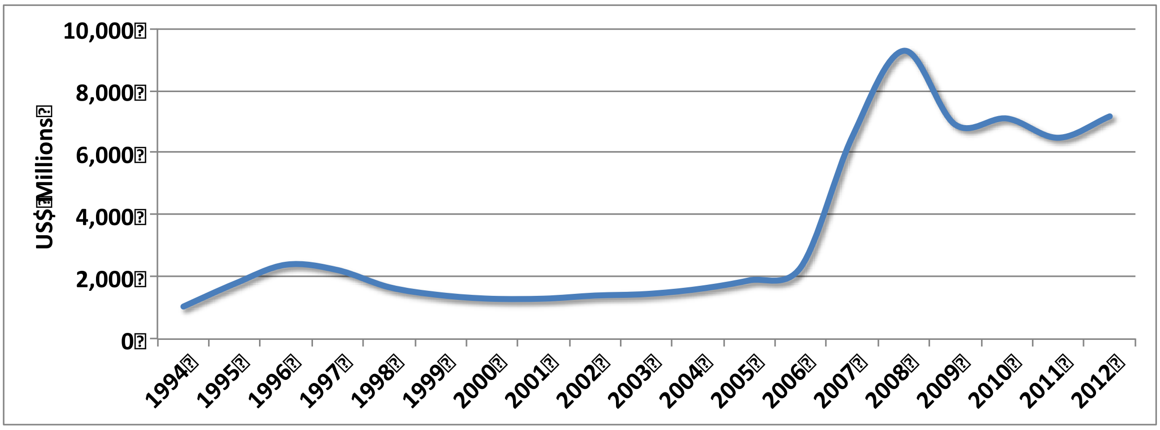
Figure 3. Vietnam trade in services with the world (2005-2013) in US$ Millions



Source: GSO, Statistical Handbook 2013

Foreign direct investment (FDI) has been a major contributor to the economic development of Vietnam and has been a significant source of export performance in Vietnam. It has also been a stable source of finance to bridge the domestic savings-investment gap, which remains quite large. Until Vietnam neared the date of accession to the WTO, FDI flows were relatively stable at between US$1 and US$1.5 million. These increased dramatically in the year of accession to over US$ 9 billion (Figure 4). Since then, the onset of the financial crisis and some overheating in the economy has lowered FDI to between US$6 and US$7.2 billion.

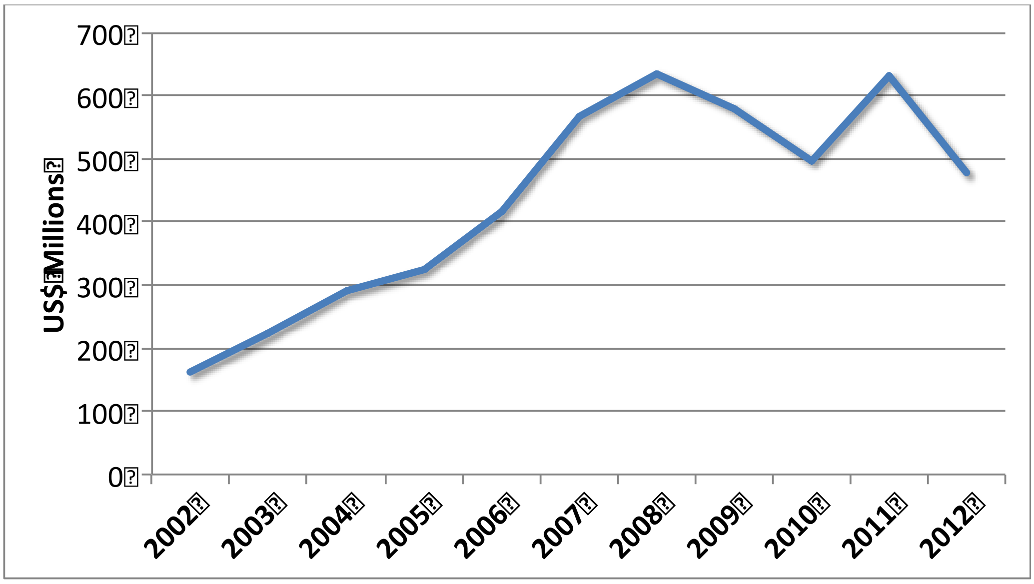
Figure 4. Vietnam FDI flows



Source: ADB (2013) Asian Economic Outlook 2014

The EU has been an important partner in supporting Vietnam with technical assistance since the Doi Moi market reforms. The level of ODA to Vietnam has steadily increased every year. Within the Aid for Trade Categories (A4T), which includes everything from physical economic infrastructure to policy related assistance, the EU Member States have increased its support from US$162 million to US$470 million in 2012 (see Figure 5).

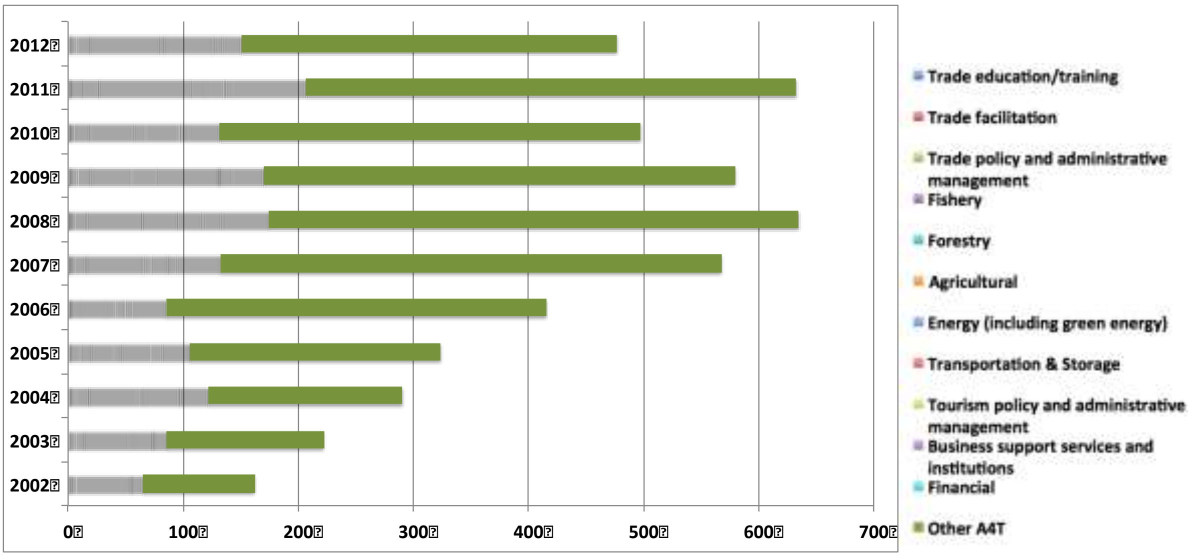
Figure 5. EU ODA in A4T Categories



Note: US$ Millions; Source: OECD-DAC CRS Reporting System, as at April 2014

A peak of support can be seen prior to accession, as well as the first few years of implementation post WTO. The breakdown of aid for trade flows indicates that the EU has provided significant support to Vietnam in some sectors (notably agriculture, forestry and fisheries (see **Error! Reference source not found.**)). The EU has also provided quite a lot of funds in R&D and SME Development, although the bulk of cross-cutting support has been in the transportation sector.

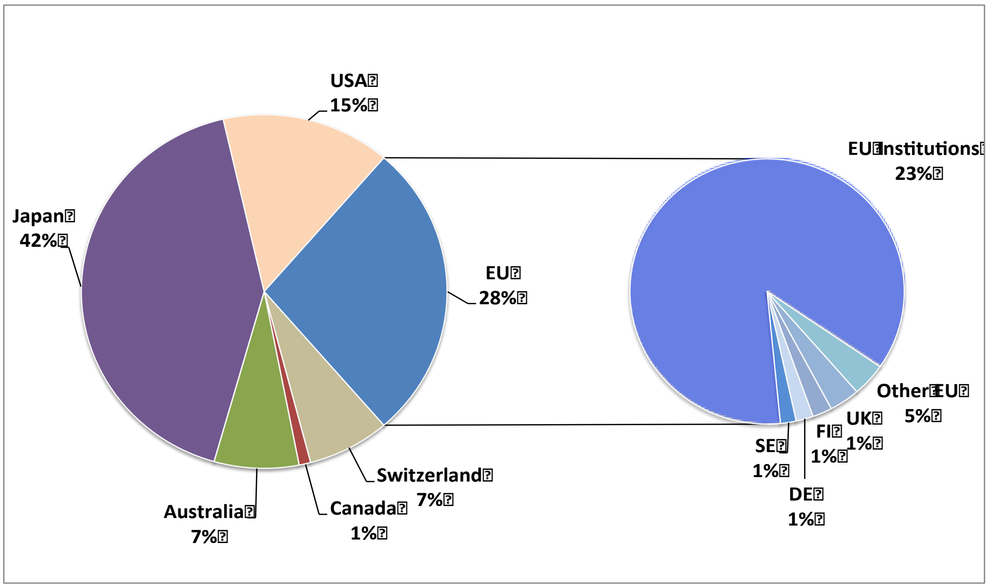
Figure 6. A4T ODA from EU to Vietnam, 2002-2012



Note: US$ Millions; Source: OECD-DAC CRS Reporting System, as at April 2014

In the area of trade policy and regulations support, Figure 7 presents the main donor countries. The EU (including the EU institutions) provided just over one quarter of all assistance to Vietnam in this area. Within the EU, the United Kingdom, is the largest donor (1 per cent of total) followed by Finland (0.6 per cent of total).

Figure 7. Overall ODA to Vietnam in Trade Policy and Regulations (Cumulation 2003-2012)

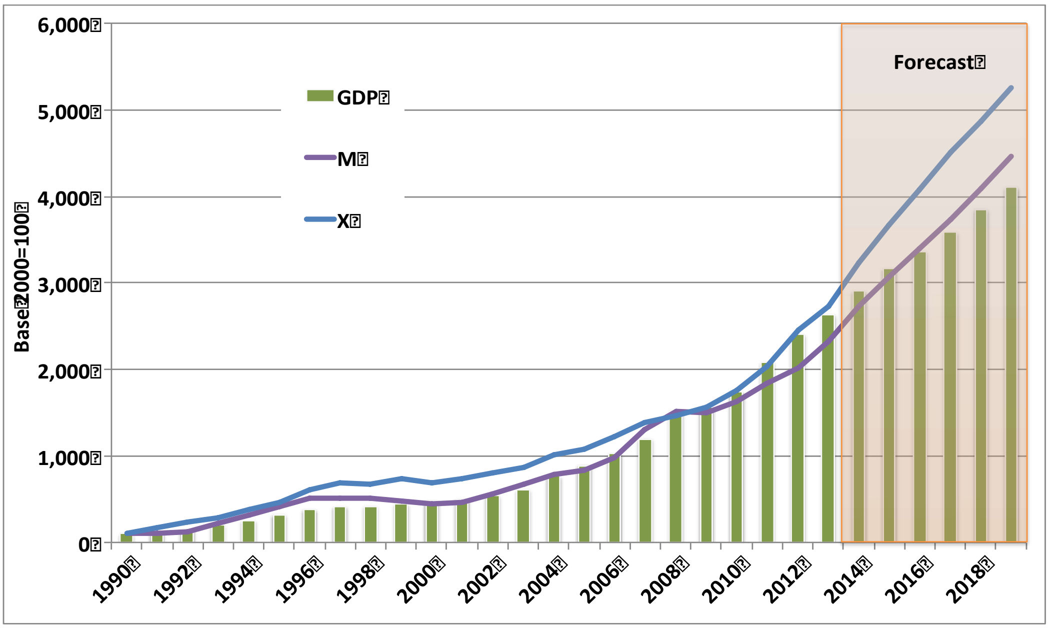


Source: OECD-DAC CRS Reporting System, as at April 2014

I.2. Vietnam's economic integration and trade performance

Vietnam has an open economy with significant ties to international trade. Its domestic economy has managed sustained large levels of growth through capital accumulation and producitivity gains but the greatest contribution to growth has been international trade and investment flows. The near exponential growth in trade since acceding ot the WTO is clearly observable (see Figure 8).

Figure 8. Trade and GDP Growth in Vietnam

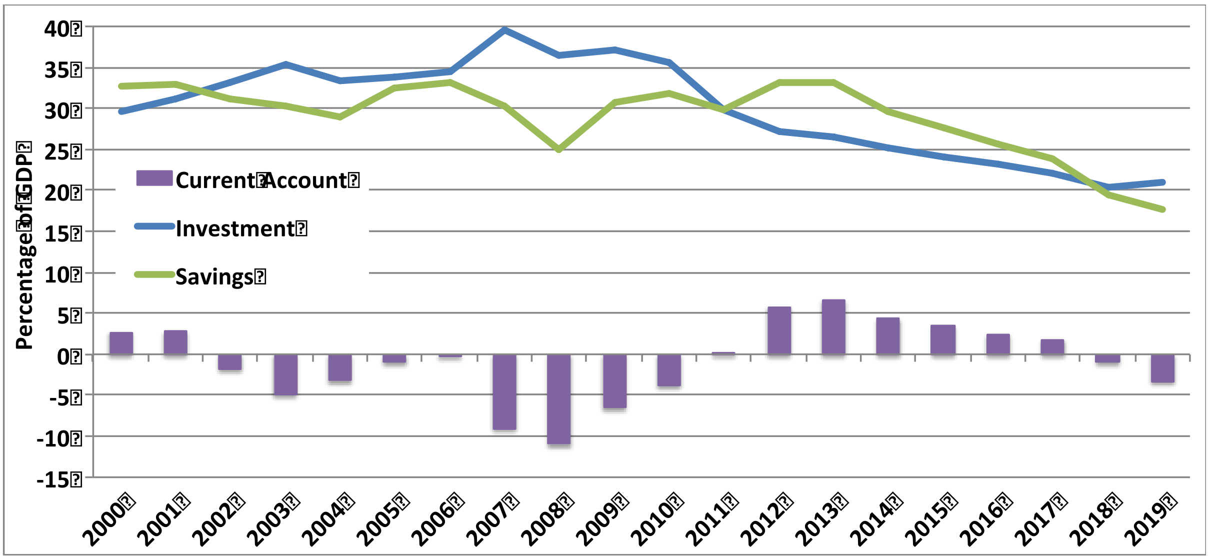


Source: Author calculations based on IMF WEO, April 2014

Overall exports have oustripped growth in imports, despite a period of worsening of the trade balance immediatey in the aftermath of WTO accession. The rise in imports reflected the need for inputs into industries, greater demanded for imported technlogy and machinery, and an increase in the demand for consumption goods as per capita income rose in Vietnam. It can also be see as the deficit of savings to cover investment outlays in Vietnam (see Figure 9).

Investment levels peaked at 40 per cent of GDP after accession and have subsequently fallen significantly, to around 20 per cent of GDP, its lowest level since market reforms began in earnest. Despite the improvement registered on the current deficit, which recorded a surplus for the first time in a decade, the low levels of investment are a cause for concern to the policy makers. Investment in productive activities is needed for Vietnam to create long-term sustainable gains in per capita income. External capital will be required to cover the deficit in savings and the sources of such investment are likely to continue being Asian investment, and investment attracted by Vietnam's commitmetns in trade agreements.

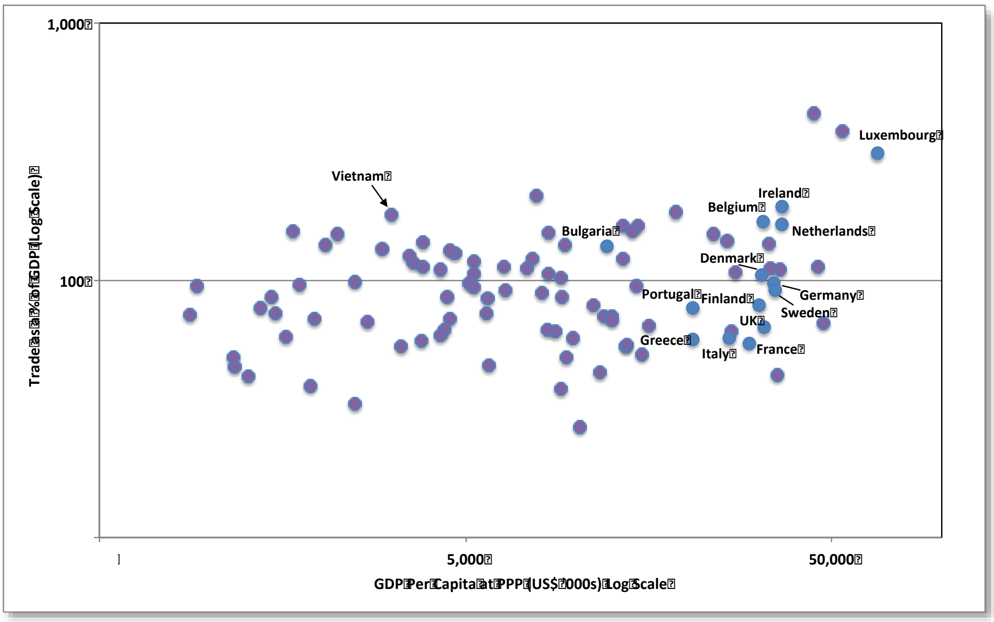
Figure 9. Savings - investment gap



Source: Author calculations based on IMF WEO, April 2014

Vietnam's integration in the world economy is quite significant. Trade flows (imports and exports) amounted to 180 per cent of GDP, the seventh highest level in the world, and second only to Singapore and Hong Kong in South East Asia. Considering the size of the domestic market, and relatively well diversified economic structure, its outward orientation is remarkable.

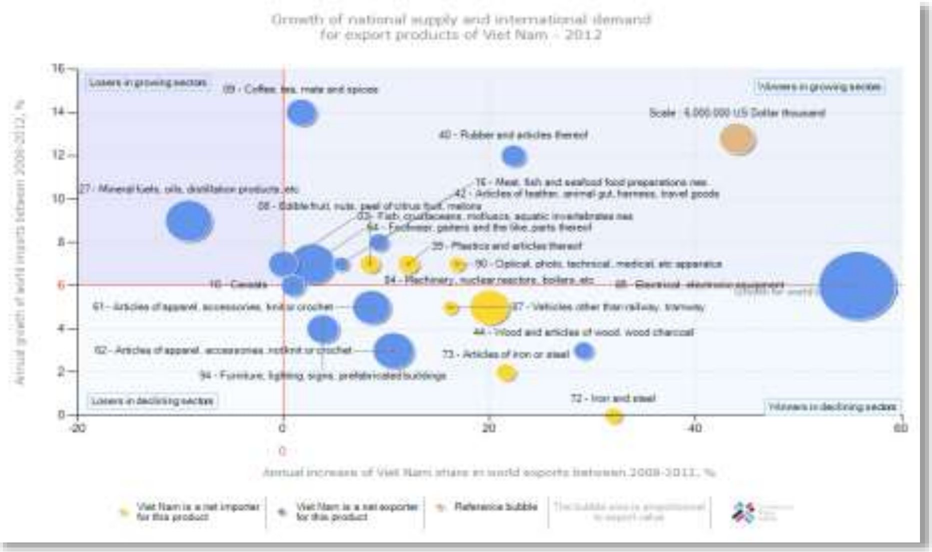
Figure 10. Integration in the world economy



Source: Source: Author calculations based on WDI and WITS, 2012 Data

Vietnam's export portfolio is relatively well diversified. It exports many high-tech products owing to foreign owned manufcaturing operations based in Vietnam. Unprocessed exports also represent an important share in its export portoflio (mineral fuels, fisheries, coffee, wood articles), as well as some semi-processed goods (rubber, articles of iron, garments). For the great majority of products, Vietnam is increasing its world market share from agricultural commodities, to agro-processing to light manufacturing. However, a number of the products on which Vietnam exports are low growth segments, especially in the textile sector, wood articles and furniture (see Figure 11).

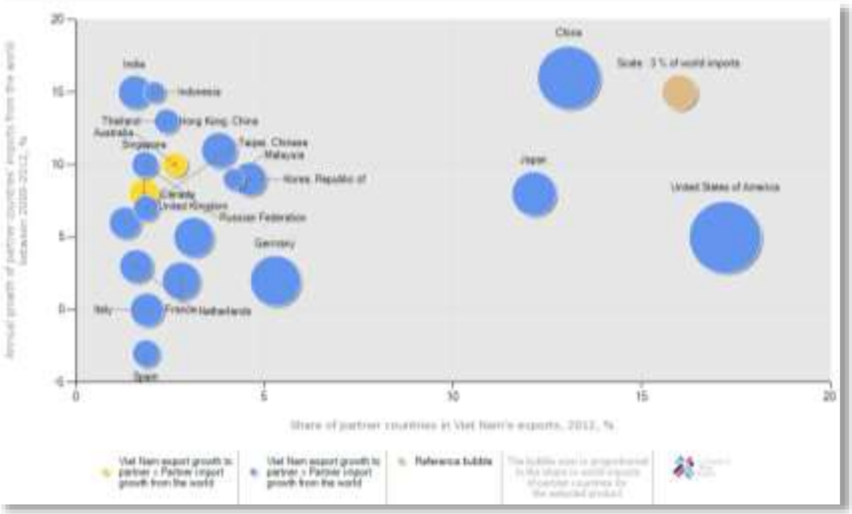
Figure 11. Vietnam's Export Portfolio in Terms of products, 2012



Source: ITC Trade Map

The markets to which Vietnam exports are relatively well diversified, even if the US (in apparel) China and Japan dominate its export shares. The EU market is the largest but is dissagregated by each EU member state in Figure 12. Vietnam's partners have generally experienced a tendency for significant growth in their import demand. Vietnam's main EU markets – Germany, Italy, Spain, France, Netherlands, did not experience strong growth (as benchmarked against world import gowth of 6 per cent in the last give years), while the UK grew just above the benchmark. The most dynamics of its export markets have been South-East Asia, which grew at rates of 15 per cent or more per annum, while European markets are growing at less than 5 per cent per annum.

Figure 12. Main export markets for Vietnam



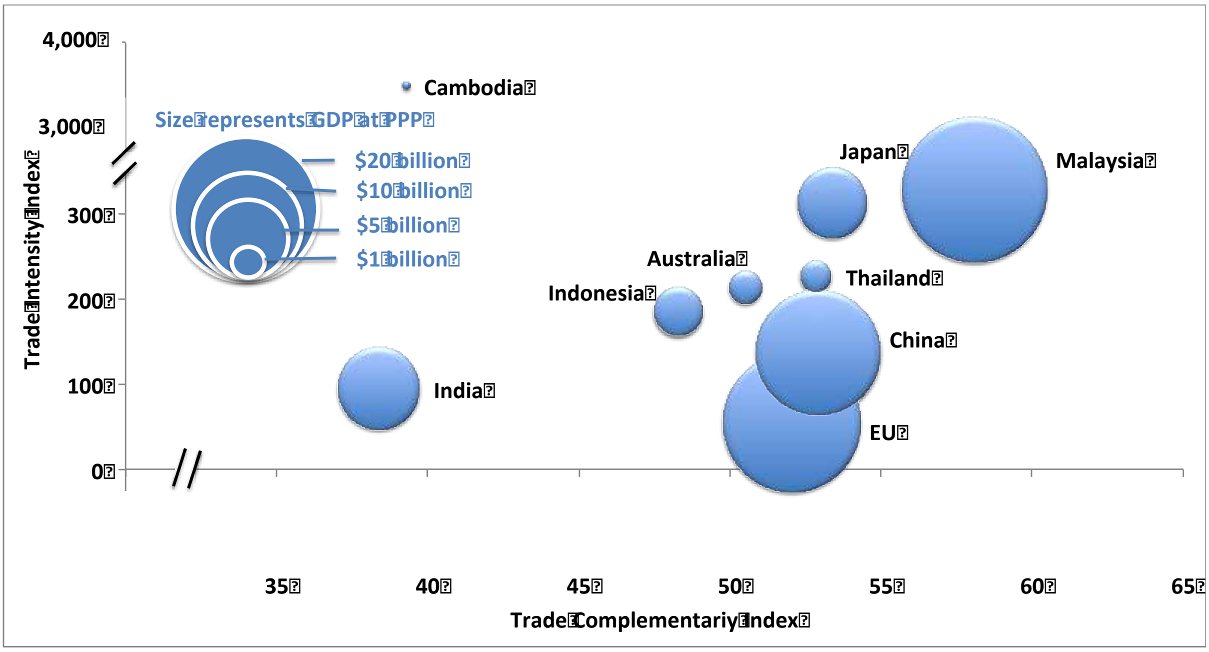
Source: ITC Trade Map

The degree of trade complementarity between Vietnam and the EU is quite high. Trade complementarity is defined as the match between the export supply from one country and the import demand of the other[3]. Trade complementarity is higher with the EU than some ASEAN

[3] The trade complementarity index is defined as $100 \times \sum[x_{i,j} - m_{i,k}]/2$. X_{ij} represents exports rom country j in sector i; m_{ik}

countries, although it appears lower than with Japan or Malaysia. The trade complementarity and the degree of intensity of trade between Vietnam and selected partners is also plotted in Figure 13. The level of trade intensity is measured by comparing Vietnam's trade with the selected partners, in comparison to what the world trades with these countries. If Vietnam trade proportionately more, then it is said to have a high level of trade intensity[4]. Vietnam has an extremely low level of trade intensity with the EU, particularly in comparison to other countries in the region which have lower trade complementarity. The results indicate that there may be opportunities to expand trade given the low levels of trade complementarity. A trade flow analysis of indicative trade potential at a detailed six-digit level if presented in section III.2.

Figure 13. Trade Complementarity and Intensity between Vietnam and the EU and Selected Economies



Source: Author calculations based on WITS and WDI

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represents imports of country k in sector i. 100 represents a perfect match (complementarity), while 0 represents no complementarity.

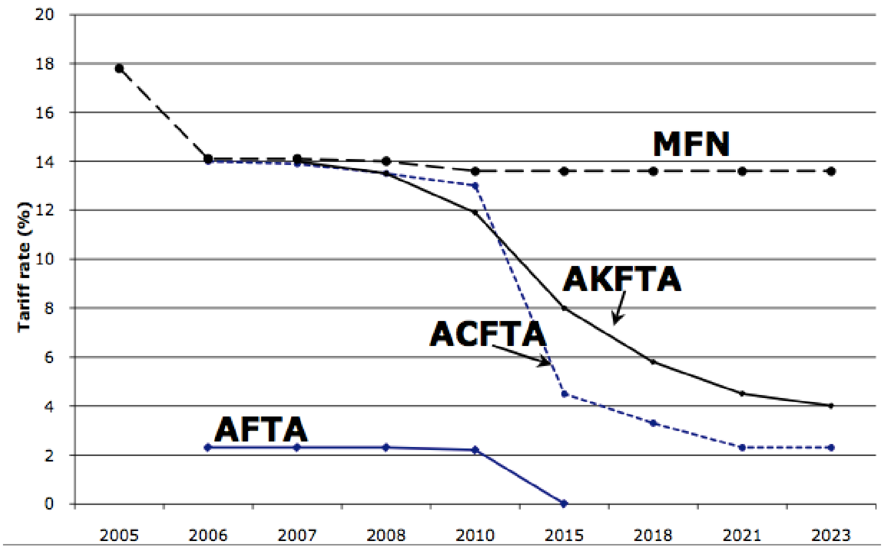
[4] The Trade intensity index is defined as $(x_{ij}/X_{it})/(x_{wj}/X_{wt})$. Where x_{ij} and x_{wj} are the values of country *i*'s exports and of world exports to country *j* and where X_{it} and X_{wt} are country i's total exports and total world exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade. For more information, see World Bank (2011) *WITS User's Manual*, Version 2.01

I.3. Protective measures in the EU and Vietnam

I.3.1. Existing restrictiveness levels in EU-Vietnam trade in goods

In its accession to the WTO, Vietnam bound its tariff schedule mostly in the 0-40 per cent range. As a result, the simple average MFN tariff declined significantly, from 18.5 per cent in 2007 to 10.4 per cent in 2013. A few minor products retain tariff rate quotas, such as those relating to eggs, sugar, unmanufactured tobacco and tobacco refuse, and salt[5]. Beyond the WTO, Vietnam joined ASEAN in 1995 and is implementing the various ASEAN agreements in trade in goods (including sectoral working committees), services, and investment. Vietnam is also engaged in bilateral negotiations through ASEAN and has signed various bilateral agreements, the tariff results of which are presented in Figure 14.

Figure 14. Tariff liberalisation under different agreements



Source: Ministry of Trade; Reproduced in Vergano, P. and D. Linote (2009) *Impact Assessment of AFTA on Vietnam's Economy*, MUTRAP Activity FTA-9A, July

Vietnam's merchandise exports to the EU, which benefit from the GSP, face an average tariff of 2.7 per cent, but this hides a number of tariff peaks. The highest tariff is on garlic, 300 per cent (in ad valorem equivalent), but there are more generally very high tariffs on beef and dairy products and other agricultural products. This is shown in Figure 15, which shows tariffs by chapters.[6] The agricultural tariffs are mainly from chapters 1 to 24. The other cluster is around chapters 47 to 64, textiles, clothing and footwear (TCF). However, taking into account trade flows, the most significant tariffs for Vietnam are on TCF and frozen fish fillets.[7]

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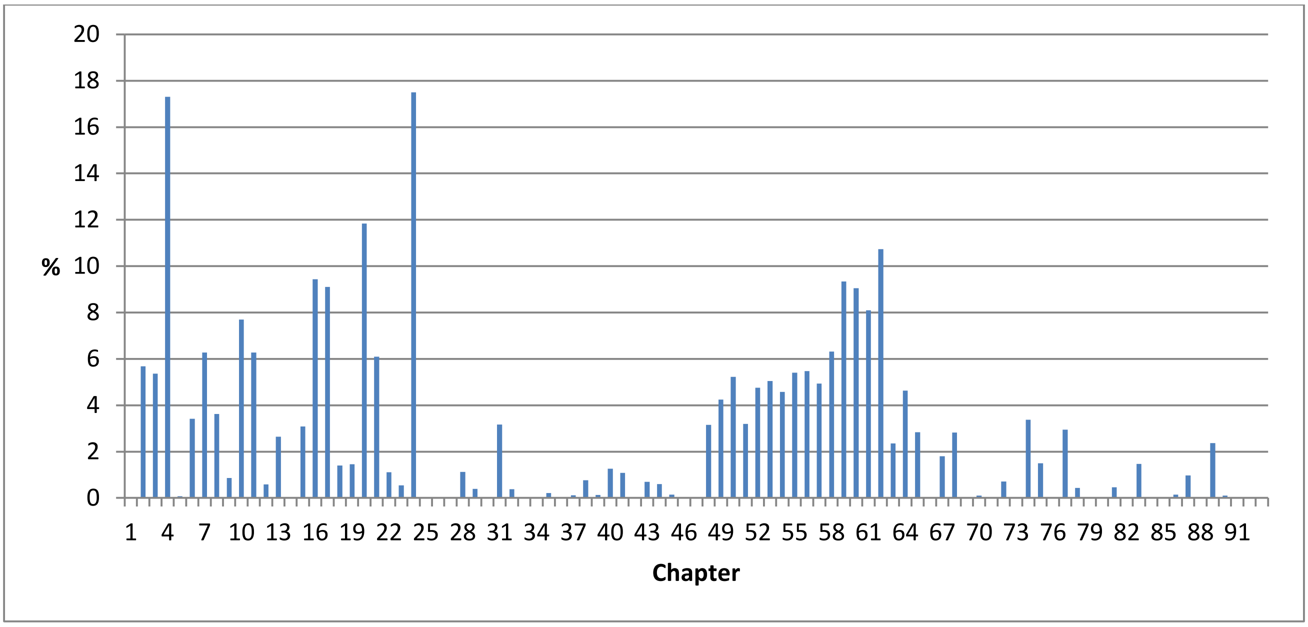
[5] WTO (2013) *Trade Policy Review Vietnam*, Report by the Secretariat, WT/TPR/S/287, Geneva: WTO

[6] All goods are classified into 99 chapters. A list can be found in Appendix table A3.

[7] This is calculated at the HS six-digit level. The two-digit level shows apparel to be second and third on the list, ahead of fish.

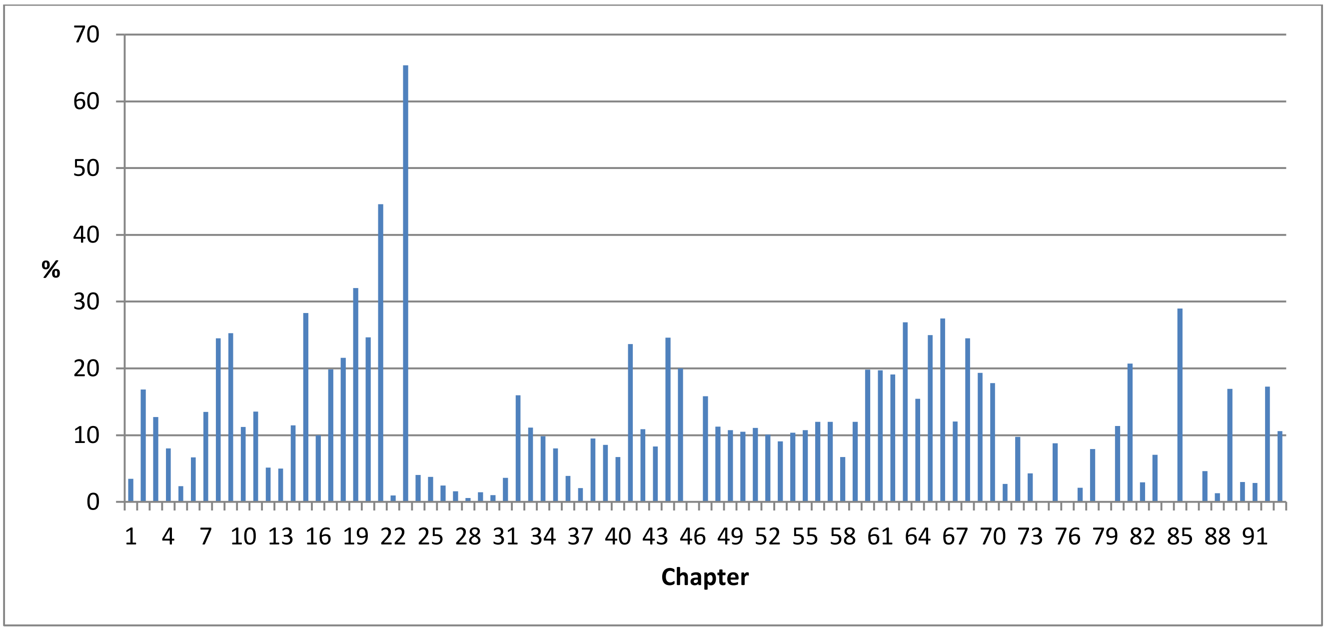
Figure 15. European Union tariffs



Source: WTO and WITS. 2012. Tariffs are GSP rates at two-digit level.

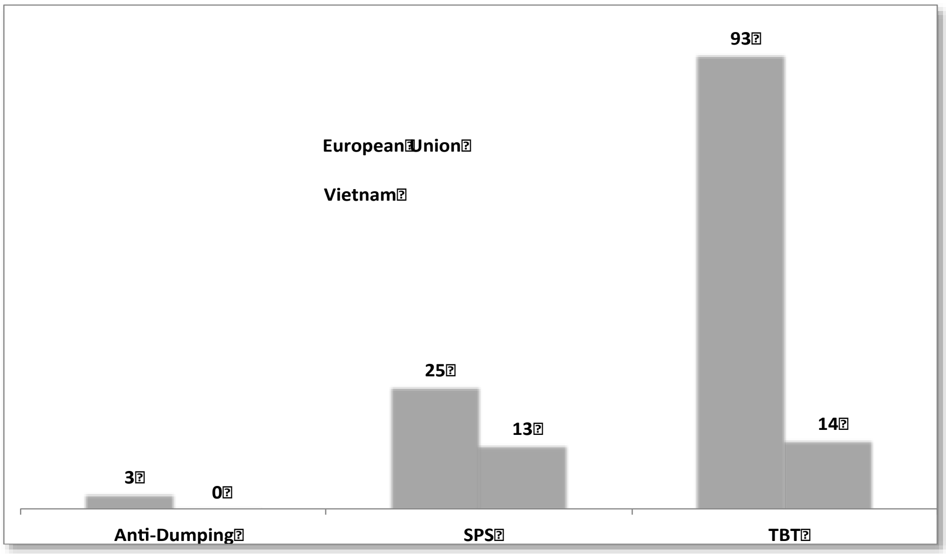
EU exporters to Vietnam also face significant barriers. Vietnam applies a simple average MFN tariff of 9.5 per cent. The average for agricultural tariffs is 16.1 per cent, compared with 8.4 per cent for industrial goods. The peak tariffs are on alcohol and tobacco products, 100 per cent, and motor vehicles, especially motorcycles. Dairy products also face a significant tariff, as do some textiles. Since textiles are an input into apparel, removing these tariffs should make the garment industry more competitive. The averages at the two-digit level are shown in Figure 16. The highest tariffs are generally clustered around processed agricultural products. EU exporters to Vietnam also face significant barriers on specific items, most notably on alcohol and tobacco products, around 100 per cent, and motor vehicles, especially motorcycles. Livestock products also face a significant tariff, as do some textiles.

Figure 16. Vietnamese tariffs



Source: WTO via WITS. 2012. Tariffs are simple effectively applied rates at the two-digit level.

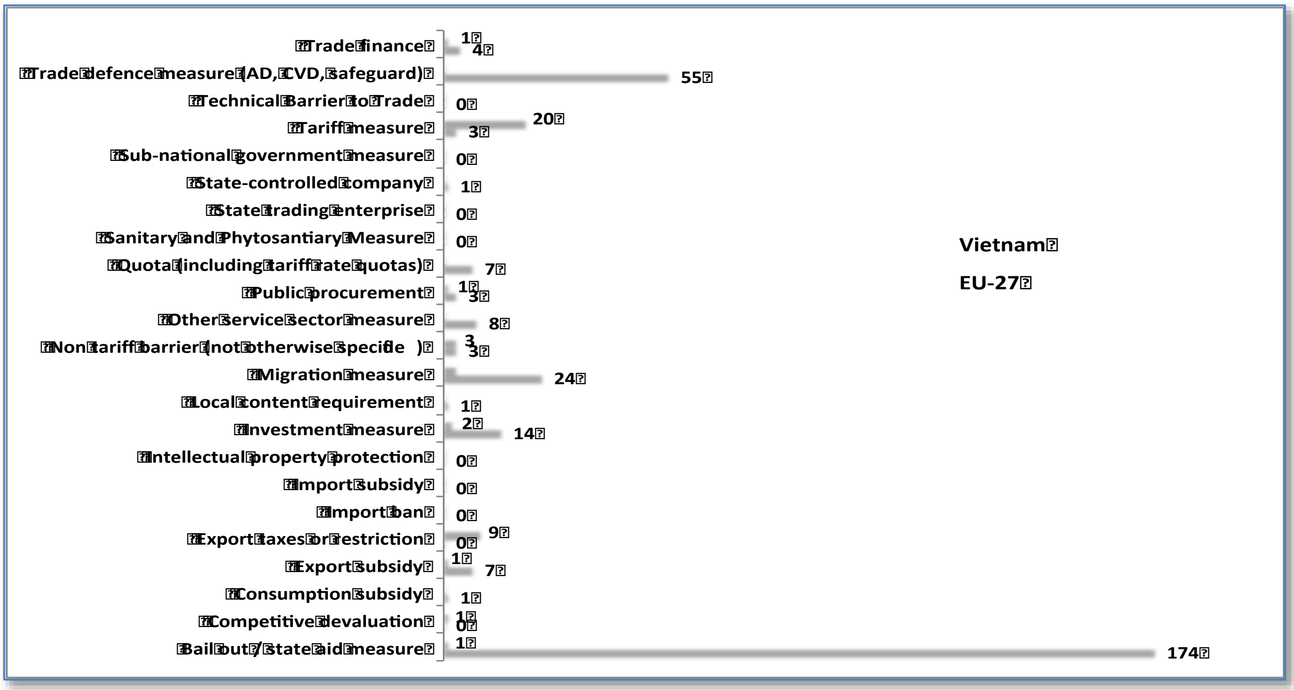
Figure 17. Non-tariff measures by EU and Vietnam notified to the WTO



Source: WTO (2014) Trade Intelligence Portal for 2013

Despite relatively low tariffs, there are a number of measures applied by the EU and Vietnam which restrict trade and investment in one form or another. These behind the border restrictions, which include non-tariff measures related to SPS or norms and standards to export restrictions and the like, are significant. Figure 17 illustrates the prevalence of initiated NTMs in 2013. Beyond the number of NTMs actually initiated by the EU, 27 special safeguard mechanism instruments are also in force. Vietnam also has a number of NTMs, particularly in the application of tariff measures and export taxes. Beyond NTMs notified at the WTO, the database on trade restrictive measures applied by the EU and Vietnam for all kinds of behaviour, highlights significant barriers remaining in place (or initiated) by the EU and Vietnam (see Figure 18).

Figure 18. Behind the border measures by Vietnam and the EU



Source: Global Trade Alert (2014) *Database*, as at 15 February

Vietnam applies significantly restrictive tariff measures and export taxes, while the EU's most significant policies relate to trade defense, migration policy (free movement of natural persons - mode 4) and state aid, even if few of these measures apply to Vietnam. Currently the EU is not applying any trade remedy instruments against Vietnam.

I.3.2. Existing restrictiveness levels in EU-Vietnam trade in services

Both the EU and Vietnam have undertaken significant commitments at the WTO under the GATS. Vietnam undertook specific commitments under the GATS in 11 services sectors (out of 12 services categories) and 110 subsectors (out of 155). The Vietnamese have indicated that 100 per cent foreign ownership is permitted in most of the services sectors and subsectors under Vietnam's GATS Schedule[8]. Vietnam's commitments in services in bilateral or regional agreements have not gone beyond its GATS commitments.

The EU undertook commitments in 12 service sectors and in 115 subsectors (out of 155). Since GATS, the EU has engaged in a number of bilateral FTAs which have gone beyond GATS and is looking to secure such commitments from its partners. Table 1 presents a comparison between the GATS commitments of the EU and the additional commitments it undertook under the EU-Korea FTA. The EU widened the range of subsectors, which have commitments and improved (deepened) the level of commitment in easing market access conditions to Korean companies into the EU market.

Table 1. EU Commitments in GATS and in the EU-Korea FTA

Sectors	GATS	FTA with Korea
1. BUSINESS SERVICES		
A. Professional services	√	Improved
B. Computer and related services	√	Improved
C. Research and development	√	Improved
D. Real estate	√	Similar
E. Rental/leasing services without operators	√	Similar
F. Other	√	Improved
2. COMMUNICATION SERVICES		
A. Postal	-	New
B. Courier	-	-
C. Telecommunication	√	Improved
D. Audiovisual	-	-
E. Other	-	-
3. CONSTRUCTION AND RELATED ENGINEERING SERVICES	√	Improved
4. DISTRIBUTION SERVICES	√	Improved
5. EDUCATION SERVICES	√	Improved
6. ENVIRONMENTAL SERVICES	√	Improved
7. FINANCIAL SERVICES		
A. All insurance and insurance-related services	√	Improved
B. Banking and other financial services	√	Improved
8. HEALTH RELATED AND SOCIAL SERVICES	√	Improved
9. TOURISM AND TRAVEL RELATED SERVICES		
A. Hotels and restaurants	√	Improved
B. Travel agencies and tour operators	√	Improved
C. Tourist guides	√	Improved
D. Other	-	-
10. RECREATIONAL, CULTURAL AND SPORTING SERVICES	√	Improved
11. TRANSPORT SERVICES		
A. Maritime	√	Improved
B. Internal waterways	√	Improved
C. Air	√	Improved
D. Space	-	-
E. Rail	√	Improved
F. Road	√	Improved
G. Pipeline	-	New
H. Services auxiliary to all modes of transport	√	Improved
I. Other	√	Similar
12. OTHER SERVICES NOT INCLUDED ELSEWHERE	√	Similar

Source: WTO (2013) Trade Policy Review European Union, WT/TPR/S/284, Geneva: World Trade Organisation.

[8] There has been contention regarding the compatibility of domestic laws and regulations and the interpretation of its WTO commitments. See WTO (2013) *Trade Policy Review Vietnam*, WT/TPR/S/287, Geneva: World Trade Organisation.

It is important to note the degree of restrictiveness applied by countries in the field of services, as reported by the business community. The results reveal major restrictions applied by the EU for professional services, which are very specific to each Member State. Vietnam also applies restrictions in mode 4 and few restrictions in other modes. Vietnam maintains significant restrictions on mode 3 (the right of establishment) mainly through the requirement of joint ventures with a majority share for the Vietnamese party (see Table 2).

Table 2. Service Restrictions by the EU and Vietnam[9]

	EU-27				Vietnam			
	Overall	**Mode 1**	**Mode 3**	**Mode 4**	**Overall**	**Mode 1**	**Mode 3**	**Mode 4**
Financial	○	◔	○	...	◑	◑	◑	...
Telecommunications	○	...	○	...	◑	...	◑	...
Retail	◔	...	◔	...	◑	...	◑	...
Professional	◑	◑	◑	◕	◔	○	○	◕

Note: ○ Open ◔ Mostly open with minor restrictions ◑ Major restrictions
◕ Virtually closed with limited opportunities to enter and operate ● Fully closed

Source: World Bank (2014) *Service Trade Restrictiveness Database*, as at 15 February

The major restrictions applied by Vietnam service trade seems to be in water transport. This includes coastal shipping, where two State-owned enterprises retain significant involvement. Land transport and communications are other sectors where significant restrictiveness remains. Table 3 shows the reductions in trade costs necessary to bring Vietnam and the EU to the OECD average.

Table 3. Estimated reduction in trade costs through liberalisation

Sector	**Vietnam**	**EU**
	per cent	per cent
Transport	7.3	6.0
Communication	6.2	7.8
Retail & wholesale trade	1.6	3.6
Finance & insurance	2.2	5.4
Business services	3.3	3.0
Other services	1.0	3.0

Source: Derived from Francois et al. (2011).

[9] Mode 1 refers to cross-border supply of services; Mode 3 refers to the right of establishment; mode 4 refers to the movement of natural persons

I.4. Negotiations between the EU and Vietnam so far

Negotiations between the EU and ASEAN began in 2007, with a view to foster regional integration within the ASEAN region, streamline the negotiation process, reduce overlapping rules of origin being negotiated between each ASEAN Member State and secure a larger market access for the EU. However negotiations between the EU and ASEAN reached an impasse, so that in 2009, the EU began negotiating with individual ASEAN Member States[10]. In June 2012 Vietnam and the EU formally launched negotiations for a comprehensive free trade agreement. The parties undertook the seventh rounds of negotiations in March 2014, and the negotiations are expected to be concluded swiftly.

The 8th round of negotiations between the EU and Vietnam took place on 7-21 March 2014.

The FTA agreement is expected to cover the following areas at a minimum:

- Market Access for trade in goods: elimination of tariff and non-tariff measures; agreement on standards for key sectors; addressing SPS and TBT issues; rules of origin
- Commitments for liberalization of trade in services
- Investment
- Competition
- Government procurement
- Trade Facilitation and Customs
- Regulatory environment
- Sustainable development, including labour, environmental issues and CSR
- State-owned enterprises

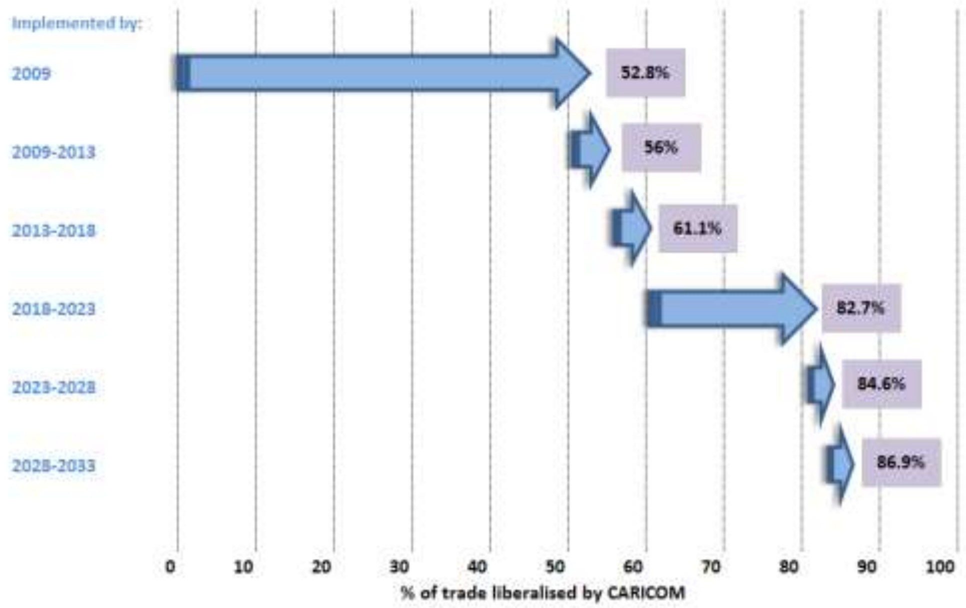
[10] Negotiations with Singapore and Malaysia began in 2010. Negotiations with Thailand began in 2013.

I.5. Recent negotiations by the EU and Vietnam with third parties

I.5.1. Trade in Goods

In recent agreements, the EU has liberalised its goods market either fully to its FTA partner(s) (e.g. for CARIFORUM), or has maintained protection on less than 1 per cent of the trade (e.g. for Korea). The phasing out of tariffs is usually front loaded and does not exceed 10 years for the European Union. The EU has accorded varying levels of liberalisation and phasing out periods to its partners. The least ambitious agreement has been the case of the CARIFORUM where liberalisation has been staggered over 25 years and reaches just 87 per cent of its partners' trade (see Figure 19).

Figure 19. Phasing out of tariffs on goods for CARIFORUM



Source: Baker, P. (2012) Cariforum-EU Economic Partnership Agreement: A Handbook, IBF Consulting

The most ambitious has been EU-Singapore agreement where both parties have agreed to eliminate virtually all tariffs at the latest five years after the entry into force of the FTA (99.99 per cent of tariffs for the EU and 100 per cent for Singapore). The EU appears to be seeking a substantial level of ambition from Vietnam for the FTA agreement, at around 95 per cent of lines and trade to be liberalised within 7 years. Vietnam has already made major strides in liberalizing its trade in other regional and bilateral agreements, as well as at the WTO. The scope of tariff liberalisation is relatively similar across a range of FTA agreements. Vietnam has generally committed to liberalise around 90 per cent of its trade and maintained full or partial restrictions on the other tariff lines (see Table 4).

Table 4. Vietnam's tariff concessions in various bilateral FTAs

Vietnam's tariff reduction category	*Normal Group*	*Sensitive Group*			*Excluded from Liberalisation*	
	NT List	*Highly*	*Sensitive*	*Particularly*	*No-cut tax*	*General Exclusion*
ASEAN- China	**9.544** (ceiling at 0 %)	941 (tax ceiling= 50 %)	560 (tax ceiling is 5 %)			94
ASEAN – Korea	**8.907** (ceiling at 0 %)	108	852 (tax ceiling is 5 %)	378 (Reduce by 20 %)	766	101
ASEAN – Japan	**9.425** (ceiling at 0%)	1,224			498	
Vietnam- Japan EPA	**8.548** (ceiling at 0%)	132 (tax ceiling=50%)	2 (tax ceiling is 5%)		517	

<u>Note</u>: Number of tax lines according to the Harmonized System (HS) 2002 (differences caused by adjustment of tariff)
Source: Truong Dinh Tuyen et al. (2011) Tác động của cam kết mở cửa thị trường trong WTO và các hiệp định thương mại tự do đến hoạt động sản xuất, thương mại của Việt Nam và các cơ chế hoàn thiện cơ chế điều hành xuất nhập khẩu của Bộ Công Thương giai đoạn 2011-2015, reprinted in MPI(2013) Comprehensive Evaluation of Vietnam's socio-economic performance five years after the accession to the World Trade Organisation, May

I.5.2. Trade in Services

To gauge the likely ambitions of the agreement, we present a comparative analysis of the scope of liberalisation negotiated in different Free Trade Agreements by the parties listed below in the area of services for a list of particular sectors and sub-sectors. We consider recent (from 2009 onwards) EU agreements and significant Vietnam agreements:

- European Union and the CARIFORUM[11]
- European Union and Korea[12]
- European Union, Colombia and Peru[13]
- European Union and Singapore[14]
- Vietnam and the ASEAN[15]
- Vietnam and Japan[16]
- Vietnam (under its specific schedule of commitments) and China[17]

In all modes, sectors and sub-sectors considered in this analysis the level of liberalisation was very similar across the different agreements with just with a few exceptions. In the case of Vietnam, the country has offered almost the same level of commitments in its regional agreements as agreed under the GATS agreement, after its accession to the World Trade Organization. In the case of the

[11] The agreement was implemented on December 29, 2008.
[12] The agreement became operational on July 1, 2011.
[13] This free trade agreement entered into application on 1 August 2013.
[14] The final text still has to be ratified by the European Parliament and it's not yet in force.
[15] The Eighth Package of commitments under the ASEAN Framework Agreement on services was signed on October 28, 2010 and entered into force 90 days after the date of signature.
[16] The Japan – Vietnam Economic Partnership Agreement entered into force on October 2009.
[17] The package of service commitments undertaken by Vietnam under the ASEAN-China Framework Agreement on Comprehensive Economic Cooperation entered into force on January 12, 2012.

EU, the level of commitments granted in FTA go beyond GATS, owing in part because the FTAs were signed 15 years or more since the GATS, and also because the structure of the EU has differed significantly since then (from 12 member states to 28!). Both the EU and Vietnam have used a positive list approach to liberalisation (as in the WTO).

The level of restrictiveness is presented in a series of tables, which summarise the authors' interpretation of the texts, and not the level of implementation. The first part of columns in the table contains an analysis on the scope of liberalization adopted by the European Union in the different agreements negotiated with the CARIFORUM, Colombia - Peru, Korea and Singapore. The second set of columns contains an analysis on the scope of liberalization negotiated by Vietnam with the Association of Southeast Asian Nations (ASEAN), Japan and under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN members and the People's Republic of China.

With the purposes of facilitating the analysis, we have used a score modality, explained in the table below, to determine the level of openness for modes 1 (Cross-border supply), 2 (Consumption Abroad), 3 (Commercial Presence) and 4 (Presence of National Persons). The overall score given to each sector or sub-sector is given and justified with a summary of the overall restrictions applied or not by the party in its legal text of the negotiated agreement. The degree of restrictiveness is presented using an icon system, presented in Figure 20.

Figure 20. Legend of trade in services restrictiveness

Completely open	○
Virtually open but with minor restrictions	◔
Major restrictions	◑
Virtually closed with limited opportunities to enter and operate	◕
Completely closed	●

A summary overview of the level of commitments taken in the different agreements and the remaining restrictions are presented in Figure 21 for professional services and in Figure 22 for financial, communications and distribution services. A more complete analysis is presented in section III.4. *Estimated Impacts on Key Service Sectors*.

Figure 21. Summary of restrictions in professional services in EU and VN FTAs

Legal Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◑	◑	◑	◕
VN-ASEAN; VN-JP	○	○	◔	●
Accounting & Bookeeping Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◔	○	◔	◔
VN-ASEAN; VN-JP	○	○	○	◕
Taxation Advisory Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◔	○	◔	◔
VN-ASEAN; VN-JP	○	○	○	●
Architectural Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◑	○	◔	◔
VN-ASEAN; VN-JP	○	○	○	●
Engineering Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◑	○	◔	◔
VN-ASEAN; VN-JP	○	○	○	●
Pharmaceutical Services				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◕	○	◑	◑
VN-ASEAN; VN-JP	●	●	●	●

Note: the commitments extended to China are lower than in the VN-ASEAN and VN-JP agreements, and for this reason were not presented in the table

Source: Authors based on the analysis of agreements

Figure 22. Summary of restrictions in financial, communications and distribution services in EU and VN FTAs

Banking				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◕	○	◕	◑
VN-ASEAN; VN-JP	●	○	◑	●
Insurance				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◕	◕	◕	◑
VN-ASEAN; VN-JP	◔	○	◑	●
Communications				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	○	○	○	◕
VN-ASEAN; VN-JP	◑	○	◑	●
Distribution				
	Mode 1	Mode 2	Mode 3	Mode 4
EU-KR; EU-SG; EU-CO; EU-CARIFORUM	◕	◕	◑	◔
VN-ASEAN; VN-JP	●	○	○	●

Note: the commitments extended to China are lower than in the VN-ASEAN and VN-JP agreements, and for this reason were not presented in the table

Source: Authors based on the analysis of agreements

One of the major issues raised by some members of the business community is the fact that the WTO and bilateral commitments are not always implemented by Vietnam, such as import licenses and procedures, or the right of establishment. Such implementation issues are not shown in the table, although they are raised in the sectoral discussion in chapter III.

I.5.3. Other Related Areas

Beyond tariff liberalisation and commitments made in services, the EU has become increasingly ambitious on the scope of its agreements, to include labour standards, government procurement, intellectual property rights, competition policy, trade facilitation and customs measures, cooperation on non-tariff measures (including SPS and TBT issues), mode 4 issues relating to recognition of qualifications, and dispute settlement provisions. The EU also recognizes the value of upholding sustainability and environmental requirements in its trade agreements, and provides for an institutional framework and mechanisms to be established in order to monitor and review the application of the agreement and its effects on both parties, as well as have a mechanism for dispute settlement.

With regard to government procurement, the EU has in some cases accepted transparency and best endeavour language while in other cases has required an opening up of markets to its own service providers and manufacturers. The latter appears to be the case for the EU-Vietnam FTA agreement. The treatment of state owned enterprises (SOEs) has been raised by the EU, which considers transfers to SOEs from the state budget as being in contradiction to free and fair competition rules, by providing unfair subsidies. Vietnam has embarked on a major equitisation programme since acceding the WTO, although the pace of privatization remains relatively slow[18]. Moreover, state capital which has been poured into SOEs has increased from US$33 billion in 2010 to US$48 billion in 2012.

The EU will also wish to ensure that investment is liberalised according to what Vietnam had agreed in its accession to the WTO, and that customs matters be more transparent and the required steps and procedures for cross-border trade be better streamlined. The EU will also be seeking for the preservation of Geographical Indications (GI), which are different from the system of Trade Marks (as negotiated in the Trans Pacific Partnership (TPP) agreement), as well as strengthening IPR enforcement along the lines of what has been agreed in Vietnam's accession protocol.

Vietnam's primary concerns with regard to the EU relate to the significant SPS and TBT measures in force and for which Vietnam would require greater consultation in the decision making process for new rules, as well as capacity building support to meet new standards. The institutional framework in Vietnam would also require support for introduce EU procedures on authorized economic operators (AEO) in order to export to the EU[19]. Vietnam also has an interest in negotiating mutual recognition agreements for qualifications and standards.

[18] Despite the slow progress made to date, the Government announced that 432 SOEs will be equitized in the period 2014-2015 (Vietnam News, 18 February 2014)

[19] Under the security framework, which has been applicable since 1 July 2009, economic operators have to submit pre-arrival and pre-departure information on goods entering or leaving the EU (Regulation (EC) 648/2005)

These other trade related areas are covered in greater depth in Chapter III - *Economic Impact Assessment for Specific Sectors*.

I.5.4. Short Comment on the TPP

The TPP is being negotiated between twelve countries of the broad pacific region. Initially, the agreement was between Brunei, Chile, New Zealand and Singapore. Australia, Malaysia, Peru, the US and Vietnam subsequently joined in the negotiations. Finally, Mexico, Canada and Japan also became members of the negotiations.

The TPP aims to liberalise trade in goods and services and investment among the participating countries. Given the economic, demographic and geographical diversity of the member countries (E.g. Vietnam had a GDP per capita of US$ 1,755 in 2012, while the U.S had US$ 51,749), reaching the ultimate goal of a single undertaking agreement that applies to all of them is complex. Additional complexities may be created by the existence of bilateral or multilateral treaties between several member states. However, TPP negotiations have taken into account the existing trade environment of its Member States and will be of a variable geometry configuration.[20]

The TPP is expected to offer more than just measures for free trade amongst its Member States. Throughout its 29 chapters, it covers everything from financial services to telecommunications to sanitary standards for foodstuff.[21] The agreement gives consideration to cross-cutting issues such as regulatory coherence, competitiveness and business facilitation and support to SMEs to take advantage of the opportunities they will be offered. The TPP will also contain legal texts that will cover the crucial areas that include Competition; Environment; Customs; Labour standards; IPR; Government Procurement; Trade Remedies; and SPS and TBTs.[22]

The TPP will be of major significance on its Member States but also on the wider global economy. Trade in goods among the participating members amounted to US$ 2 trillion in 2012. It is estimated that, in the case of success, the TPP will be covering around two-fifth of world trade.[23]

The negotiations are still on-going, but as with the negotiations with the EU, the TPP aims to conclude negotiations by 2014[24]. As of 15 May 2014, Vietnam was on its 20th round of technical negotiation meetings (and on its 4th ministerial meeting) with partners on the TPP. Should both agreements be concluded in 2014 and entering into force in 2015/16, Vietnam will have major changes to its market access opportunities, and both agreements are likely to be catalysts for surges in investment, with considerable implications for its economy.

[20] Draper, P., Lacey, S. and Ramkolowon, Y. (2014), *Mega-Regional Trade Agreements: Implications for the African, Caribbean and Pacific Countries.* Occasional Paper No. 2/2014, European Centre for International Political Economy.

[21] See http://www.washingtonpost.com/blogs/wonkblog/wp/2013/12/11/everything-you-need-to-know-about-the-trans-pacific-partnership/

[22] See http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/outlines-trans-pacific-partnership-agreement

[23] See http://www.bbc.com/news/business-27107349

[24] Oustanding areas to be agreed upon include nearly 20 areas, including the commodities market, codes of conduct, treatment of SOEs, IPRs, environment and e-commerce (Shanghai Daily (2014) *New TPP Round Begins in Vietnam*, May 12 at www.shanghaidaily.com)

There are some areas of conflict that Vietnam would be facing if it were to implement both agreements. An example includes the use of trademarks promoted by the U.S and under the TPP versus the use of geographical indications preferred by the EU. The main use of trademarks (TMs) is to differentiate some products from others, while GIs are closely linked with the geographical environment. Differences between GIs and TMs include (i) TMs distinguish only products or objects that are sold by one producer from those that are marketed by others, while GIs show the similarities of a group of products and differentiate them from others that cannot benefit from them; (ii) TMs arise from R&D specific towards designing or creating new goods, while GIs exist due to natural factors; and (iii) recognition of the natural characteristics and boundaries must already exist in order to protect GIs[25].

While the possible benefits are extremely large for both agreements, the TPP will be a plurilateral agreement with a larger potential market with geographically closer partners. In terms of diversification, the TPP will provide a more diverse range of partners, so that the TPP may thus cause crowding out of the resources and potential in Vietnam in favour of the TPP area rather than the EU-Vietnam FTA space.

[25] See Garrido de la Grana, A. (2007) Geographical Indications and Trademarks: Combined Efforts for a Stronger Product Identity, in *World Intellectual Property Organisation International Symposium on Geographical Indications*, Beijing 26-28 June

II - Quantitative Impact Assessment using CGE Modelling

II.1. CGE methodology

II.1.1. The model

To examine the potential impact of reducing or eliminating tariffs on trade between Vietnam and the EU, a well-known general equilibrium model, Global Trade Analysis Project (GTAP), is used. The standard GTAP model is a static, multiregional, multi-sector, computable general equilibrium (CGE) model that assumes perfect competition and constant returns to scale.[26] Bilateral trade is handled via the so-called Armington assumption that differentiates imports by source. Input-output tables reflect the links between sectors. GTAP is ideally suited for analysis of free trade agreements, involving the preferential liberalisation of bilateral tariffs, which are likely to have international and intersectoral effects. The input-output tables capture the indirect intersectoral effects, while the bilateral trade flows capture the linkages between countries. A shock or policy change in any sector has effects throughout the whole economy. Tariff support for one sector, such as textiles, tends to have negative effects on downstream sectors (apparel) by raising prices and costs. Changes in policies in sectors such as textiles and apparel tend to have relatively important economy-wide effects because many workers provide inputs into production and many consumers purchase the product. Support in one market often has a negative effect on others because each sector competes with the others for factor inputs, capital, labour and land. CGE models attempt to capture these effects.

II.1.1.1. The GTAP 8 database

The GTAP 8 database is used here[27]. The value (of output and trade flows) data relate to 2007 and the behavioural parameters, such as elasticities, are taken from the literature rather than econometrically estimated specifically for use within the model. Input-output data are taken from national accounts and vary from year to year, depending on their availability in particular countries. The Vietnamese input-output tables are from 2005. The base tariff data, including preferential tariffs, are included in the database. For this application the negotiated bilateral tariff data are taken from the text of the FTA agreements. This information is available online in pdf form from for example the ASEAN Secretariat (2014) and the European Commission (2014). The specified tariff line cuts for each country are fed into a software package, Tariff Analytical and Simulation Tool for Economists (TASTE).[28] This program has bilateral trade and tariff data for 227 countries and 5,113 products at the HS6 level. TASTE is used to calculate the shocks that are in turn fed into GTAP. For this aggregation there are 30 sectors and 20 regions.

II.1.1.2. Aggregation

In a CGE framework it is not possible to analyse 5,113 individual products. The GTAP model has 57 sectors, and these must be aggregated in turn to 20 or 30 sectors so that the model can solve. In each country or region, the economy is divided into 30 sectors, including 11 agricultural sectors, 13 industrial sectors and five service sectors (Appendix table A1).

[26] The GTAP model is documented in Hertel (1997). See Chapter 2 in particular for a description of the structure of the model. A useful introduction to the use of GTAP can be found in Burfisher (2011).
[27] Narayanan *et al.* (2012)
[28] See Horridge and Labourde (2008) for documentation.

The GTAP model has 134 regions but once again these need to be aggregated for the model to solve. The 20 regions for this application are shown in Appendix table A2. The selection reflects Vietnam's main trading partners and competitors. The members of the European Union are treated as one region.

II.1.1.3. Labour market assumptions

In GTAP the standard labour market assumption specifies that the amount of skilled and unskilled labour in each country is fixed, although workers can move readily between sectors within the country. Wage rates are assumed flexible. This assumption is somewhat at odds with reality, given that unemployment varies with the business cycle. In addition, in developing countries in particular, there appears to be a pool of unemployed or members of the labour force that are underemployed or work with low intensity. Changes in the amount of labour employed have a far greater effect on output and welfare than merely reallocating resources in response to changes in relative prices. The assumption that labour can move freely between sectors to take advantage of new opportunities is only realistic over the long run.

An alternative to the standard treatment used in this application is to assume labour market adjustment occurs in both price and quantity. It is assumed, somewhat arbitrarily, that the response is equal, so that an increase, or decrease, in the demand for labour leads to a similar increase in both real wages and employment. This applies only to unskilled labour in developing countries. Skilled labour remains fixed. This is based on the intuition that the informal sector in developing countries is characterized by significant unemployment and underemployment. Because the demand for labour is indirectly derived from the demand for labour-intensive goods, liberalisation tends to increase employment in developing countries and reduce it in developed countries. Thus, with this assumption, developing countries appear to gain more from liberalisation than do developed countries.

II.1.1.4. Services

The GTAP model and database are used to simulate partial liberalisation of the services sector. According to the GTAP database, services contribute to 24 per cent of the output of Vietnam's economy compared with 42 per cent for the goods sector. Payments to factors such as labour and capital make up the remainder. In the EU economy, by contrast, services contribute to 43 per cent of output. Looking at trade in services, the contribution of imports to the consumption of services is small, around ten per cent. The contribution of exports is even smaller. This raises the question of impediments to services trade. These are difficult to quantify. In the previous section there is a listing of restrictions, compiled and published by the World Bank. Another approach is to use a gravity model to econometrically estimate the amount of bilateral trade that could be expected to occur given the size of the two economies and the distance between them. This approach was used in an earlier MUTRAP study[29]. Those estimates are used for the current study (see Table 5). They show the reductions in trade costs necessary to move to an OECD average.

[29] Francois *et al* (2011) *Assessment of the economy wide impacts of trade liberalization of services in Vietnam*, MUTRAP, February.

Unlike trade in goods, impediments in the services sector involve regulations rather than tariffs, so it is not always possible to model liberalisation by removing a tax. To do so would involve redistributing tax revenue that is not in fact collected. The approach taken here involves increasing productivity in bilateral trade between Vietnam and the European Union. This implies that the reduction in Vietnam's trade costs benefits the European Union only, not other countries. This assumes if coastal shipping is opened up to third party service providers, only EU members can supply these services.

II.1.2. The baseline

The standard model is modified to account for an expanding economy since the base year (2007) and for expected growth to 2025, the period in which tariff reform is expected to be completed. For example, since 2007 the Vietnamese economy has expanded 40 per cent, and is expected to expand by 103 per cent by 2020 and 165 per cent by 2025 (IMF 2013). Driving the change in output are changes in factors of production - capital, labour, land and natural resources - and productivity. Capital is projected to grow much in line with GDP, and in fact is the main driver. The population of 85 million in 2007 is expected to reach 100 million in 2025. The labour force, reflecting the share of the population of working age, is projected to grow from 49 million in 2007 to 60 million in 2025 (ILO 2013). The amount of land available in Vietnam is expected to decrease by around 0.6 per cent a year to reflect urban encroachment, roads and other infrastructure (NIAPP 2010). The remaining factor is productivity. This is difficult to measure and reflects a number of unobserved variables. To project the baseline to 2025, we first use forecasts of capital, labour, land and natural resources to 2025.[30] Next, we use the model to find productivity growth that will generate each year's GDP target, given the growth in factors of production. We then feed the resulting productivity changes back into the model and solve as normal to reproduce the target growth in output. This is done for all countries, because growth in all countries is necessary to generate demand for Vietnamese exports. The baseline not only projects GDP, but also provides estimates of growth in sectoral output and trade. For example, relative to 2007, exports are projected to increase by 51 per cent by 2015, 89 per cent by 2020 and 129 per cent by 2025.

Table 5. Baseline assumptions for Vietnam

Variable	2007	2015	2020	2025
GDP	100	155	203	265
Land	100	96	93	90
Capital	100	144	201	282
Unskilled labour	100	115	119	124
Skilled labour	100	115	119	124
Natural resources	100	132	152	172

Source: IMF (2013), NIAPP (2010), ILO (2013). 2007=100.

The baseline takes account of known reductions in tariffs from FTAs negotiated but not fully implemented. This includes Vietnam's FTAs with ASEAN (AFTA), China (ACFTA), Korea (AKFTA), Japan (AJCEP), India (AIFTA), and Australia and New Zealand (AANZFTA). However, it does not include agreements which have not been negotiated. The most important of these is the Trans Pacific

[30] We set productivity endogenous and solve the model by varying it to hit each year's GDP target. We then swap the closure and feed back in the productivity changes as exogenous variables.

Partnership (TPP). This includes Vietnam, the United States and ten other countries, with the notable exception of China.

This approach highlights the importance of capital and productivity growth in boosting incomes. Furthermore, while some sectors will face competitive pressures arising from the tariff reductions, against the background of an expanding economy, the output of individual sectors may merely grow at a slower rate in absolute terms. This eases the burden of adjustment.
After the tariff shocks are specified at a six-digit level and aggregated to 30 sectors, the simulated outcome is compared with the baseline data. Impacts of the removal of trade barriers on output, trade flows, wages and welfare within Vietnam can then be ascertained.

II.2. Scenarios

The EU-VNM free trade agreement is still under negotiation, but the expected tariff cuts and exemptions can be estimated by looking at the EU agreements with Korea, the Caribbean and several Latin American countries, and the Vietnamese agreement with Japan and Korea and China. These agreements specify a sensitive list, a highly sensitive list and an exclusion list, and this gives an indication of the sectors that Vietnam would like to protect and is perhaps prepared to phase out protection over a short or extended period of time.

In this analysis we propose two scenarios, labelled 'Modest' and 'Ambitious'. Following previous negotiated outcomes, Vietnam's tariffs are divided into four groups — normal, sensitive, highly sensitive and exempted. At present, it is not known what tariff lines may or may not be in any particular list, so selection is based on past agreements plus some judgment. For Vietnam the ASEAN-Korea FTA and the ASEAN-China FTA provide a guide as to what Vietnam may wish to include in its sensitive, highly sensitive and exemption lists. Where an eight-digit (or higher) tariff line is selected, the whole of the six-digit category is included in the list. A spread of the tariffs across chapters in the various lists is shown in Appendix table A3.[31]

The sensitive list includes 270 tariffs at the six digit level spread across 36 chapters including meat, dairy products, citrus, sugar, tobacco products, iron and steel, steel products and motor vehicles. Vietnam's highly sensitive list has 396 tariffs from 34 chapters. This includes many of the chapters in the sensitive list, but more tariffs are selected.

Finally, there are two categories of exempted products. The first applies to the "Modest" scenario, and includes 267 tariffs in 29 chapters. The second is used in the "Ambitious" scenario, and includes 107 tariffs in only 8 chapters, including meat, dairy products, citrus, sugar, tobacco products, iron and steel, steel products and motor vehicles, similar to the sensitive list.

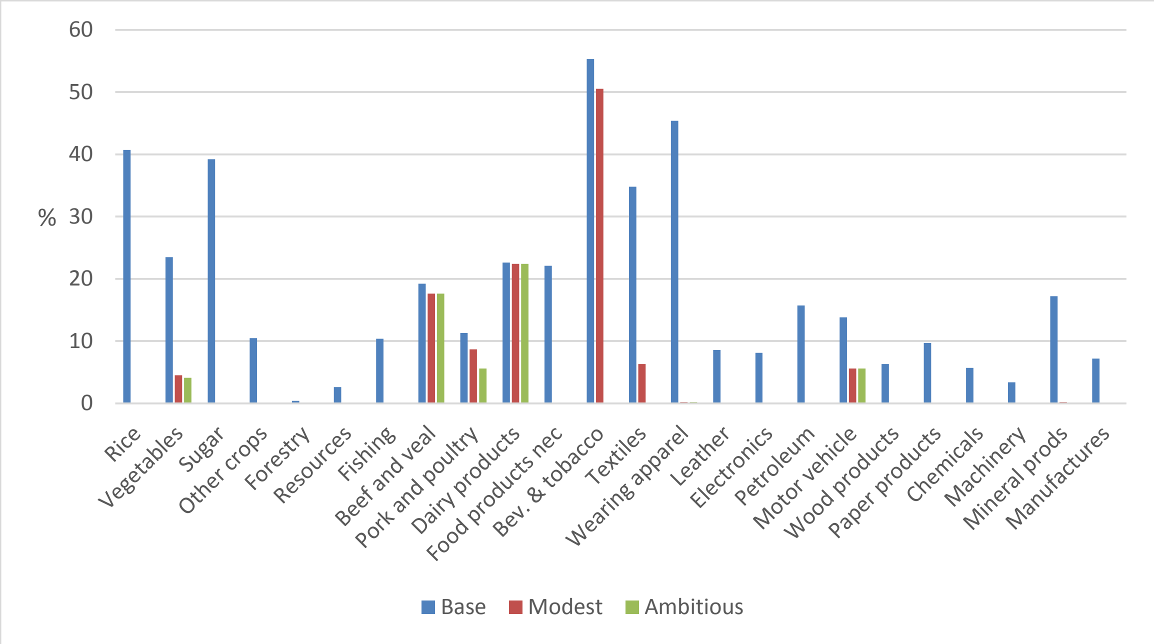
The treatment of these lists is as follows. For Vietnam the normal tariffs are removed immediately the agreement comes into force, assumed to be 2015 in this analysis. The sensitive group is capped at 20 per cent immediately and phased out by 2020. The highly sensitive group is capped at 50 per cent immediately, 20 per cent by 2020 and phased out by 2025. The exempt group is not subject to tariff cuts. The bilateral tariff cuts are calculated at the six-digit level using TASTE, and aggregated to the 25 GTAP merchandise sectors.

For the EU, the selection and treatment of tariffs largely follows the EU-Korea FTA. This involves most tariffs being phased out over ten years. However, there is an exclusion list. For the Modest scenario we base the EU exclusion list on the EU-Colombia FTA, which covers 489 tariffs in 18 chapters, including meat, dairy products, edible vegetables, oils, sugar, various processed foods, and isolated industrial products. For the Ambitious scenario we base the EU exclusion list on EU-Korea FTA. Here, the exemption list includes only rice, tomatoes, cucumbers, citrus, grapes, apples and apricots.

[31] There are 99 chapters, listed in appendix table A2.

The baseline tariffs and their likely levels under a modest and more ambitious agreement are shown for Vietnam in Figure 23. Tariffs on beef and dairy products are maintained, but the high tariffs on alcohol and tobacco would be removed in an ambitious agreement. Some protection on motorcycles would also remain.

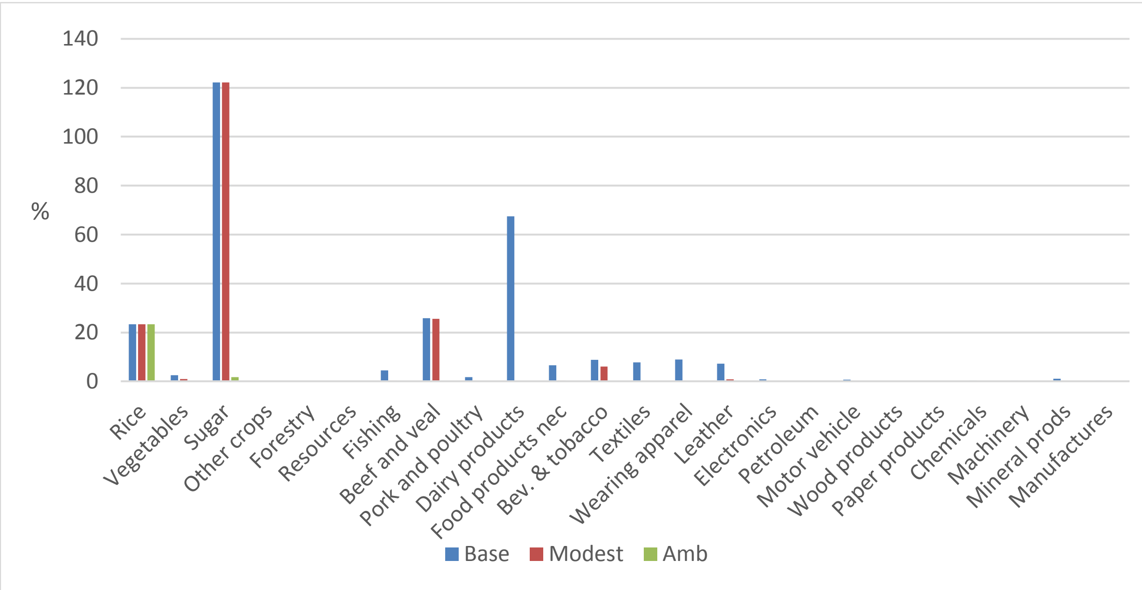
Figure 23. Vietnamese tariffs on imports from EU



Source: TASTE and authors' calculations.

The EU is assumed to maintain its rice tariff but to remove the tariffs on dairy products in the "modest" scenario and on sugar and beef and veal in the Ambitious scenario (see Figure 24). Since Vietnam exports few if any of these products the impact is not significant. The main point of interest is the removal of tariffs on fish products and TCF. On these products the tariffs are relatively low but the volumes are high.

Figure 24. EU tariffs on imports from Vietnam



Source: TASTE and authors' calculations

II.3. Economic Impact Assessment

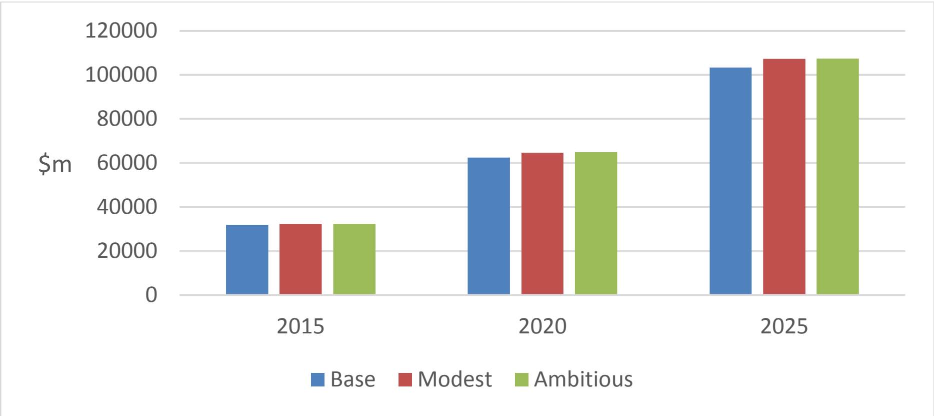
II.3.1. Macroeconomic Impact Assessment

The simulation results indicate that Vietnam stands to experience significant gains in national income (GDP) over the implementation period to 2025. An FTA with the EU would increase overall growth by around 7-8 per cent over and above the growth that would occur in the absence of any FTA[32]. The estimated gains in welfare are shown in figure 5. Under the "modest" scenario the gains relative to the base are around US$2.2 billion in 2020 and US$3.9 billion in 2025. The ambitious scenario would add a further US$0.3 billion to welfare gains.

Real wages for unskilled labour are estimated to improve by around 3 per cent because workers respond to higher wages by supplying more labour. However, household income increases faster than wages because the additional labour boosts earnings.

The size of these gains is explained by several factors[33]. First, Vietnam has a high ratio of trade to GDP, so any gains in trade have a more significant effect on GDP and national income. Furthermore, recorded GDP is probably artificially low because of a large informal sector. Second, Vietnam has a significant amount of trade with the EU as opposed to its ASEAN FTA partners. Third, there is reasonably high protection against Vietnam's major exports, textiles, clothing and footwear and fish products. Fourth, Vietnam itself has significant protection across a wide range of industries and benefits when this is removed.

Figure 25. Vietnam: Growth in welfare



Source: GTAP simulations. Estimates are relative to 2007 base. Note: Base scenario assumes no agreement. Modest and ambitious scenarios include protection for sensitive sectors as shown in Figure 26.

II.3.1.1. Exports

Vietnam's exports to the EU are estimated to increase by around 50 per cent by 2020, well above the growth in the base. There is also a further boost in 2025, as the agreement gets fully implemented. An ambitious FTA adds only marginally more to the growth in exports, over that of a modest scenario (see Figure 26). However, Vietnam's national exports would increase from 89 per

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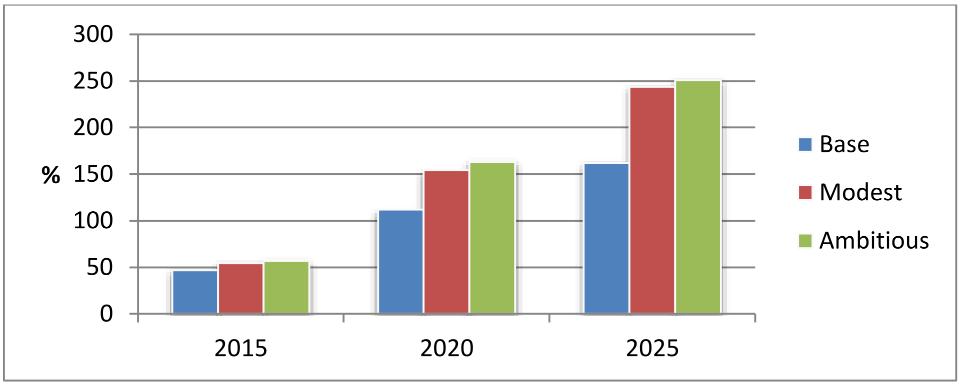
[32] From 2007 to 2025 national income is projected to grow by 108 per cent. This is estimated to increase to 116 per cent with a Modest FTA. An Ambitious FTA adds another half per cent.

[33] In comparison to studies on the estimated gains arising from other FTAs, the estimated gains in national income for Vietnam from the EU FTA may seems very large.

cent in the base to around 93 to 94 per cent in 2020. By 2025, the additional exports amount to 10 per cent. This implies there is a substantial amount trade, which will be deflected from other countries in favour of being directed towards the EU market.

Figure 26. Vietnam's export to the EU (Per centage change over 2007 base)

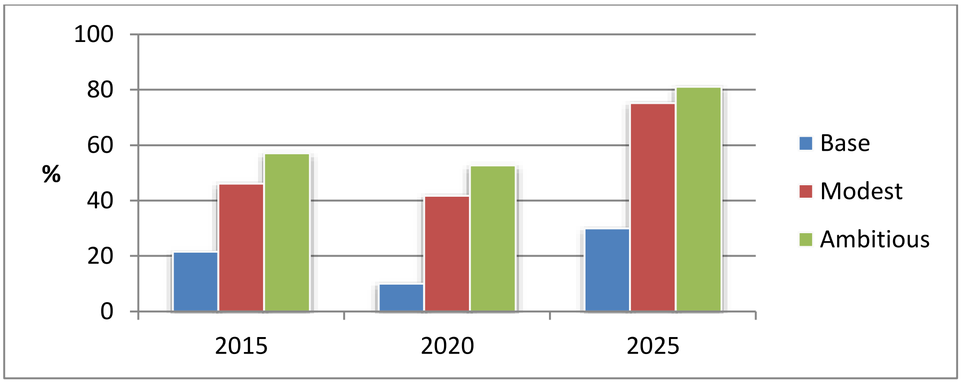


Source: GTAP simulations. Estimates are relative to 2007 base.

II.3.1.2. Imports

Vietnam's imports from the EU are also estimated to increase significantly over the 2015-2025 horizon. This is shown in Figure 27. The underlying growth is substantial, but the FTA has a significant impact in 2020 and 2025. Imports from the EU increase by 43 per centage points above the baseline in 2020, reflecting the greater reduction in tariffs. However, total Vietnamese imports (from all sources) increase by only 5 to 6 per cent above the baseline.

Figure 27. EU exports to Vietnam (Per centage change over 2007 base)



Source: GTAP simulations. Estimates are relative to 2007 base.

II.3.1.3. Trade deficit

The trade deficit can be a concern to policy makers, although many developing countries run a deficit, which is offset by capital inflows. The EU-VNM FTA leads to imports increasing faster than exports, so the trade balance is estimated to deteriorate. The size of the trade balance will depend on the level of investment inflows, intermediary inputs and other factors, which include the exchange rate and other macroeconomic variables. The trade balance can be influenced by policy decisions other than tariff cuts. Vietnam currently runs a managed float of the exchange rate but is likely to float the currency in the decade ahead. This should address any problem with the trade deficit.

II.3.1.4. Tariff revenue

One concern for the Government is the potential loss in tariff revenue. When tariffs are reduced marginally, the increase in imports may lead to an increase in tariff revenue. Obviously, when tariffs are eliminated revenue falls to zero. It is clear that national imports will increase, but a larger share of imports will come from the EU and face reduced or no tariffs. Most of the tariff revenue comes from petroleum products, textiles and motor vehicles. The FTA does little to change this. By 2020 Vietnam's tariff revenue on imports from the EU are reduced from US$355 million in the baseline to US$187 million under the Modest scenario and to US$67 million under the Ambitious scenario. However, total tariff revenue is largely maintained. In the 2020 baseline the tariff revenue is estimated to be US$5.6 billion. Under the Modest scenario it drops to US$5.5 billion. Other forms of indirect taxes, such as VAT applied on the increased imports, are however expected to compensate to some degree for any reduction in tariffs.

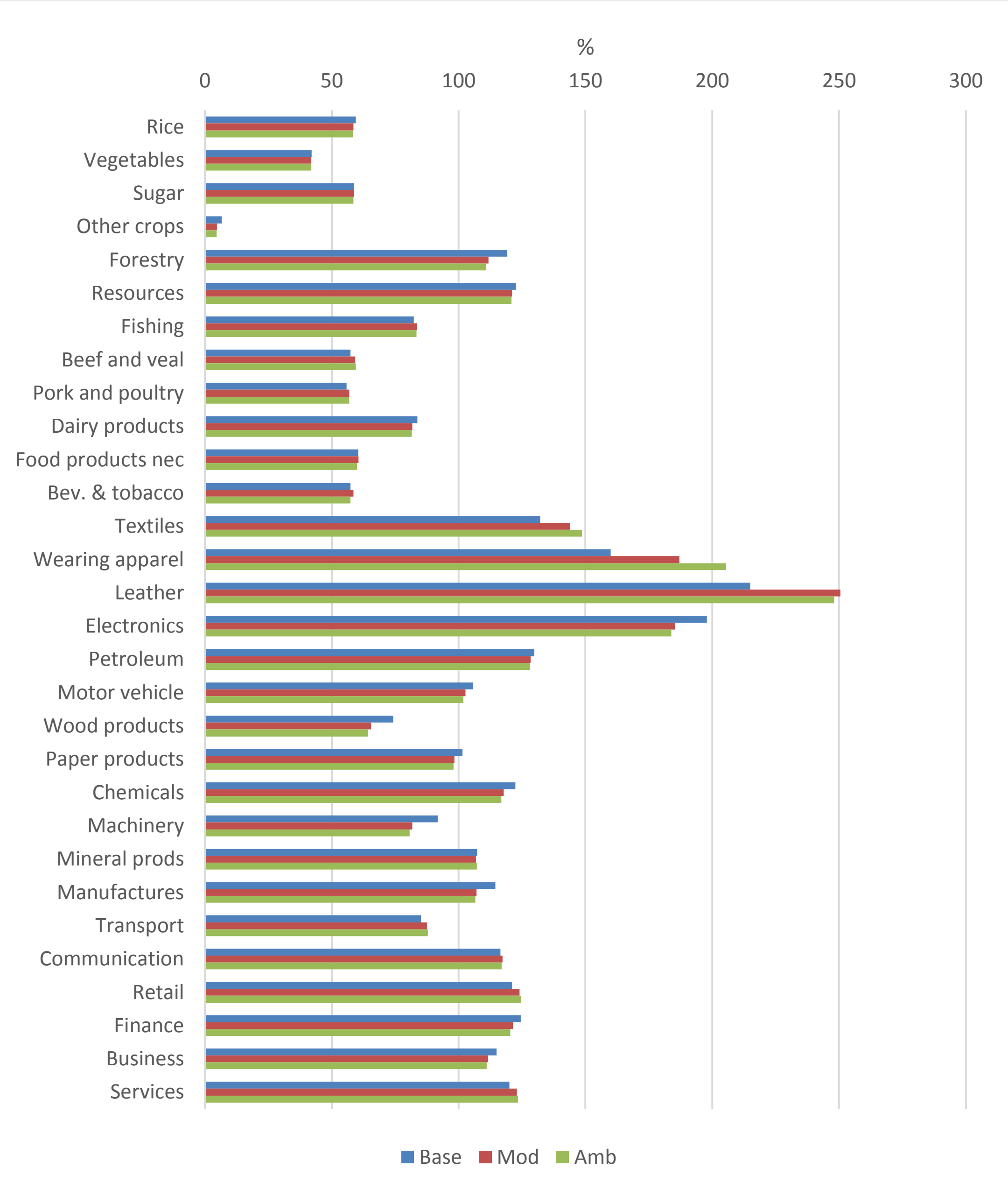
II.3.2. Sectoral Impact Assessment

II.3.2.1. Output

The estimated output effects for Vietnam for the 30 GTAP sectors are shown in Figure 28. This includes five service sectors. The most obvious feature of the chart is the growth over time of almost all sectors. The economy expands by 70 per cent between 2007 and 2020. Most notable is the increase in TCF industries, but there is also a somewhat limited expansion of primary commodities. This is because land is in limited supply, and is in fact shrinking due to urban encroachment, roads and other factors. There is no such limit on production of industrial goods.

The major sectors to benefit from an FTA are TCF and food products. TCF comprises 30 per cent of Vietnam's merchandise exports but 50 per cent of exports to the EU. Average tariffs are around 7-9 per cent, but the high volumes confer a large benefit to the supplier. The same applies to fish fillets, which are aggregated into the GTAP sector 'food products nec'. The major exports are shrimp (HS 030616) and catfish (HS 030462). The tariffs are rather low, 7 and 5 per cent respectively. Vietnam has a virtual monopoly on exports of catfish, accounting for 99 per cent of world trade.

Figure 28. Estimated Sectoral-level Outputs Effects relative to base in 2007

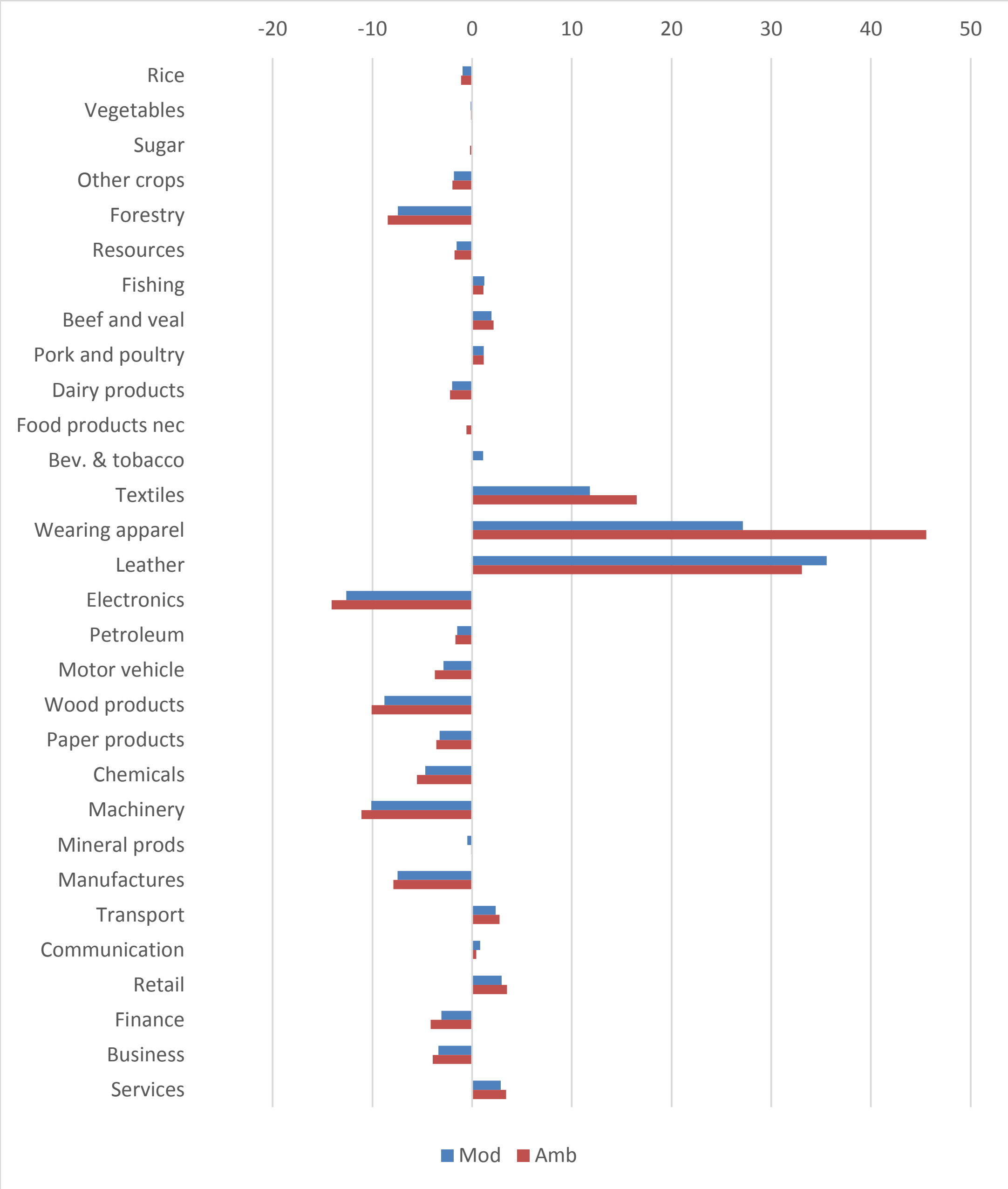


Source: GTAP simulation.

Assuming that there are no major productivity shifts, in order to increase output in the TCF sectors, it is necessary that labour and capital migrate from other sectors, and as a result output in these sectors grows less strongly than if the TCF and food sectors did not expand. For example, under an FTA, output of the electronics sector grows by 184 per cent instead of 198 per cent in the baseline. This is best seen in Figure 29, which shows the relative change in 2020 from the base. This chart is similar to figure 8 except that the base has been deducted from the changes. Here we see that most sectors shrink in relative terms to provide labour and capital for the rapidly expanding TCF sectors. Thus, some structural adjustment will be required but this is likely to be easily managed because output is merely growing at a slower rate rather than contracting. This will make the adjustment process easier because it is less likely the workers become unemployed or that capital is written off.

This conclusion may not apply at a more disaggregated level. There may be industries that need to contract in absolute terms. One example might be fresh cut flowers (HS 060310) which currently has a tariff of 40 per cent. If the 100 per cent tariff on 'wine of fresh grapes including fortified wines' (HS 220421) is removed, the domestic wine industry may find it difficult to compete.

Figure 29. Estimated change in output in Vietnam



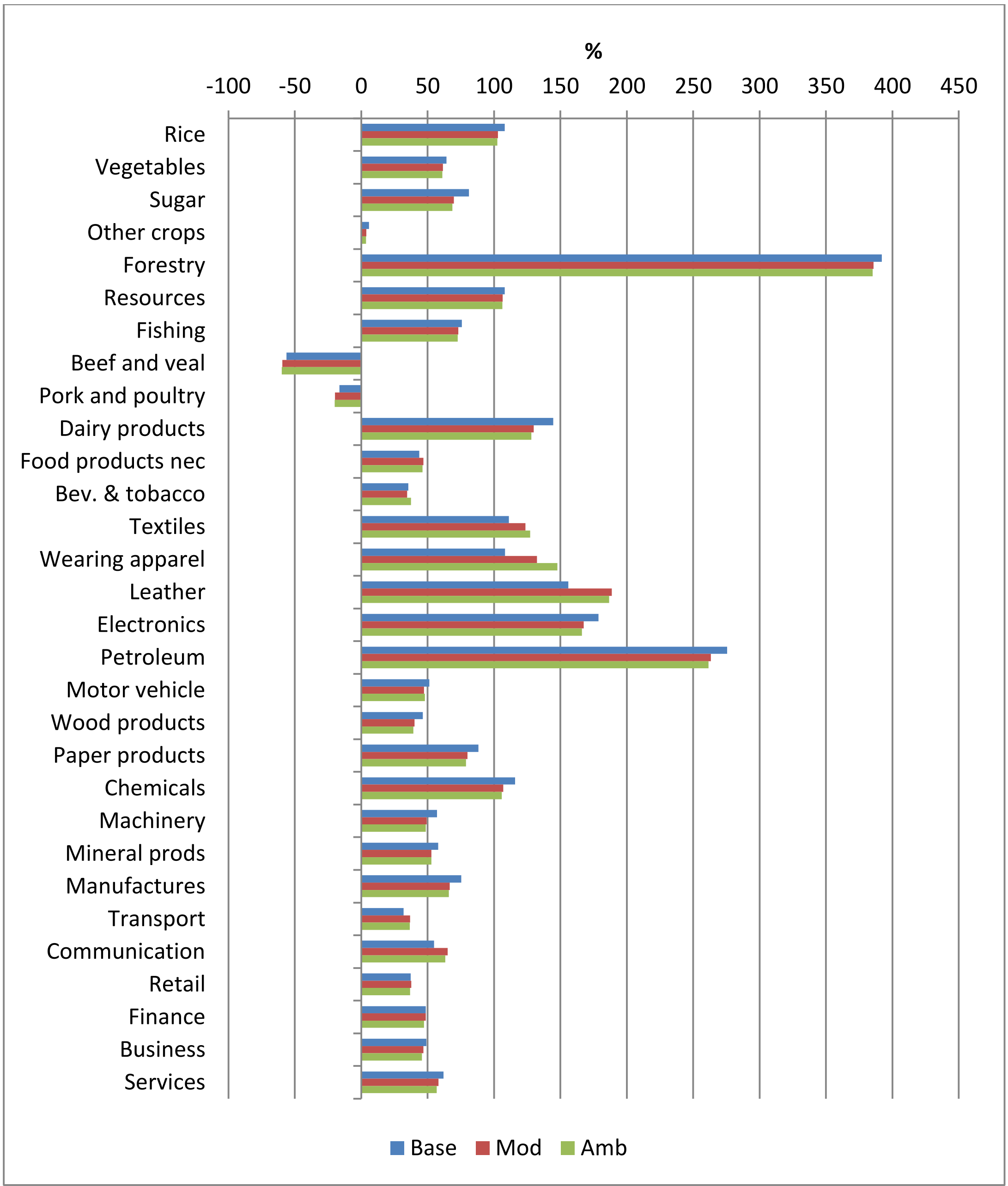
Source: GTAP simulations. Estimates are relative to 2020 base.

II.3.2.2. Trade

The changes in exports as a result of the FTA follow a similar pattern to output. There is generally positive growth over the base period in most sectors, and the FTA has a relatively small impact. There is an increase in TCF and food products, as previously noted, and a marginal decrease in exports in other sectors relative to the baseline. This is shown in Figure 30 and in more detail in Annex 1. *Tables from CGE - Table A5.*

Some of the percentage change estimates seem large because they are calculated from a very low base. The changes in dairy exports, for example, should be ignored, as exports in the base period are negligible.

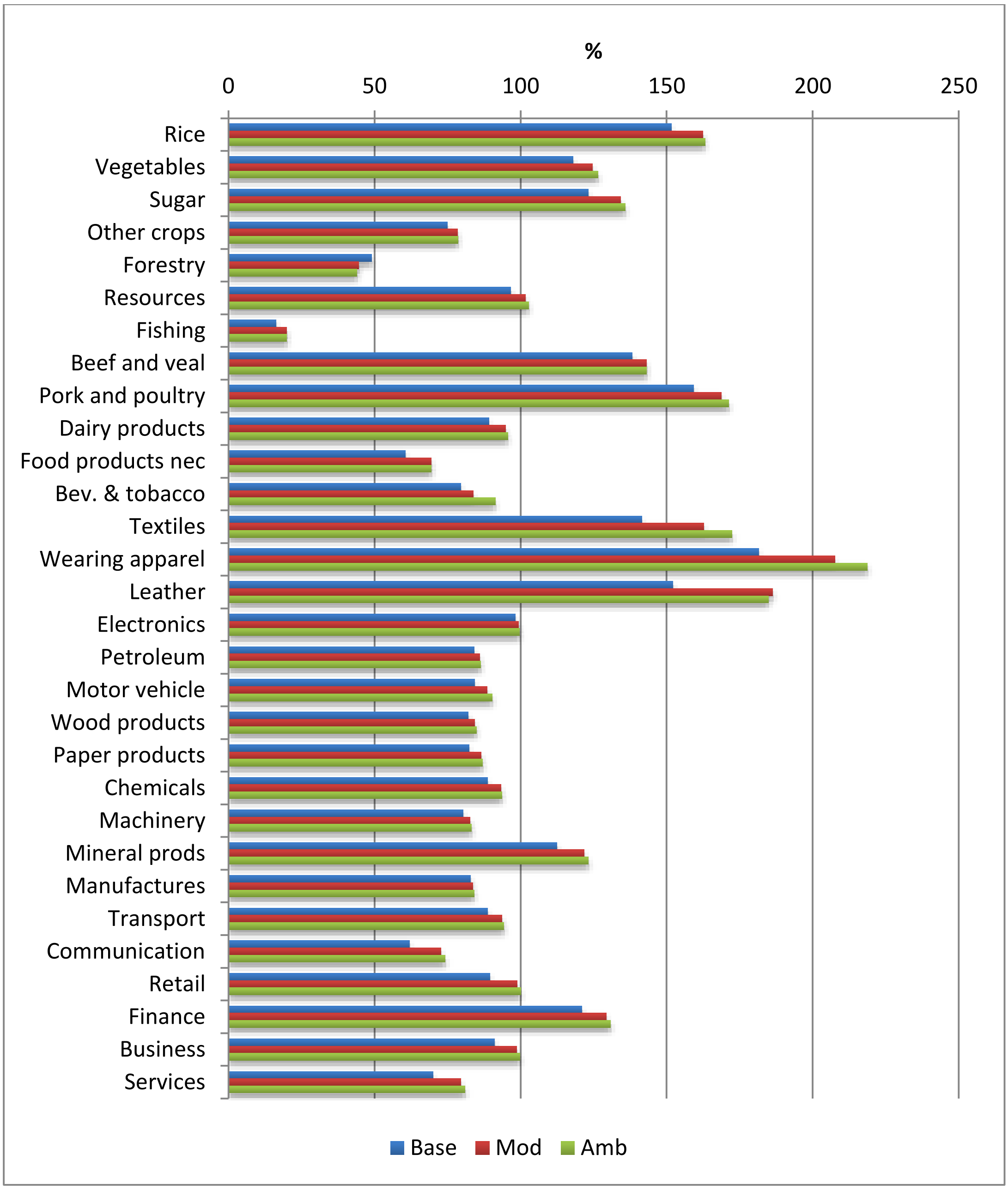
Figure 30. Estimated change in exports in Vietnam



Source: GTAP simulations. Estimates are relative to 2007 base.

The pattern for imports by sector is a little different. Once again there is growth in imports across all sectors in the baseline as shown in Figure 31 and in Appendix table A6. The tariff cuts in Vietnam lead to an increase in imports across the board with the exception of forestry. Notably, the largest increase is in TCF. This reflects the removal of quite large tariffs, but also the need to provide inputs into the expanding exports sector. Textiles are an input into apparel production, and the reduction in tariffs makes apparel more competitive.

Figure 31. Estimated change in imports in Vietnam



Source: GTAP simulations. Estimates are relative to 2007 base.

The trade in the five service sectors deserves mention. The simulations indicate significant improvements in bilateral trade, particularly transport and communications. As with goods trade, there is a fair amount of growth in trade regardless of any FTA, particularly in transport and finance and insurance. The FTA adds 10 to 20 percentage points to growth in bilateral trade. The retail and wholesale trade sector shows an increase in EU exports to Vietnam of 46 per cent in 2020, up from 35 per cent in the baseline. Currently, there are legal restrictions on European retailers setting up large, or even small, supermarkets in Vietnam. These restrictions may be lessened in a negotiated FTA. The retail sector in Vietnam appears to be excessive in size and characterized by low productivity. Competition from EU distributors is likely to improve productivity. This is not taken into account in this analysis.

However, the increase in total trade in services is modest. This reflects some trade diversion away from other trading partners, and the small shares in each other's services trade. The removal of impediments is beneficial, however. The estimated welfare gains are about 20 per cent of the estimated gains from liberalisation of trade in goods.

II.3.2.3. The role of capital

It is readily apparent from Figure 25. *Vietnam: Growth in welfare* that the growth in the baseline is of far greater importance than the changes brought about by the reductions in tariffs. The underlying growth is driven by increases in capital, labour and productivity. For example, by 2020 the economy is expected to grow by 103 per cent from the 2007 base, and the amount of capital by 119 per cent. By contrast, labour expands by about 1 per cent per year and the amount of available land is reducing. Productivity growth is about 2-3 per cent per year, or 36 per cent from 2007 to 2020. Hence, it is apparent that investment has a key role in driving growth in the economy.

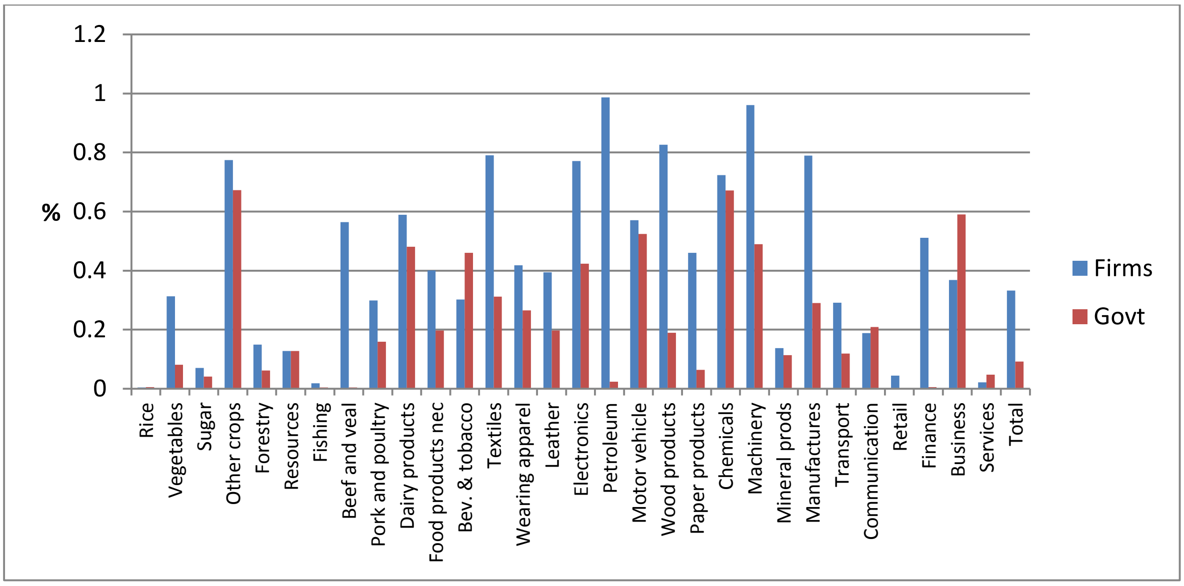
In Vietnam capital accounts for about 40 per cent of national output (GDP) each year. This is similar to returns to labour. Capital for new investment can be provided domestically, or sourced from outside the country. Domestic savings contribute to half the investment in Vietnam, the rest being sourced from outside the country. Vietnam is competing with other countries when trying to attract capital. Nonetheless, an FTA when completed is expected to lead to much higher levels of EU investment, which could create a large production shifts which are not easily captured by the model. In this respect, the potential for increased production levels may be higher than predicted by the model, as would be the case for any large technological parameter shifts brought about by breakthroughs in innovation over the period 2007-2020.

II.3.2.4. Government procurement

Government purchases in Vietnam account for around four per cent of all purchases. This is similar to other developing countries such as Malaysia and Indonesia but well below developed country standards. Of greater interest to trade negotiators is the extent to which government purchases are sourced from abroad rather than domestically. Looking at the GTAP data of cost of inputs for firms and government, it is apparent that Government is more reliant on domestic sources. The share of imports is nine per cent for Government purchases and 33 per cent for firms' purchases. The breakdown by sector is shown in Figure 32. However, it is reasonable to expect that some services such as defence, education, health and some utilities would be sourced domestically so the total is skewed by the composition of purchases and the services the Government provides. Nonetheless, the impression is that the Government is unduly reliant on domestic sources for its inputs.

The rationale for discriminatory procurement policies is generally to promote local industries. However, the process is criticized for encouraging inefficiency and corruption. Government procurement is a contentious issue. Vietnam has not signed the WTO Agreement on Government Procurement (GPA) but obtained observer status in December 2012. The GPA aims to promote national treatment, implying non-discrimination and transparency in the tendering process. Given the role and documented inefficiency of State owned enterprises in the economy, Vietnam would find it difficult to meet WTO standards of procurement, but this implies there would be significant welfare gains from doing so. As mentioned earlier, Vietnam is progressively equitizing many SOEs, and this in itself should improve competition and transparency.

Figure 32. Imported share of inputs for firms and government



Source: GTAP database.

II.3.2.5 The EU-Vietnam FTA in the context of other regional and multilateral agreements

Our simulation results illustrate a stylised fact: non-member countries lose from the formation of an FTA in which they are excluded. This is explained by the fact that owing to the removal of tariffs, members countries tend to trade with each other, even though they may not be the low cost (most efficient) supplier. This implies, for example, that while Vietnam gains from a bilateral agreement with the EU, it will lose some of these gains if the EU signs a similar agreement with China, which also exports large quantities of textiles and apparel. From the EU perspective, Vietnam already has signed trade agreements with Korea, Japan and China, and since the EU is excluded from these agreements, it incurs a welfare loss as a result.

As a result, the estimated benefits of a bilateral agreement may be temporary and hence somewhat overstated. The EU will inevitably sign agreements with Vietnam's competitors, reducing Vietnam's gains. For its part, Vietnam is a member of the soon to be completed Trans Pacific Partnership (TPP). This will give it access to the US market for textiles, clothing and footwear, if it is able to meet the more restrictive rules or origin requirements. By the end of 2014, Vietnam could be one of the few countries with preferential access to China, the EU and the US.

II.4. Social Impact Assessment

A social impact assessment is conducted using a combination of the GTAP model and a micro-simulation (MS) module. The module includes detailed income and expenditure information for each of the 9000 plus households included in both the income and expenditure survey modules of the Vietnam Household Living Standard Survey (VHLSS) conducted in 2010.

The MS module uses an income equation that takes account of detailed income sources (land, capital, labour and transfers) of each household in the survey. This income equation is then updated using changes in factor prices and quantities from GTAP simulation results. Hence, after a policy change, it is possible to compare the level of each household's income and the contribution of each income source to total household income before and after the shocks. By accounting for differences in income sources for each household, the MS module allows for the possibility of analysing the impacts of policies on incomes/poverty both between groups (inter-group distribution) and within a group (intra-group).

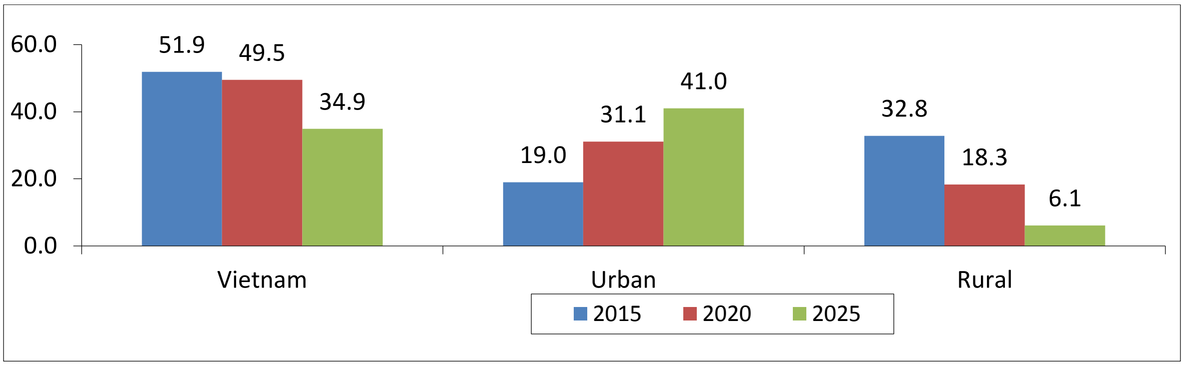
Table 6 and Figure 33 show the potential impacts of the EU-Vietnam FTA on poverty in Vietnam. The impacts are favourable, but not large. Without the EU-Vietnam FTA implementation, the country will make progress on poverty reduction anyhow, but the FTA will accelerate progress in both dimensions (rural/urban, region). The impacts between the modest and ambitious scenarios are very similar. The largest positive impacts occur by 2015 in the ambitious scenario, where the poverty rate for the whole country is reduced by 0.056 per cent compared with no FTA. This means 51.9 thousand people escape poverty due to the FTA implementation. The ambitious scenario tends to have higher impacts earlier than the modest one (2015 vs. 2020). For the whole country, the impacts fade out toward the end of the FTA implementation period (2025).

Table 6. Poverty rate by urban/rural areas (per cent)

Year	*Base*	*Modest*	*Ambitious*	*Modest -Base (5)=(3)–(2)*	*Ambitious – Base (6)=(4)-(2)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Whole Vietnam					
2010	14.30	14.30	14.30		
2015	7.58	7.53	7.52	-0.045	-0.056
2020	5.16	5.10	5.11	-0.054	-0.047
2025	3.40	3.37	3.37	-0.023	-0.023
Urban					
2010	6.84	6.84	6.84		
2015	2.73	2.71	2.67	-0.024	-0.062
2020	1.82	1.73	1.73	-0.087	-0.087
2025	1.20	1.10	1.10	-0.101	-0.101
Rural					
2010	17.45	17.45	17.45		
2015	9.62	9.57	9.57	-0.054	-0.054
2020	6.57	6.53	6.54	-0.040	-0.030
2025	4.33	4.32	4.32	-0.010	-0.010

Source: Micro simulations.

Figure 33. No of persons escaping poverty due to the implementation of the FTA under an ambitious scenario ('000s)



Source: Micro simulations.

The poor own very little land or capital and make most of their income from selling their labour. As a result the main factors contributing to the positive impacts on poverty reduction do not come from the expansion of exports, as the poor make negligible income from such activities.

Taken together, income of the poor from labour, capital and land in the three most rapidly expanding sectors (leather, wearing apparel and textiles) accounts for just 0.6 per cent of their total income in 2010. The expansion of these sectors will lead to an expected slight gender rebalancing as wages in these sectors, which employs mainly women, will rise[34]. Detailed examination (see Table 7) reveals that although the poor do not benefit directly from the expansion of output in selected sectors, they could improve their income in the first place by an increase in their real wage (unskilled labour), and secondly by increasing the supply of labour in response to a higher demand for labour in the expanding sectors. Both result in the largest increase in the real income for unskilled labour earned by the poor.

Table 7. Contribution to income growth of the poor by factor in all scenarios (per cent)

	Base2015	*Mod2015*	*Amb2015*	*Base2020*	*Mod2020*	*Amb2020*	*Base2025*	*Mod2025*	*Amb2025*
WHOLE VIETNAM									
Land	0.04	0.04	0.04	0.09	0.09	0.09	0.16	0.16	0.16
Unskilled labour	28.26	28.53	28.62	60.67	61.46	61.61	102.79	104.23	104.44
Skilled labour	0.10	0.10	0.10	0.20	0.21	0.21	0.32	0.34	0.34
Capital	0.31	0.32	0.32	0.56	0.58	0.59	0.92	0.97	0.97
Total growth	**28.70**	**28.98**	**29.07**	**61.52**	**62.34**	**62.49**	**104.20**	**105.69**	**105.90**
URBAN									
Land	0.03	0.03	0.03	0.06	0.06	0.06	0.11	0.11	0.11
Unskilled labour	28.93	29.36	29.51	59.87	61.49	61.82	99.10	101.99	102.29
Skilled labour	0.04	0.04	0.04	0.06	0.07	0.07	0.09	0.10	0.10
Capital	0.61	0.62	0.63	1.20	1.25	1.26	1.95	2.05	2.06
Total growth	**29.61**	**30.05**	**30.21**	**61.19**	**62.87**	**63.21**	**101.25**	**104.25**	**104.56**
RURAL									
Land	0.04	0.04	0.04	0.09	0.09	0.09	0.17	0.17	0.16
Unskilled labour	28.18	28.43	28.51	60.77	61.47	61.59	103.25	104.51	104.71
Skilled labour	0.10	0.10	0.11	0.21	0.22	0.22	0.35	0.37	0.37
Capital	0.28	0.28	0.28	0.49	0.51	0.51	0.80	0.84	0.84
Total growth	**28.60**	**28.86**	**28.94**	**61.56**	**62.29**	**62.41**	**104.57**	**105.88**	**106.08**

Source: Micro simulations.

[34] These social findings are broadly similar to those found in the EC (2010) Trade Sustainability Impact Assessment (SIA) of the FTA between the EU and ASEAN; See http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151230.pdf

The FTA seems to make a more favourable impact on the urban population than for rural one, and the impacts will be increasing during the period 2015-2025 in both the ambitious and the modest scenario, but the impact in the ambitious scenario is higher in 2015. Disaggregated income data suggest that while the urban poor benefit from higher income growth in non-farm sectors, farm income received by the rural poor grows at a higher rate than that of the urban poor. As the farm sectors by and large grow at lower rates than the non-farm ones, favourable impacts of the FTA on the urban poor are larger.

In a contrast with the urban households, the impacts of the FTA on rural households will be diminishing. The modest scenario seems to benefit rural households more than the ambitious scenario (in 2020).

By region, the impacts in both scenarios are very similar. The Central Highlands and Mekong River Delta are the regions benefiting most from the FTA, followed by the North Central Coasts. No changes are observed in the two most developed regions (the Red River Delta and the South East region).

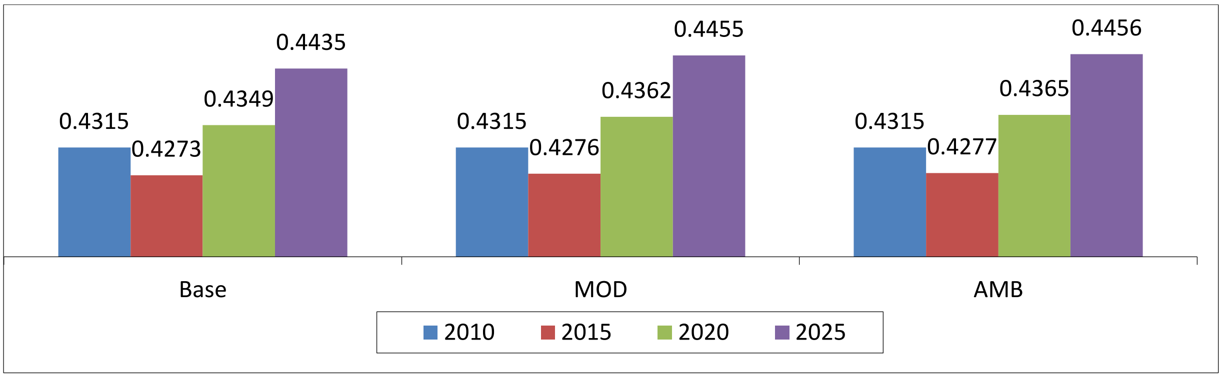
Table 8. Poverty rates by region (per cent)

	Red River Delta	*North Mountain*	*North Central Coasts*	*South Central Coasts*	*Central Highlands*	*South East*	*Mekong Delta*
Base							
2010	6.67	30.03	27.42	13.21	20.52	2.02	11.41
2015	2.09	18.29	14.64	6.11	12.49	0.75	6.07
2020	1.18	13.15	9.99	3.77	8.00	0.64	4.14
2025	0.83	8.40	6.38	2.72	5.16	0.60	2.75
Modest							
2010	6.67	30.03	27.42	13.21	20.52	2.02	11.41
2015	2.09	18.24	14.54	6.11	12.05	0.75	6.07
2020	1.18	13.04	9.93	3.74	7.89	0.64	4.02
2025	0.83	8.51	6.30	2.72	5.33	0.60	2.54
Ambitious							
2010	6.67	30.03	27.42	13.21	20.52	2.02	11.41
2015	2.09	18.24	14.45	6.11	12.05	0.75	6.07
2020	1.18	13.09	9.93	3.74	7.89	0.64	4.02
2025	0.83	8.51	6.30	2.72	5.33	0.60	2.54

Source: Micro simulations

The income distribution in Vietnam under the FTA is shown to be slightly improved by 2015, but deteriorate in a later period, as illustrated by the modest increase of the GINI index (see Figure 34).

Figure 34. GINI index



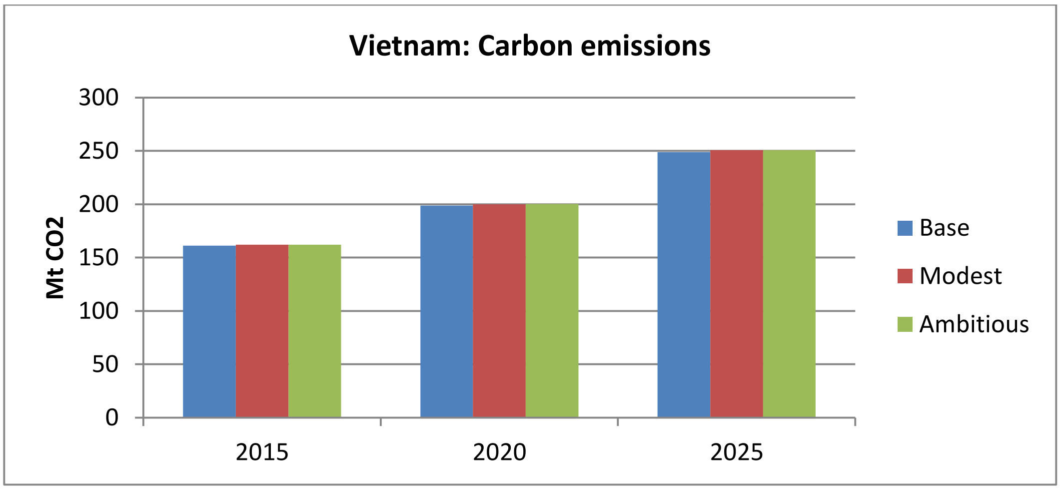
II.5. Environmental Impact Assessment

II.5.1. Quantification of Impacts

Pollution and environmental degradation are serious problems in Vietnam, as in other high growth countries. Of interest here is whether an FTA may relocate some of the polluting industries towards or away from Vietnam. For example, the dyeing of fabric can be a polluting activity, so an increase in output of apparel might conceivably increase pollution if additional dyeing is carried out in Vietnam. Likewise, tanning of hides and skins to make leather is also polluting, so an increase in footwear production may increase pollution if the tanning process occurs in Vietnam.

Unfortunately, data on most pollutants is not readily available, with the exception of carbon emissions. Subsequent sections of the study attempt to address qualitative information related to environmental impacts, where this is available or relevant. Estimates of carbon emissions with and without an FTA are shown in Figure 35. Emissions are expected to grow along with economic growth in the baseline, and the FTA appears to make virtually no difference to the level. In the absence of changes in policy or technology, there is no detectable shift in pollution. However, it is reasonable to expect that an increase in foreign investment would bring with it new technologies that would reduce the energy intensity of production, so that fewer emission are associated with a given level of output. No attempt is made here to quantify this effect.

Figure 35. Impact of FTA on carbon emission (Mt CO2)



Source: GTAP simulations.

Illegal and unsustainable logging is another environmental concern. The FTA would seem to have no additional impact on forestry output or paper products. If anything these sectors decrease marginally[35]. Logging practices should be addressed through policies other than trade policy. FLEGT Voluntary Partnership Agreements provide a means of controlling deforestation.

A switch into palm oil production could conceivably reduce biodiversity, as has happened in Malaysia and Indonesia. However, there is no indication of the FTA leading to an increase in palm oil

[35] The direction of impact in this study differs from the document EC (2010) Trade Sustainability Impact Assessment (SIA) of the FTA between the EU and ASEAN; See http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151230.pdf

production. If anything land prices in Vietnam would fall if the market for livestock products were opened up, and there would be less pressure on agricultural land.

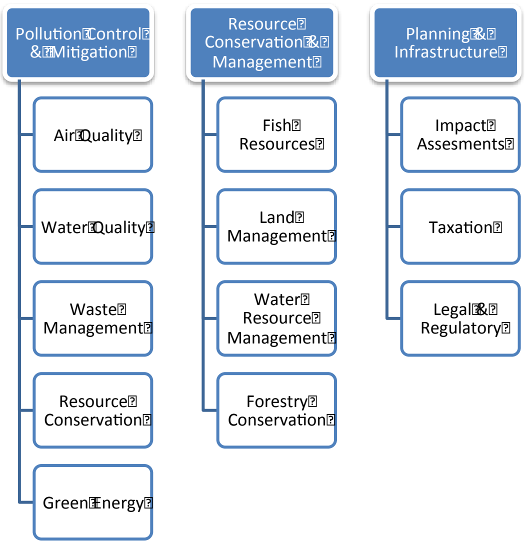
Fisheries present a potential issue because of the increase in demand for fish fillets. However, the fishing industry in Vietnam, particularly for export, is linked to aquaculture so over fishing and by catch is not a problem. There are environmental issues associated with aquaculture, but the contribution of an FTA to these issues would seem to be minimal. Stringent EU regulations with regard to illegal, unreported and unregulated (IUU) fishing also limit the potential of stock depletions and by catch[36]. Capacity building in such areas as Good Aquaculture Practices (GAqP) are also recommended) to ensure safe practices and to reduce the risks of unsustainability.

Finally, there are biosecurity issues, involving the introduction of invasive species that may be related to trade. In Vietnam's case most of the trade related biosecurity issues are likely to involve cross-border trade with neighbouring countries, much of it unregulated.

II.5.2. Treatment of sustainable development & environmental safeguards in an FTA

There is a strong rationale for dealing with environmental safeguards through environmental policies and agreements. In some cases, environmental policies are best addressed under the umbrella of a multilateral agreement on the environment, particularly with regard to environmental conditions, which generate large externalities, such as air and water pollution. However, there is little economic sense in placing such an agreement under an FTA since it would best be addressed under an environmental agreement. Nevertheless, trade agreements have been used a vehicle to encourage sustainable development policies in being adopted. The EU has also adopted this kind of approach in different FTAs, though the language has been focused on cooperation on environmental matters, without specific measures being addressed (nor any punitive sanctions being proposed).

Figure 36. Environmental Dimensions



The environmental or sustainable development chapters in EU FTAs have generally been devised along three hierarchies, which are (i) to give reference to multilateral trade agreements (WTO provisions), (ii) inclusion within chapters of the main text of the agreement (under for example, agricultural, NAMA or services), and (iii) a specific chapter dedicated to sustainable development, with a varying scope depending on the level of development of the party.

The approach used by the EU is to balance the benefits of safeguarding the environment while limiting potentially trade restrictive measures being adopted as a disguised form of protection. There are typically four types of approaches adopted:

[36] These findings are broadly consistent with those found in the EC (2010) Trade Sustainability Impact Assessment (SIA) of the FTA between the EU and ASEAN; See http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151230.pdf

- Promoting trade and investment in green technologies and environmentally sustainable goods and services
- Establishing the legal, regulatory and institutional framework for promoting monitoring but also dispute settlements of any related disputes.
- Promoting cooperation, technology transfer and joint research in trade related environmental areas
- Foster stronger policy formulation and accountability through the involvement civil society, improved analytical frameworks, greater transparency etc.

The inclusion of these provisions would be expected to benefit Vietnam as a whole and ensure that a monitoring mechanism, with political and institutional backing would exist. The European Parliament is almost certainly going to require that such a framework be included in the FTA. Although the CGE ex ante analysis indicates that an FTA would have almost no effect on the environment, it is important to ensure that a trade agreement does not impact negatively on the environment ex post. A formal legal and institutional structure will enable a more systematic review of effects.

III - Economic Impact Assessment for Specific Sectors

III.1. Methodology

The current section of the report proposes a mixture of qualitative and quantitative approaches to estimate the impact of tariff changes arising from a FTA. The qualitative approach consisted in collecting responses from stakeholders in individual meetings, based on a series of questions, which were produced by the team. These questions, as well as desk research formed the basis of sectoral reports produced by experts. Agricultural and non-agricultural goods were the subject of an in-depth focus of analysis, for which Vietnamese experts were engaged. Within the agricultural sector, quantitative analysis focused on agricultural commodities, agro-processed goods and fisheries. Within the manufactured sector, six sectors were focused on, namely textiles/clothing, footwear, processed wood, handicrafts, automotive and high-technology products.

The findings and conclusions of the report - a mix of views collected and statistical trends, were presented in three separate workshops in Danang, Ho Chi Minh and Hanoi. Stakeholders included associations, chambers of commerce, and representatives of the business community, as well as academic institutions and think tanks based in Vietnam. Line ministries were also consulted, as well as some European business representatives. A list of all consulted parties is presented in Annex 5. The stakeholder reactions to the presentation of reports were subsequently collected and incorporated into the conclusions presented in this report.

Additional to the qualitative analysis, for the sectoral analysis, we have delved disaggregated further some of the quantitative impacts arising from tariff liberalization with the EU. The model of choice is the partial equilibrium framework for the estimation of impacts at a disaggregated six-digit level. The results from this framework will differ from those of the CGE model, as explained below. However, the direction, if not the magnitude, should be aligned and otherwise explained by indirect (dynamic) effects relating to resource allocations from one sector to another.

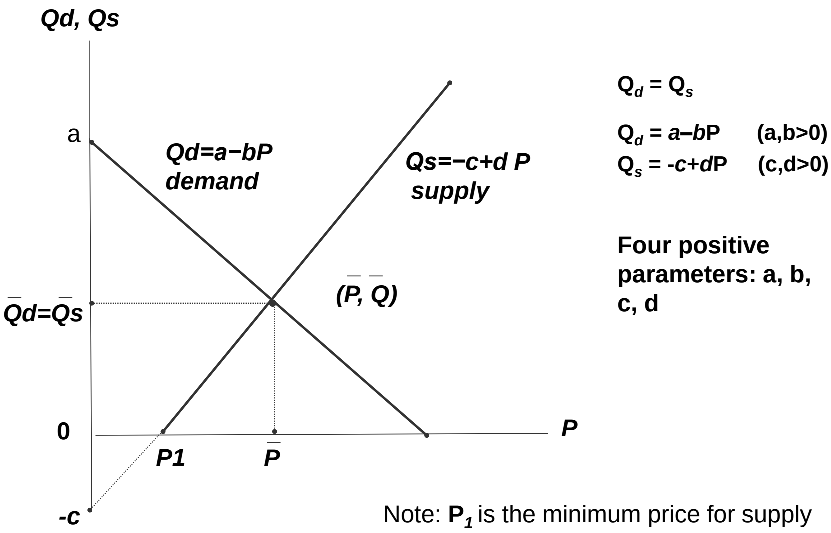
The partial equilibrium (PE) framework is a useful modelling tool since it demands a minimal amount of data and is relatively easy to understand and use. The PE framework assumed that the country is a small country that has no influence on world prices.

The analysis is one of comparative statics since it compares one equilibrium point (where demand meets supply, with tariffs in place) with another equilibrium point (where demand meets supply after the elimination of the tariff). In other words, a comparison is made of new versus base equilibria after an exogenous variable change. This is in contrast to dynamic analysis where a comparison is made of multiple steady states equilibria, including the time paths and allocation of resources (CGE Model).

As mentioned earlier, the PE model does not account for the economic interactions between the various markets in a given economy. In a general equilibrium setup, all markets are simultaneously modelled and interact with each other. The PE model is suitable for industries which have limited economy wide linkages. PE models requires minimal data (trade flow, the trade policy (tariff) and elasticities), enabling an analysis to be made at a fairly disaggregated level, and resolves a number of "aggregation biases". The limitation of such models is that the results are sensitive to a few behavioural elasticities, they can miss important interactions and feedbacks between various markets and fail to include existing constraints that apply to the various factors of production (e.g., labour, capital, land…) and their movement across sectors[37]. Another important limitation with the PE framework is that price change does not affect income in these models. This exogeneity is problematic. We would expect rising prices to lead to higher incomes and thus more purchasing power and thus increase demand.

The model attempts to find the set of values of endogenous variables which satisfy an equilibrium condition. The model is composed of an isolated one commodity model and includes three variables (Q_d, Q_s, P). We specify the equilibrium conditions (which assume market clearance; i.e. excess demand is zero): $Q_d - Q_s = 0$. Overall, the model contains one equilibrium condition plus two behavioural equations (for demand and supply). Figure 37 below illustrates such a system of equations when the functional form is linear.

Figure 37. System of linear equations



$Q_d = Q_s$

$Q_d = a–bP$ (a,b>0)

$Q_s = -c+dP$ (c,d>0)

Four positive parameters: a, b, c, d

Turning to international trade, we see in Figure 38 an example how within a single commodity market, we can measure the effects of the introduction of a tariff on prices and subsequently on quantities consumed and produced. There are inevitably gains and losses arising from the introduction of a tariff, which are calculated in Figure 38.

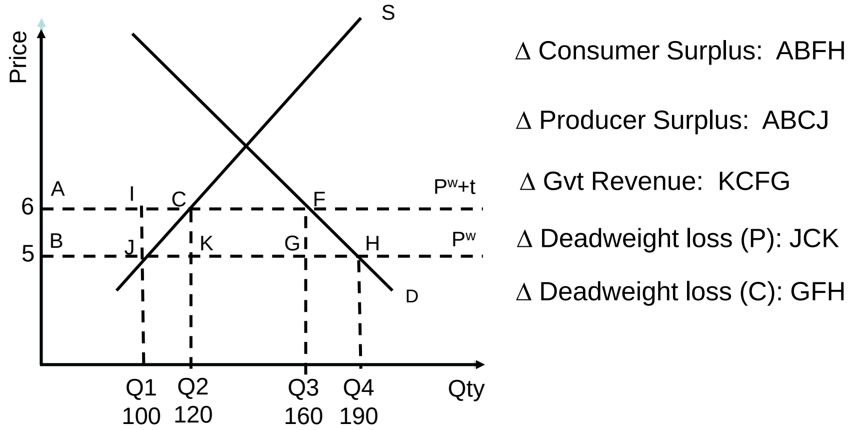
For example, suppose the economy is an open economy that trades freely with the rest of the world. The commodity costs US$5 on the world market. At that price, domestic producers are willing to supply 100 units. At a US$5 price, domestic demand reaches 190 units, so that the country imports what is not produced domestically (190-100 units = 90 units). Suppose that the government introduces a tariff of 20 per cent on the value of imports. At this price, domestic producers are willing to produce more (120 units), while demand at that price is lower and falls to 160 units. Imports are now 40 units instead of 90 units. The government has been able to receive revenue

[37] For an introduction on partial equilibrium models used in trade, and the underlying theory, the reader is referred to Feenstra, R. C. and A. M. Taylor (2008) International Economics, Worth Publishers, 1st Edition (chapters 8 & 9) and Appleyard D R., Field Jr, A. J. & S. L. Cobb (2010) International Economics, McGraw-Hill Irwin, 7th Edition (chapter 14). For a more advanced treatment of the subject, see Francois, J. F. & K. A. Reinert (eds) (1998) Applied Methods for Trade Policy Analysis, Cambridge University Press. A practical approach to modelling with limited data is given in Tsakok, I. (1990) Agricultural Price Policy: A practitioner’s guide to partial equilibrium analysis, Cornell University Press. The present approach is a combination practical and theoretical approaches.

thanks to the introduction of tariffs, which amount to USUS$40 (tariff in value terms multiplied by the volume of imports).

The consumers have lost welfare as a result of the introduction of a tariff- they used to consume 190 units at US$5, while after the tariff they consume less (160 units) at a higher price (US$6). The loss of consumer surplus is calculated as the area of ABFH. Equally the producers are now able to sell more at a higher price, so that they gain a producer surplus equal to the area ABCJ.

Figure 38. Measuring welfare effects of trade policy instruments



In order to calculate the responsiveness of demand or supply to a price change, one needs to use parameters for the model, called elasticities. The elasticity of demand measures the responsiveness of demand to changes in prices. If the elasticity measure is unity (equal to 1), a 1 per cent increase in prices will lead to a 1 per cent decline in demand. If the elasticity is greater than 1, a 1 per cent increase in price will leave to a greater than 1 per cent decrease in demand. Elasticities provide the direction and magnitude of responses to changes in price and are calculated using surveys and then regressions are run to estimate parameters. For example, if a supply elasticity is between 1.2 and 1.4 then supply is considered elastic since it is >1. If the price increases by 30 per cent, then supply increases by between 1.2x0.3=0.36 (36 per cent) and 1.4x0.3=0.42 (42 per cent). If the level of supply was 5 million units, then it will increase to between 6.8 and 7.1 million units

Import demand elasticity parameters have been obtained from the WITS/SMART module of the World Bank[38]. The elasticities have been estimated based on econometric analysis[39] and country groups characteristics determine the closest fit for countries that were not in the analysis sample. The value of the import demand elasticities are presented in Table 6. For the purpose of this study, an unweighted average is taken of the elasticities across the LDCs.

The substitution elasticity value between partner countries measures the substitutability of goods between different suppliers (the higher it is the more products can be substituted). The substitution elasticity is referred to as the Armington elasticity[40]. A large body of work exists on the estimation of such parameters, requiring a product by product simulation, which is based on the assumption that any product is independent of another product. Econometric and general equilibrium modelling

[38] World Bank (2006) WITS SMART Single Market Partial Equilibrium Simulation Tool, Washington DC: mimeo
[39] Kee, H. L., Nicita, A. & Olarreaga, M. (2008) Import Demand Elasticities and Trade Distortions, The Review of Economics and Statistics, MIT Press, vol. 90(4)
[40] Armington, P. S. (1969). A theory of demand for products distinguished by place of production, IMF Staff Papers, IMF, Vol 16.

techniques are used for this purpose[41]. SMART uses a value of 1.5 as the default value, although for agro-based products (the degree of sophistication and differentiation of products is assumed to be lower) it is likely to be higher. A recent study conducted estimated the Armington elasticities for aggregated sector groups and found values closer to 1.27 for agricultural products, 0.94 for milling products, 1.6 for beverages and 1.1 for furniture[42]. The more disaggregated nature of the study (more "micro" in nature), the higher the values of substitution elasticities tend to be[43]. We use the values derived from the aforementioned study for the simulation exercise.

The export supply elasticity value is by default high (by 99) in order to ensure that Vietnam (or the EU) is able to influence world prices by limiting the export supply of a product. This nevertheless poses a problem for Vietnam in some industries (like wood) where the assumption that infinite supply elasticity exists would assume that current production levels could be 100 per cent responsive to any changes in relative prices.

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[41] McDaniel, C. A. & E. J. Balistreri (2003) A review of Armington Trade Substitution Elasticities, Economie internationale, CEPII, 94-95 (2003)

[42] Chitiga, M., Fofana, I. & R. Mabugu (2011) A Multiregion General Equilibrium Analysis of Fiscal Consolidation in South Africa, IFPRI Discussion Paper, 01110, August

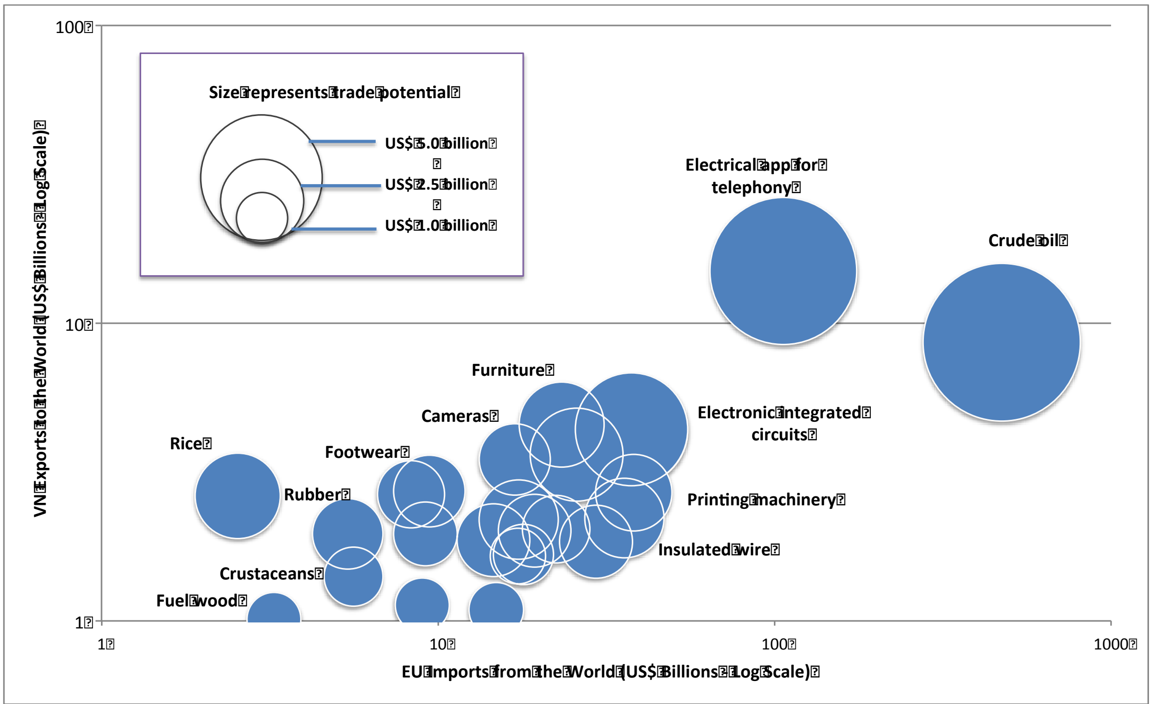
[43] Feenstra, R. C., Obstfeld, M. & K. N. Russ (2011) In search of the Armington elasticity, UC Davis Dept of Economics, mimeo

III.2. Trade Potential for Key Sectors

The trade potential between Vietnam and the EU is extremely high in comparison to current trade flows. Using a static analysis of current trade flows, an additional US$98 billion could be exported to Vietnam over its current levels (of US$26 billion). The analysis is based on what Vietnam currently exports to the world and matches this with what the EU imports from other sources, and when the EU's import demand matches the same products as Vietnam supplies, it is assumed that these goods could be exported directly to the EU[44]. The level of complementarity between the import demand from the EU and export supply by Vietnam is relatively high. The assumption is that there are no frictions to trade so that trade opportunities in the EU can be taken advantage of by Vietnam. Such an assumption fits well with the purposes of signing a FTA between Vietnam and the EU.

Figure 39 provides an overview of the trade potential for the twenty-five highest-ranking products in terms of trade potential (Table 10 at the end of the section has more information). Outside of crude oil, the highest trade potential lies with telephone appliances (which currently have low tariffs but high requirements with respect to standards), electronic integrated circuitry (which also have low tariffs but are part of international supply chains, such that investment is an integral part of tapping into these supply chains), rice (which is heavily protected in the EU but in the case of Vietnam consists of a different variety to that which is consumed by the EU), footwear, furniture and further items related to electrical appliances and electronics.

Figure 39. Indicative Export Potential for Selected Products from Vietnam to the EU



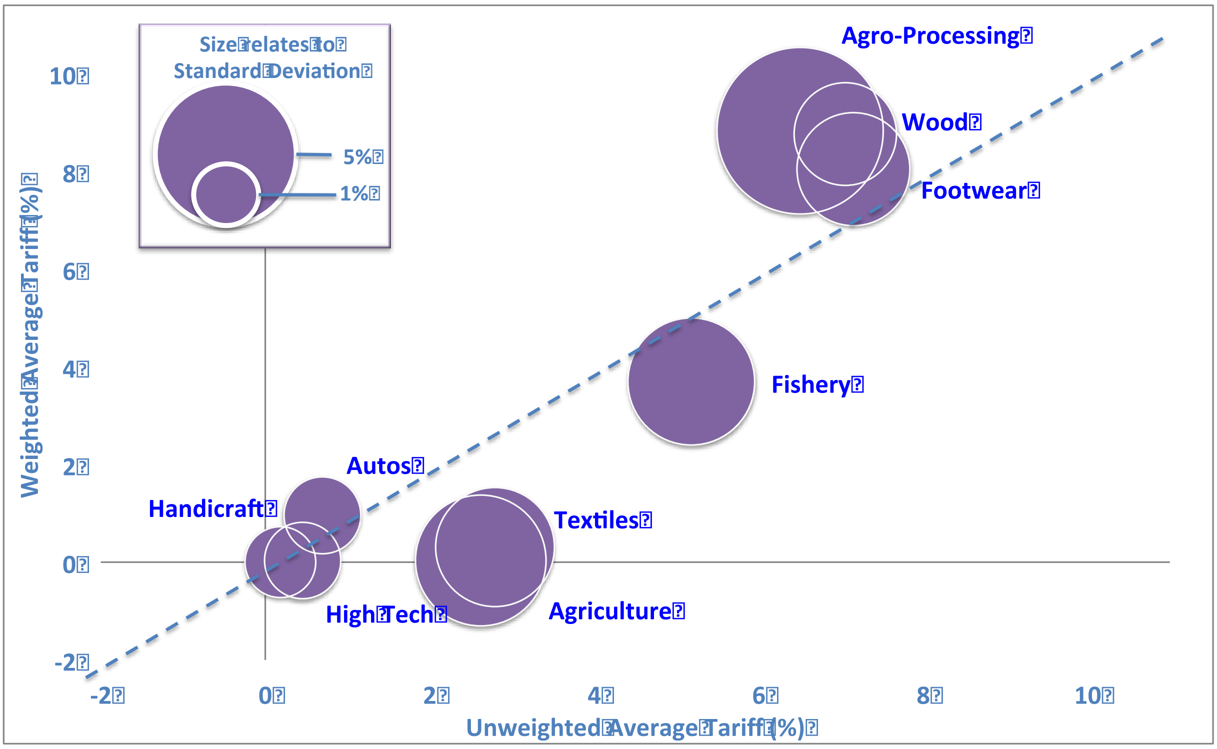
Source: Authors calculations based on UNSD COMTRADE Statistics (2012 EU reported statistics)

Part of the reason why there is a large amounted of untapped trade potential is that the EU and Vietnam apply tariffs (and tariff peaks) for protecting industries and generating revenues. The levels

44 See ITC TradeMap

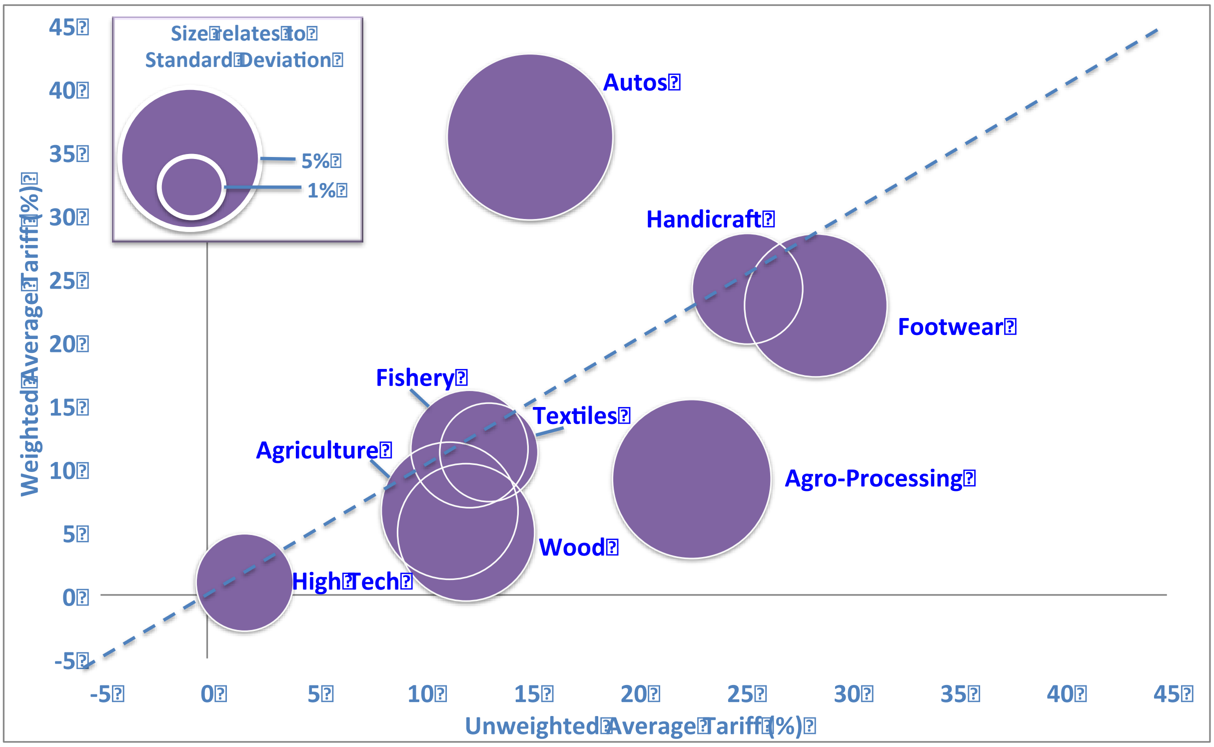
of tariffs differ across the sectors in question. The level of protection for each sector are presented in Figure 40 and Figure 41, as applied by the EU and Vietnam for the latest available year within each selected sector.

Figure 40. Tariffs applied by the EU on Vietnam products for selected sectors



Source: Author calculations and UNCTAD Trains

Figure 41. Tariffs applied by Vietnam for EU products for selected sectors



Source: Author calculations and UNCTAD Trains

The EU applies far lower tariffs in general, except in the agro-processing sector. The level of the standard deviation is especially high in the agro-processing, fishery, textiles/clothing and agriculture area in the EU, indicating a wide range of tariffs used to protect some key products at the six digit level. Vietnam also has large dispersion rates of its tariffs for the auto sector, agro-processing, footwear, agriculture and wood.

The distribution of lines according to different tariff levels is given in Table 9. It is noteworthy that the EU has 8 per cent of its lines in the agro-processing sector within a range of tariffs at 20-50 per cent ad valorem; 15 per cent of its lines in the footwear sector within a range of tariffs at 10-20 per cent; 16 per cent of its lines in the fishery sector at 10-20 per cent; and 36 per cent of its lines in the agro-processing sector at between 10-20 per cent. Vietnam also applies tariffs of between 50-100 per cent on 10 per cent of its lines in the agro-processing sector and 5 per cent of its lines in the automobile sector. Vietnam also applies tariffs of between 20-50 per cent on a large number of lines, such as unprocessed agriculture (23 per cent), agro-Processing (31 per cent), footwear (48 per cent), handicrafts (48 per cent) and textiles/clothing (79 per cent). The rates applied by Vietnam are MFN rates and are not necessarily directly targeted to keep out EU competition in these sectors. The EU is only competitive in the agriculture and agro-processing sectors, as a result of subsidies in those sectors and strong branding and qualitative factors.

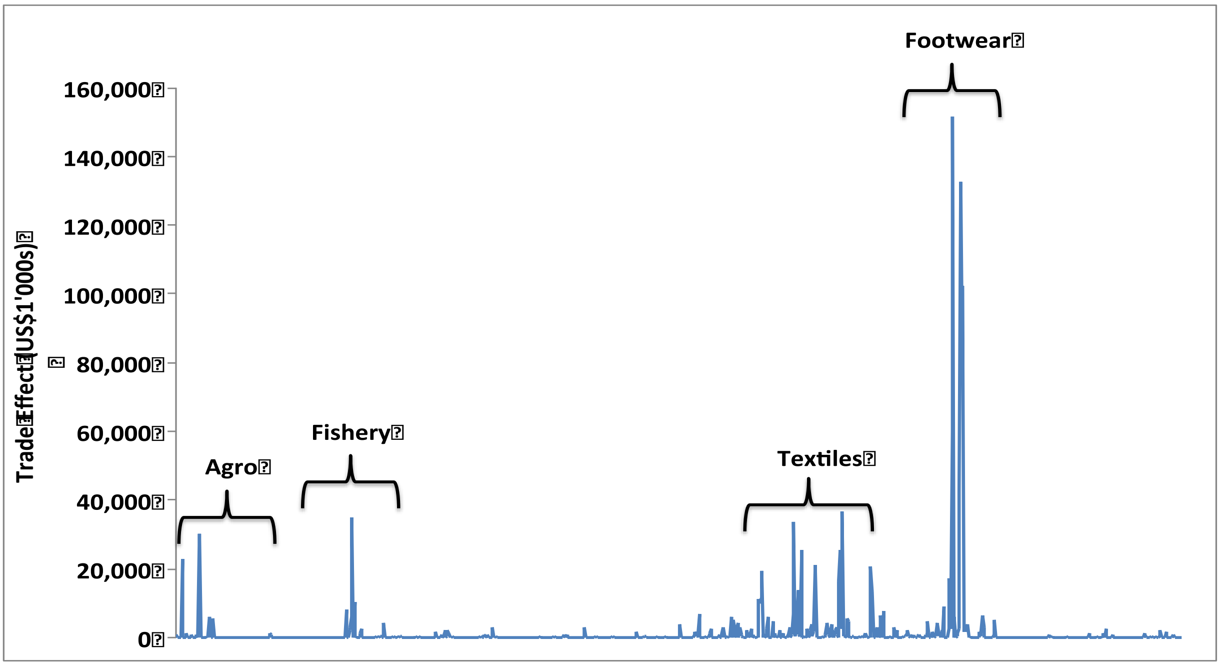
Table 9. Percentage of lines according to different tariff ranges in specific sectors

		Lines whose tariffs range from:					
		0-5%	5-10%	10-20%	20-50%	50-100%	100%+
Agriculture	EU	70%	23%	7%	0%	0%	0%
	VN	49%	7%	21%	23%	0%	0%
Agro-Processing	EU	36%	19%	36%	8%	0%	0%
	VN	23%	7%	29%	31%	10%	0%
Fishery	EU	55%	29%	16%	0%	0%	0%
	VN	44%	3%	52%	1%	0%	0%
Automobile	EU	96%	4%	0%	0%	0%	0%
	VN	28%	15%	39%	12%	5%	0%
Footwear	EU	86%	0%	14%	0%	0%	0%
	VN	38%	0%	13%	48%	0%	0%
Handicraft	EU	70%	29%	1%	0%	0%	0%
	VN	3%	7%	26%	65%	0%	0%
High Tech	EU	3%	0%	0%	0%	0%	0%
	VN	83%	8%	7%	2%	0%	0%
Textiles/ Clothing	EU	21%	79%	0%	0%	0%	0%
	VN	15%	3%	79%	3%	0%	0%
Wood	EU	97%	3%	0%	0%	0%	0%
	VN	51%	5%	10%	33%	0%	0%

Source: Author calculations and UNCTAD Trains

According to both the CGE Model and the Partial Equilibrium Model, the greatest gains from an FTA would be in the footwear and garments sectors. Under the partial equilibrium model, in those two sectors alone, an additional US$500 million to US$600 million could be generated each year from a trade agreement in each sector (see Figure 42). The fishery and agro-processing sectors could also benefit from the agreement, principally because tariffs are already extensive in these two sectors. Other sectors would not benefit directly from the reduction in tariffs, but are likely to benefit from investment flows (which are not modelled in the Partial Equilibrium case).

Figure 42. Trade potential for EU-Vietnam trade in selected sector with an FTA



Source: Author calculations using WITS

Figures 43-51 present the trade diversion and trade creation effects arising from tariff liberalization between the EU and Vietnam. Trade creation effects arise from the reduction of tariffs which enable, for the same income, a greater consumption of imports. The trade diversion effects result from the fact that lower tariffs divert trade away from less costly imports from third parties (non-FTA members) to less efficient parties (FTA members). In the case of agricultural products for example (Figure 43), the Netherlands benefits especially (trade creation effect) from the reduction in tariffs, followed by Ireland, Germany and France. The trade creation effects outweigh the trade diversion effects.

Table 10. Indicative export potential for Vietnam (25 products with highest indicative trade potential)

HS 4	Product Description	Untapped Trade Potential (U$ bn)	2012 Trade Flows (US$ Bn)			Trade Indicators						
			VN Exports to EU in 2012	VN Exports to the World	EU Imports from World	Annual growth in value between 2008-2012 (per cent, p.a.)	Annual growth in quantity between 2008-2012 (per cent, p.a.)	Annual growth of world imports between 2008-2012 (per cent, p.a.)	Share in world exports (per cent)	Ranking in world exports	Average distance of importing countries (km)	Concentration of importing countries
TOTAL	All products	97.5	26.2	124.2	5,739	19.0		6.0	0.7	35	6,784	0.08
'2709	Crude petroleum oils	8.6	0.0	8.6	473	-3.0	-10.0	8.0	0.5	27	4,106	0.25
'8517	Electric app for line telephony, incl curr line system	7.5	7.4	14.9	107	138.0		10.0	3.7	6	7,123	0.06
'8542	Electronic integrated circuits and microassemblies	4.4	0.0	4.4	38	189.0		8.0	1.0	13	2,265	0.57
'9403	Other furniture and parts thereof	3.0	0.6	3.6	26	8.0		1.0	4.6	4	11,266	0.37
'1006	Rice	2.5	0.0	2.6	3	7.0	14.0	5.0	11.7	3	3,302	0.16
'6403	Footwear, upper of leather	2.5	2.1	4.6	23	5.0	-2.0	3.0	8.8	3	9,897	0.10
'8544	Insulated wire/cable	2.2	0.0	2.2	36	22.0	11.0	7.0	2.1	15	5,718	0.40
'8529	Part suitable for use solely/princ with televisions	2.2	0.0	2.2	17	78.0	7.0	1.0	3.4	7	1,517	0.71
'8443	Printing machinery; machines for uses ancillary to printing	2.0	0.7	2.7	38	19.0			2.4	8	7,813	0.09
'2701	Coal; briquettes, ovoids & similar solid fuels	1.8	0.0	1.8	29	3.0	-2.0	8.0	1.4	8	2,641	0.54
'8525	Television camera, transmissn app for radio-telephony	1.8	0.0	1.9	15	27.0		3.0	3.5	9	2,678	0.88
'6110	Jerseys, pullovers, cardigans, etc, knitted or crocheted	1.8	0.2	2.0	19	8.0	37.0	2.0	4.1	6	11,921	0.55
'6402	Footwear nes, outer soles &uppers of rubber or plastics	1.8	1.0	2.7	9	9.0	-3.0	9.0	9.2	2	10,385	0.12
'0901	Coffee	1.8	1.7	3.5	17	14.0	10.0	15.0	10.4	2	8,876	0.09
'4001	Natural rubber,balata,gutta-percha etc	1.7	0.2	2.0	5	40.0	22.0	21.0	5.5	5	4,017	0.17
'6204	Women's suits, jackets,dresses skirts etc&shorts	1.6	0.4	2.0	22	9.0		1.0	3.8	9	10,682	0.29
'6404	Footwear, upper of textile mat	1.6	1.1	2.7	8	20.0		17.0	14.4	2	10,125	0.06
'0304	Fish fillets and pieces, fresh, chilled or frozen	1.4	0.6	2.0	9	7.0	3.0	5.0	10.1	2	9,423	0.07
'6203	Men's suits, jackets, trousers etc & shorts	1.3	0.4	1.7	18	16.0		3.0	4.0	7	9,096	0.18
'0306	Crustaceans	1.2	0.2	1.4	6	5.0	-2.0	6.0	7.1	5	7,652	0.16
'4202	Trunks, suit-cases, camera cases, handbags etc., of leather	1.1	0.6	1.6	17	19.0		9.0	2.9	5	9,402	0.14
'8501	Electric motors and generators (excl generating sets)	1.0	0.1	1.1	15	37.0		7.0	2.3	11	5,649	0.14
'6104	Women’s suits, dresses, skirt etc. &short, knit/croch	1.0	0.1	1.1	9	23.0		17.0	2.9	3	12,099	0.55
'4401	Fuel wood; wood in chips/particl; sawdust & wood waste	1.0	0.0	1.0	3	35.0	33.0	10.0	15.0	1	2,876	0.44

Figure 43. Trade Effects for Vietnam in Agricultural products

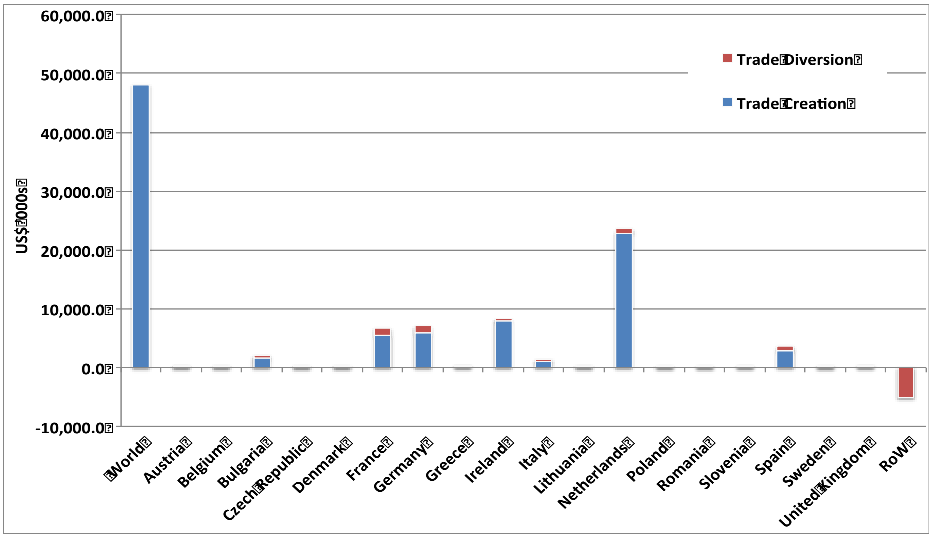


Figure 44. A Trade Effects for Vietnam in Agro-processing

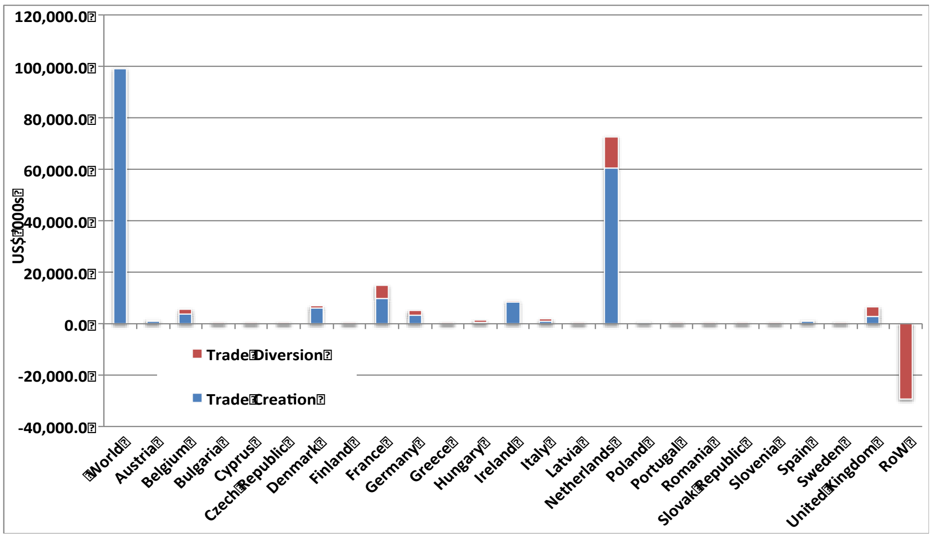


Figure 45. Trade Effects for Vietnam in Fisheries

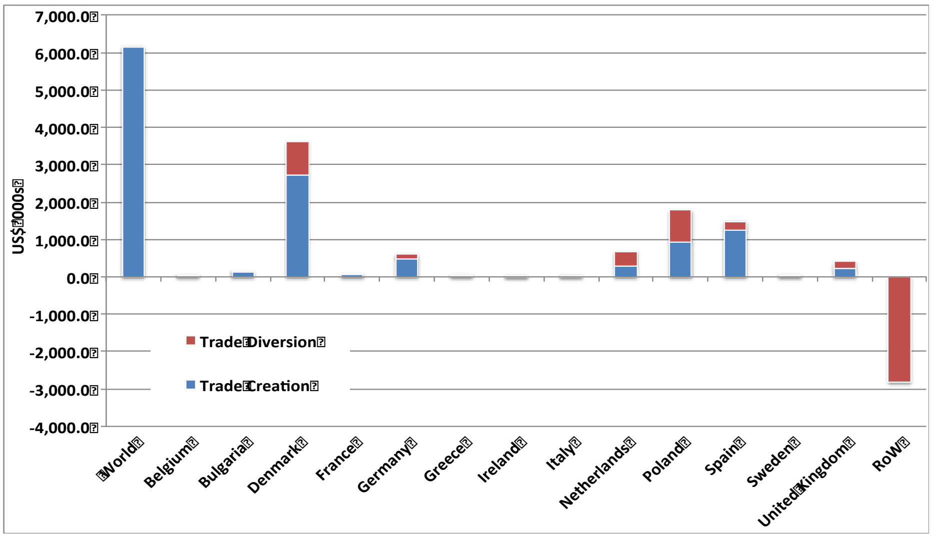


Figure 46. Trade Effects for Vietnam in Wood products

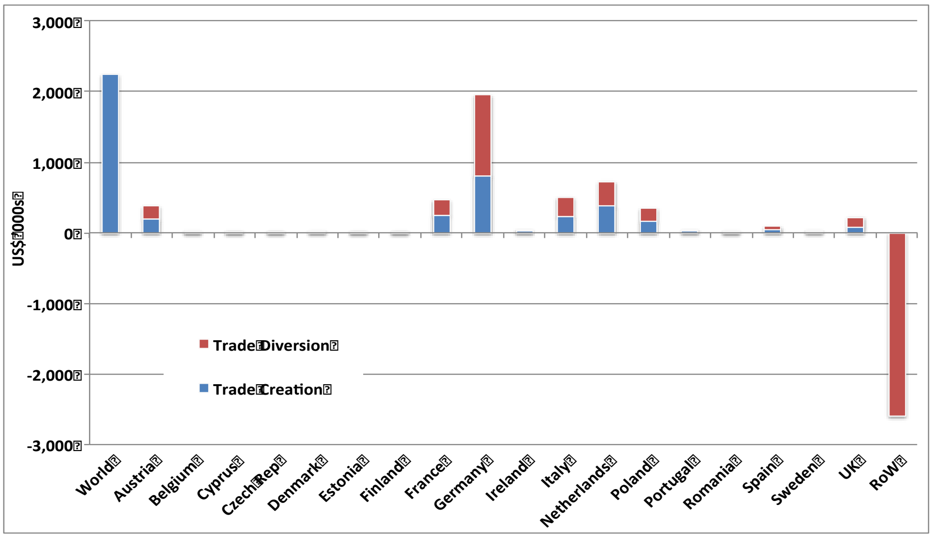


Figure 47. Trade Effects for Vietnam in Textiles & clothing

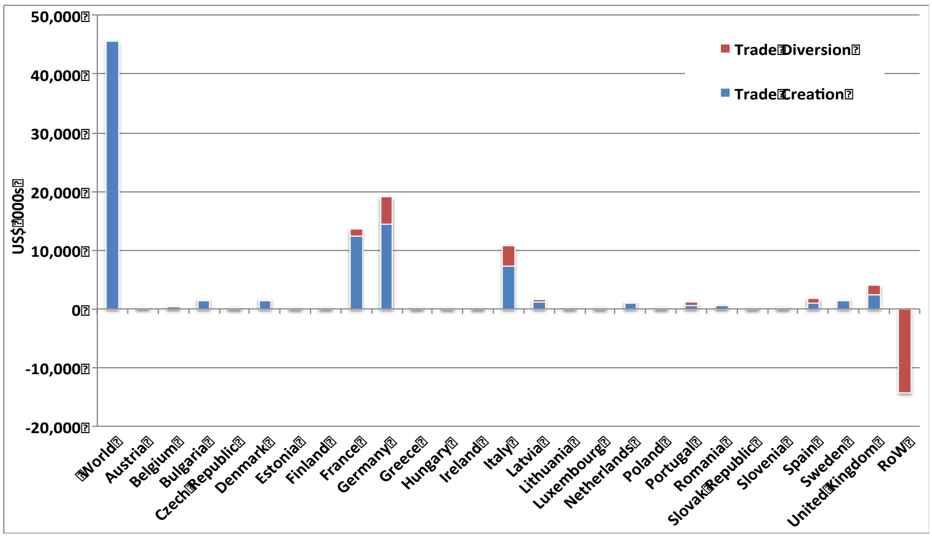


Figure 48. Trade Effects for Vietnam in Footwear

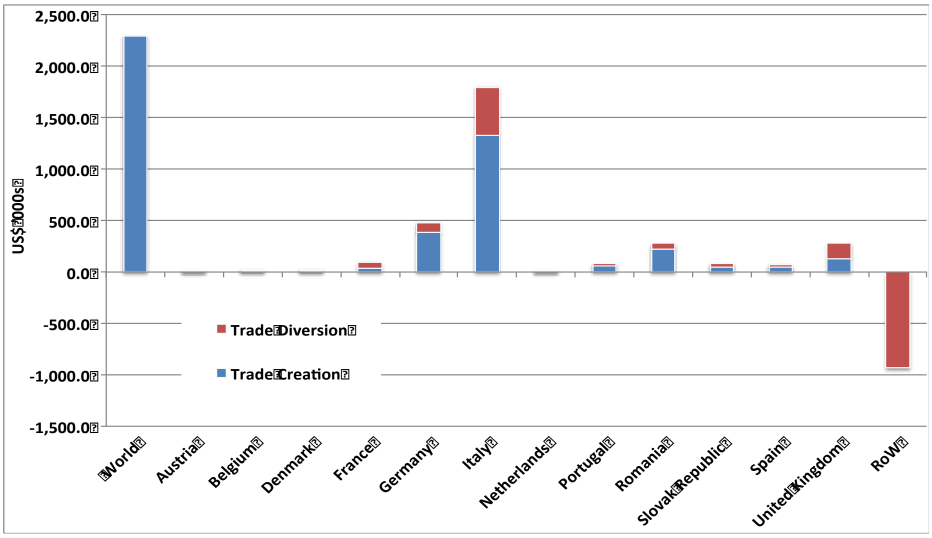


Figure 49. Trade Effects for Vietnam in Automobiles & bicycles

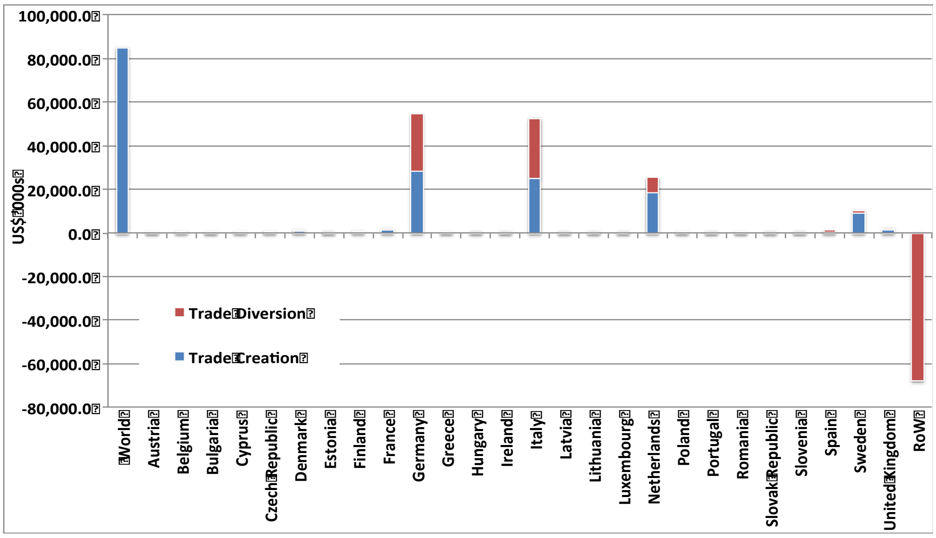


Figure 50. Trade Effects for Vietnam in High-tech products

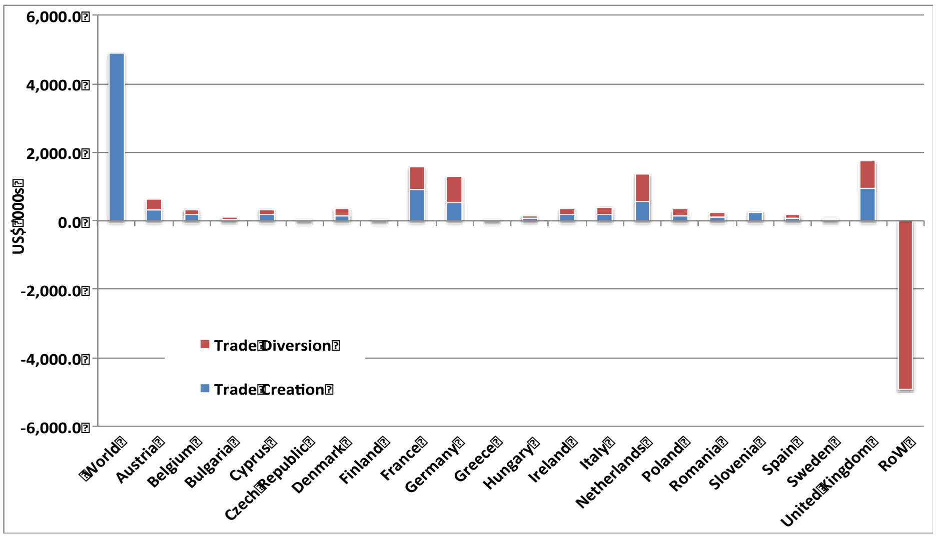
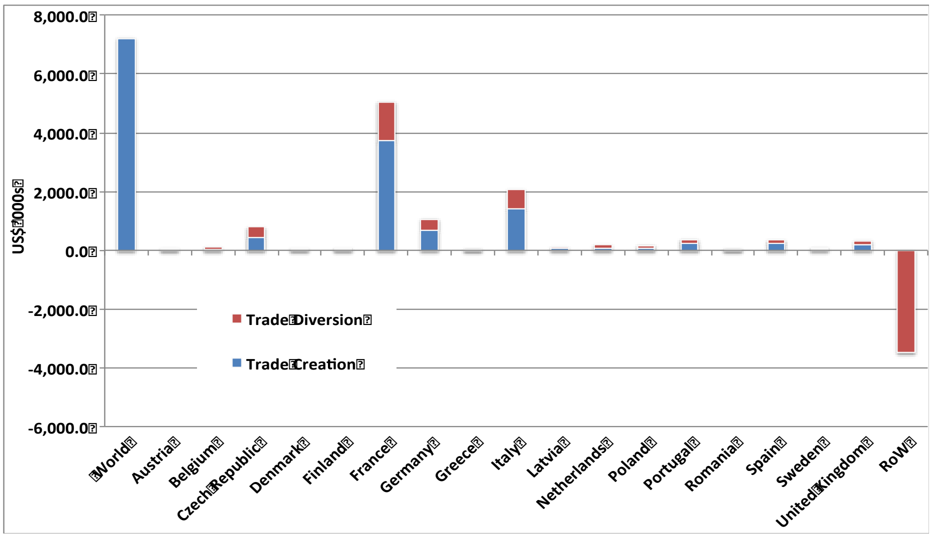


Figure 51. Trade Effects for Vietnam in Handicrafts



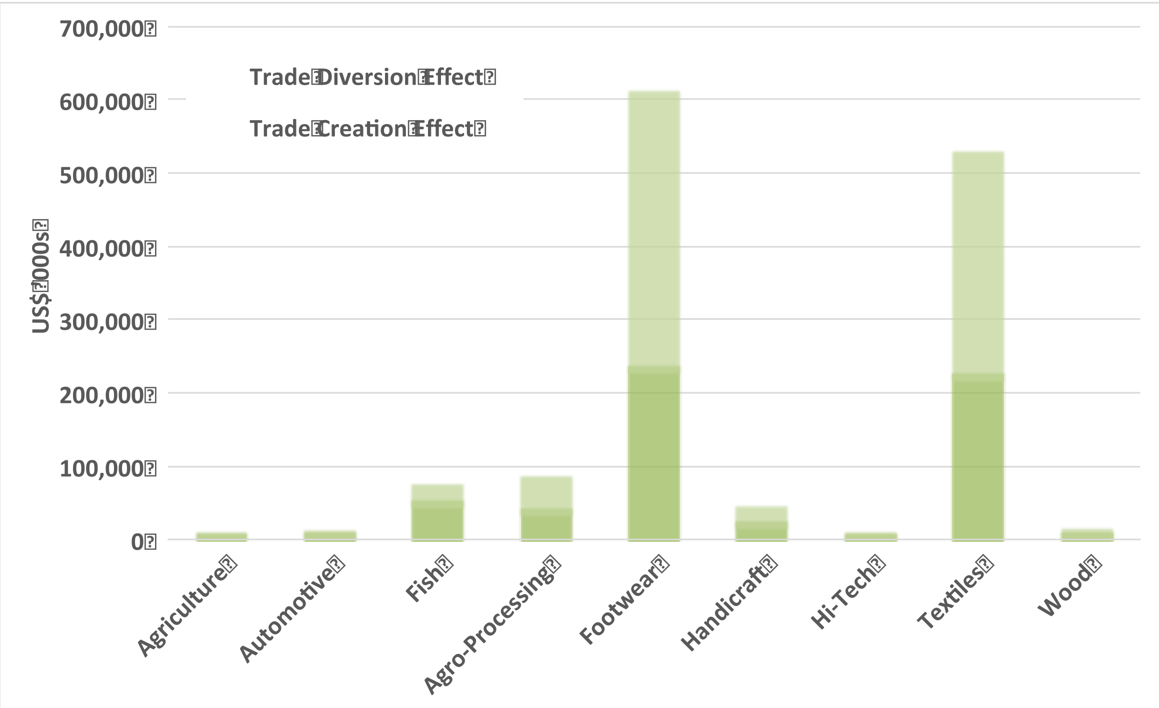
Source: Authors calculations from WITS

III.3. Estimated Impacts on Key Agricultural and Manufacturing Sectors

III.3.1. Trade and Revenue Effects Arising from an FTA

The calculated trade effects arising from trade liberalization in the EU are presented in Figure 52. The trade effects depicted in the diagram all accrue to Vietnam. As predicted by the CGE model, we find that the greatest gain from tariff liberalisation is to promote more trade in the footwear and garments sectors for Vietnam. This is not surprising since tariffs are highest on these sectors, and Vietnam has a strong comparative advantage in these sectors. Fishery and agro-processing also make some trade gains. What is interesting to observe is the size of trade diversion relative to trade creation. Trade diversion refers to trade which is deflected from the most efficient supplier in favour of a country that is less efficient but which benefits from lower tariff barriers. The trade diversion effects are therefore arising because trade is taken away from more efficient suppliers (say China or Thailand) in favour of Vietnam because Vietnam would benefit solely from the duty free access. From Vietnam's standpoint, this represents additional trade, while for the EU this represents inefficiencies in the way it sources its imports. The trade creation effects represented on the diagram arise from the fact that new trade is created as a result of the greater purchasing power of consumers due to the lowering of tariffs.

Figure 52. Trade Effects from tariff liberalisation across sectors in the EU

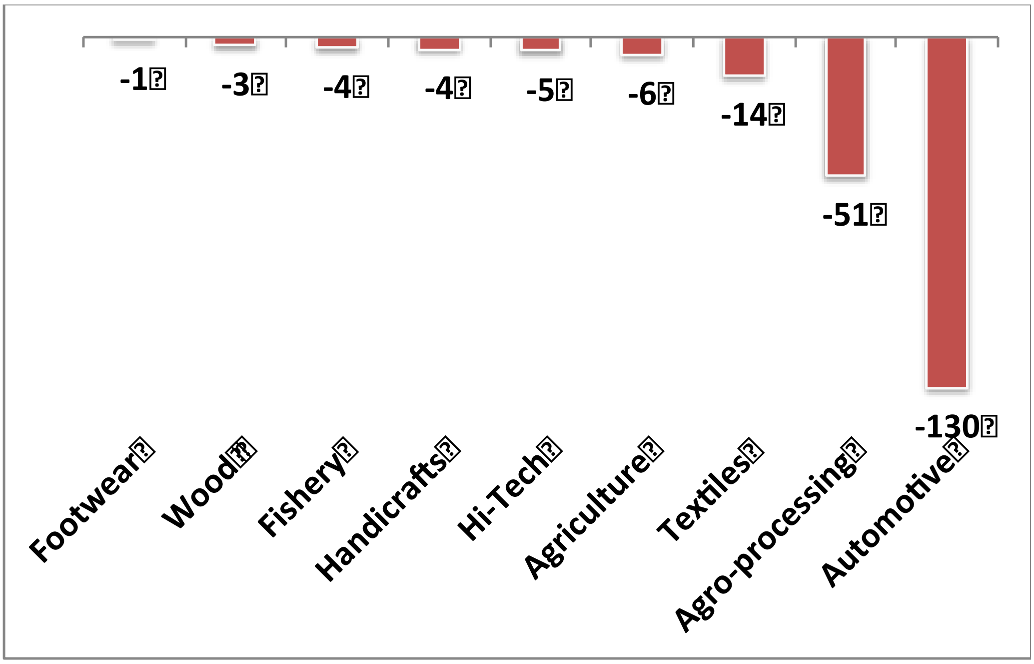


Source: Author calculations using WITS

As Vietnam liberalizes its tariffs, it too will experience trade creation with the EU (where the EU will benefit from market opening) and trade diversion (where trade which originally was sources from more efficient suppliers will now enter Vietnam). In the figures below, we present the trade effects for Vietnam of opening up its markets. It should be noticed that the effects are relatively small overall, but large for some sectors. The largest effects will be felt in the agro-processing sector (US$ 100 million) and the automotive sector (US$85 million).

The size of revenue loss arising from reducing tariffs to zero is quite negligible for the selected sectors. Using the partial equilibrium model, it is estimated that the automotive sector would lose the greatest level of tariff revenue (Figure 53). This is caused by three effects, namely the reduction to zero for tariffs on imports originating from the EU and the trade diversion effects from sources which would bring in revenue.

Figure 53. Revenue Losses at the sectoral level for Vietnam (US$ Millions)

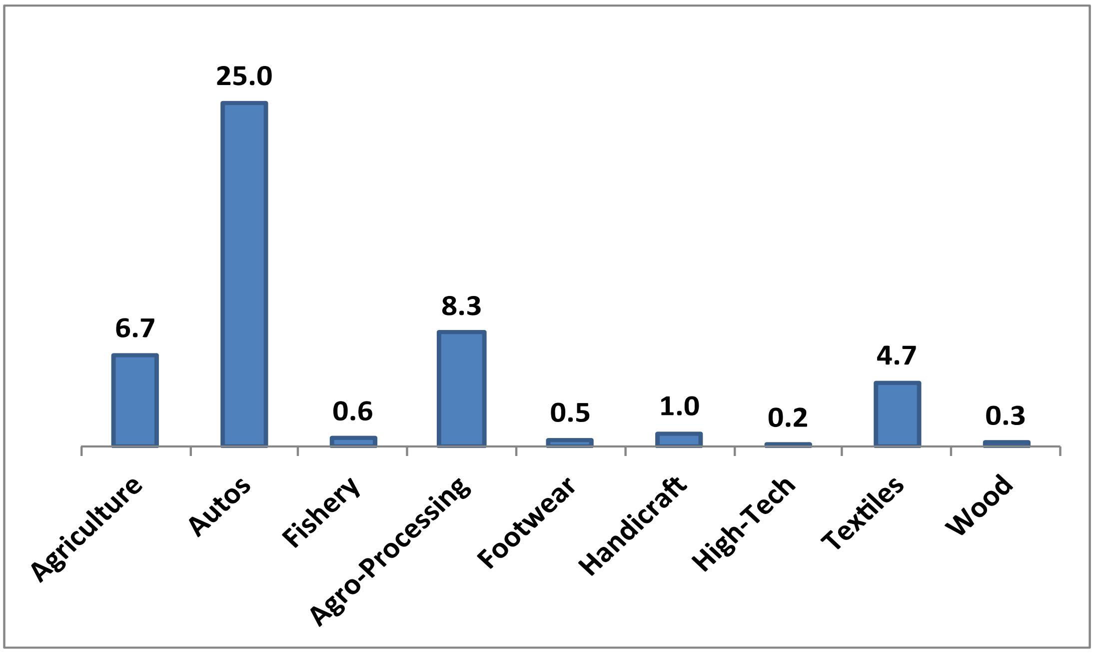


Source: Authors calculations from WITS

III.3.2. Welfare and Efficiency gains

The welfare benefits arise from the reduction in distortions which arise when tariffs are applied to imports (see methodology in III.1.). According to the partial equilibrium, Vietnam generates efficiency gains of US$25 million in the automotive sector as a result of liberalizing its trade with the EU. The gains would be US$8 million for agro-processing, US$7 million for agriculture and US$5 million for textiles/clothing. The overall effect of welfare gains, revenue loss and increased trade needs to be considered.

Figure 54. Welfare effect of tariff liberalisation for Vietnam (US$ Million)



Source: Authors calculations from WITS

III.3.3. Specific issues in Agricultural, Agro-Processing & Fisheries Sectors

III.3.3.1. Introduction

Exports of agricultural and fishery products from Vietnam to the EU has increased six-fold in just over a decade, from US$0.8 billion in 2001 to US$4.8 billion in 2012. The main agricultural commodities exported to the EU include coffee, rice, cashews and catfish.

Agricultural exports account for only about 17 per cent[45] of total Vietnam export turnover and the proportion remains unchanged since 2005. Agricultural export value from Vietnam to the EU accounts for less than 1 per cent of total import value of agricultural products into EU. These figures show that there is room for promoting the bilateral trade, especially in exporting agricultural products from Vietnam to the EU.

Moreover, despite a decrease in the average import tariff imposed by the EU on Vietnam products to 4.1 per cent in 2009, the weighted average import tariff was around 7 per cent, meaning that tariff on major Vietnam's export product stayed somewhat high. The import tariff applied on fisheries is around 10.5 per cent. In addition to tariff are non-tariff barriers such as customs matters, standards, rules of origin and import restrictions or prohibitions, which are also harmful to the development of Vietnam export to EU.

The agricultural and fisheries sectors are sensitive sectors for both parties of the negotiations. Both parties engage in applying peak levels of protection and both parties engage in a range of instruments to either directly subsidize or maintain income support for the sector. Employment, poverty alleviation and rural development will be strongly affected by any policy changes made in

[45] http://www.trungtamwto.vn/vn-eu-fta/quan-he-thuong-mai-viet-nam-eu

the agricultural sector. Both parties have tended to shield the agricultural sector from competition and opening this sector up would cause some strong competitive pressures.

This section reviews some characteristics of the sector and some of the qualitative issues facing the sector to expand trade with the EU.

III.3.3.2. Characteristics of the Agricultural, Agro-Processing & Fisheries Sectors

International trade in agro-products are presented in Table 11, Table 12, and Table 13 for both Vietnam and the EU. The trade statistics reveals a strong trade surplus for Vietnam in agro-products (which include raw agricultural commodities, agro-processing and fishery products in this case). The surplus stems primarily from Vietnam's trade with the EU, when it recorded a US$ 2 billion in 2012. The trade surplus with the EU has been growing steadily in the last five years. EU exports overall dwarf those of Vietnam and the agricultural sector's infrastructure is significantly more advanced in the EU than in Vietnam.

Table 11. EU & Vietnam Trade in agricultural products

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	4,066	3,861	4,348	6,286	7,426	
Imports from the World	1,878	2,062	2,955	4,245	4,455	
Trade Balance	**2,187**	**1,799**	**1,393**	**2,041**	**2,971**	
Exports to EU	1,697	1,381	1,450	2,059	2,408	
Imports from EU	73	62	106	72	91	
Trade Balance	**1,624**	**1,318**	**1,344**	**1,987**	**2,317**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	115,774	102,171	110,364	131,642	130,447	
Imports from the World	152,805	131,721	138,314	165,730	158,540	
Trade Balance	**-37,031**	**-29,550**	**-27,950**	**-34,088**	**-28,093**	
Exports to VN	73	62	106	72	91	
Imports from VN	1,697	1,381	1,450	2,059	2,408	
Trade Balance	**-1,624**	**-1,318**	**-1,344**	**-1,987**	**-2,317**	

Table 12. EU & Vietnam Trade in Agro-based manufactures

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	4,796	4,641	5,869	7,429	8,150	
Imports from the World	3,868	3,616	4,770	5,419	5,368	
Trade Balance	**928**	**1,024**	**1,100**	**2,010**	**2,782**	
Exports to EU	1,304	1,276	1,319	1,487	1,296	
Imports from EU	361	434	493	601	712	
Trade Balance	**943**	**842**	**826**	**886**	**584**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	352,883	312,270	329,333	395,555	387,368	
Imports from the World	342,141	300,494	309,217	369,321	354,653	
Trade Balance	**10,743**	**11,776**	**20,117**	**26,235**	**32,714**	
Exports to VN	361	434	493	601	712	
Imports from VN	1,304	1,276	1,319	1,487	1,296	
Trade Balance	**-943**	**-842**	**-826**	**-886**	**-584**	

Table 13. EU & Vietnam Trade in Fisheries

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	3,895	3,618	4,103	4,922	4,836	
Imports from the World	308	282	335	535	645	
Trade Balance	**3,587**	**3,336**	**3,768**	**4,387**	**4,191**	
Exports to EU	4.10	2.60	4.95	4.38	5.35	
Imports from EU	0.12	0.06	0.26	0.33	5.05	
Trade Balance	**4**	**3**	**5**	**4**	**0**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	6,466	6,220	7,173	8,078	7,742	
Imports from the World	10,149	9,497	10,729	11,596	10,781	
Trade Balance	**-3,683**	**-3,276**	**-3,556**	**-3,517**	**-3,039**	
Exports to VN	0	0	0	0	5	
Imports from VN	4	3	5	4	5	
Trade Balance	**-4**	**-3**	**-5**	**-4**	**0**	

Note: EU reported data

Source: World Bank WITS

Vietnam experienced 15 per cent annual growth in the agricultural sector, although this was much less than the growth in imports – even if the base of imports was even higher. The agro-sector accounts for less than 7 per cent of Vietnam's exports and the relative unit value of exports are 4 times that of the world's average. The overall revealed comparative advantage of Vietnam in this sector is 2.5.

Table 14. Key Vietnamese indicators in agricultural, agro-processing and fisheries products

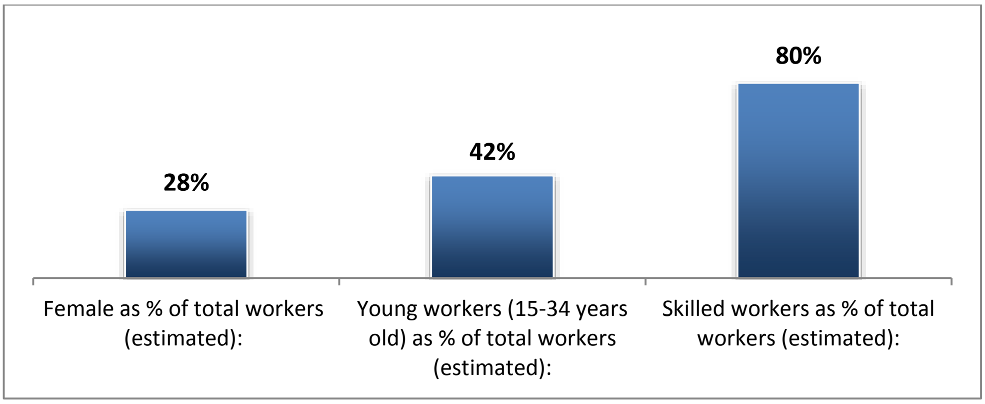
	Agricultural	Agro-Processing	Fisheries
Growth of Exports last 5 yrs (%)	16%	7%	7%
Growth of Imports last 5 yrs (%)	24%	11%	11%
Share in National Exports (%)	6.5%	0.1%	0.1%
Share in World Exports	1.4%	0.4%	0.4%
Revealed Comparative Advantage	2.44	1.44	7.95

Source: Author calculations & World Bank WITS

III.3.3.2.1 Sugar

The labour structure has remained stable in the sugar sector with the total number of workers totalling about 20,000 people in around 60 firms, averaging 350 people/enterprise. Around 40 per cent of sugar enterprises were considered as small and micro-sized[46]. Out of the total workers in this sector, women accounted for one third, 42 per cent were young (with ages from 15 to 34 years old) and only one fifth of the workers are not skilled workers (see Figure 55).

Figure 55. Labour structure of sugar sector in 2011 (per cent)



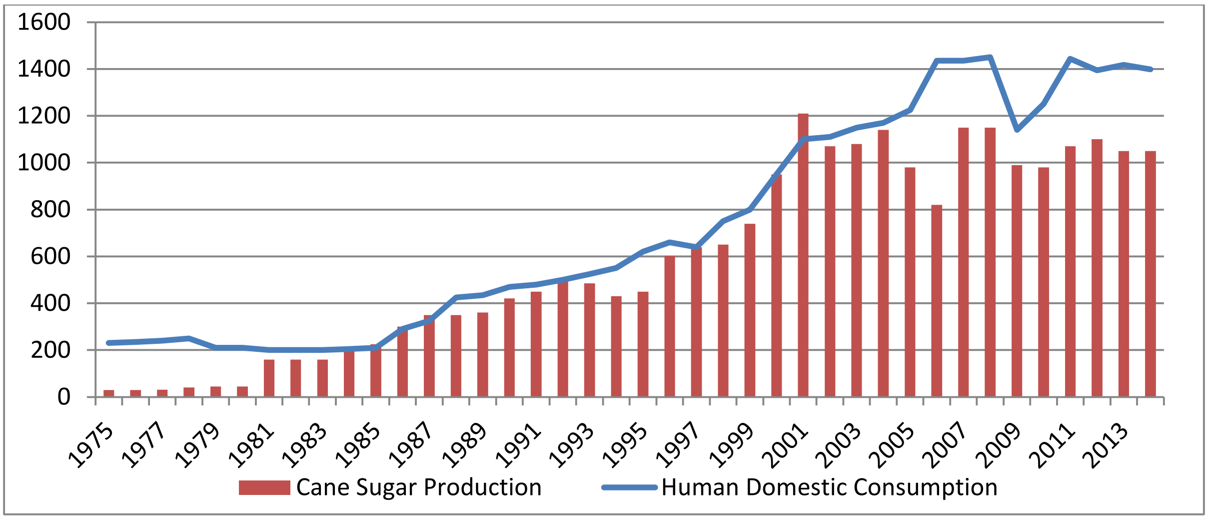
Source: GSO Enterprises Surveys/Censuses from 2008 to 2011 Vietnam

Sugar consumption had been increasing in the period of 1990-2008 and then starting to decrease since 2009 to 1.14 million tons from 1.45 million tons in 2008 (down 21 per cent)[47]. However, the consumption volume has recovered significantly since 2009 (see Figure 56). Consumption has been growing faster than production, leading a corresponding increase in imports, resulting in fierce competition of domestic products against imports.

[46] As classified under the Decree No. 56-ND/CP46. An SME must have capital under VND 20 million and under 200 employees.

[47] Official data on sugar sales to the domestic market is not available. Therefore, in this section, we use data on domestic consumption of sugar proxied for domestics sales.

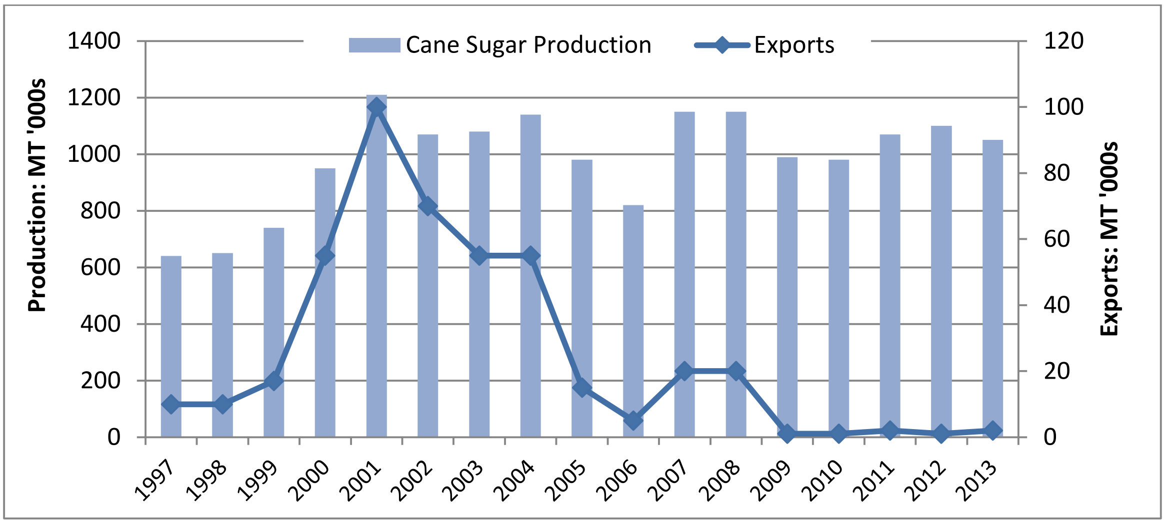
Figure 56. Domestic Sugar Consumption and Production (1,000 MT)



Source: USDA

As domestic production is for domestic consumption mainly, the quantity of sugar exported remains quite modest and has fluctuated at around the 1 million tons mark.

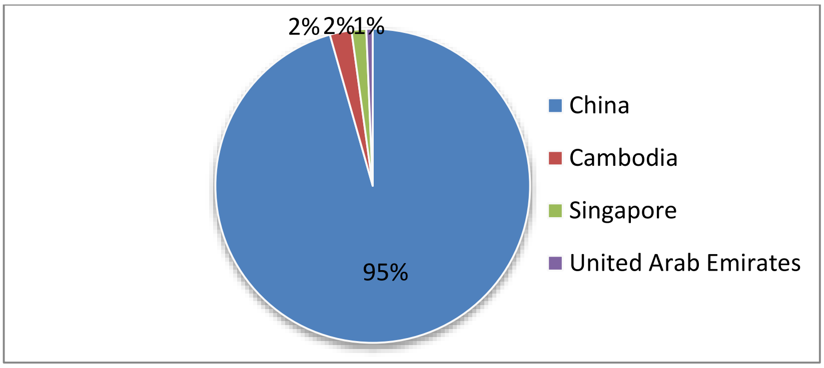
Figure 57. Sugar Exports (Unit: 1,000 MT)



Source: USDA

The main export markets for refined sugar are China, Cambodia, Singapore, the United Arab Emirates, Taiwan and Lao (see Figure 58). According to official statistics, Vietnam has never exported refined sugar to the EU market yet. The EU maintains a quota system for sugar imports, which favours African, Caribbean and Pacific countries (ACP), and which has limited the potential for market entry from Vietnam.

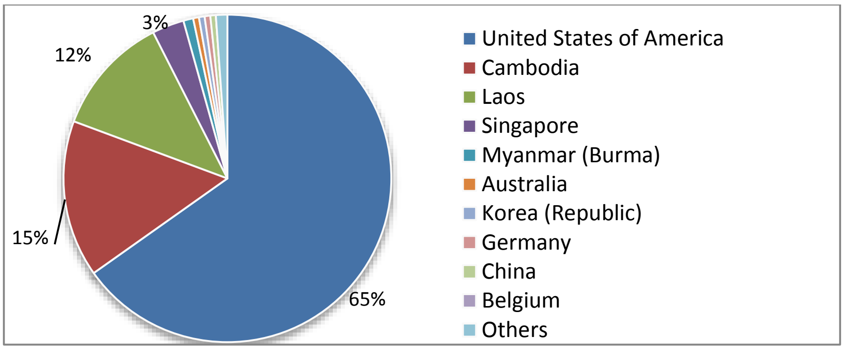
Figure 58. Refined sugar export market shares, 2013



Source: General Department of Vietnam Customs

In addition to refined sugar, Vietnam has exported other types of sugar (HS code 1702) mainly to the USA (see Figure 59).

Figure 59. Other sugar (HS 1702) export market markets, 2013



Source: General Department of Vietnam Customs

According to consulted stakeholders, the highest level of competition is national driven and there is little threat of international competition, with the exception of ASEAN countries, which present a moderate risk (see Table 15).

Table 15. Stakeholders' perception of sources of competition in sugar

	Low	Moderate	High
Sugar			
Domestic			✓
EU	✓		
ASEAN		✓	
China	✓		
Japan	✓		

Source: Authors

The level of competition in the sugar sector is considered to be ranging from low to medium. The main factors of competition relate to price competitiveness, seeds and varieties, and branding (See Table 16).

Table 16. Stakeholders' perception of factors of competition

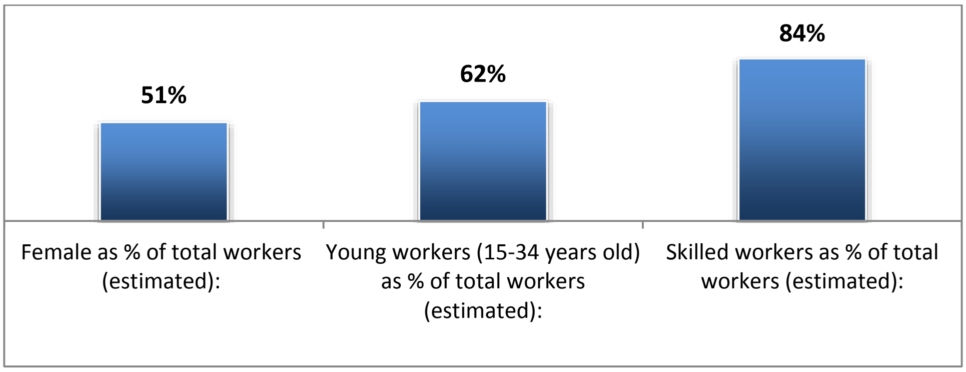
	Low	Medium	High
Sugar			
Price competitiveness		✓	
Technology advantage	✓		
Seeds or species		✓	
Brand name		✓	

Source: Authors

III.3.3.2.2 Livestock and Processed Meat

The number of persons employed in the livestock sector experienced a sharp increase of 33 per cent between 2008 and 2011 due to the significant rise of 45 per cent in the number of enterprises engaged in this sector. However, the average number of employees per enterprise dropped from 40 in 2008 to 33 in 2011. The majority of enterprises (90 per cent) in this sector are micro or small sized. Medium-sized enterprises are negligible, representing only 1.8 per cent of all enterprises, and there are only 5 enterprises with more than 250 employees. Regarding the labour structure of the livestock sector, female labour accounts for around two fifths of those employed in the sector. The proportion of labour aged between 15 and 34 is above 50 per cent and the per centage of unskilled labour was around 27 per cent (see Figure 60). The remainder of those employed in the sector attended at least one training course or higher schooling.

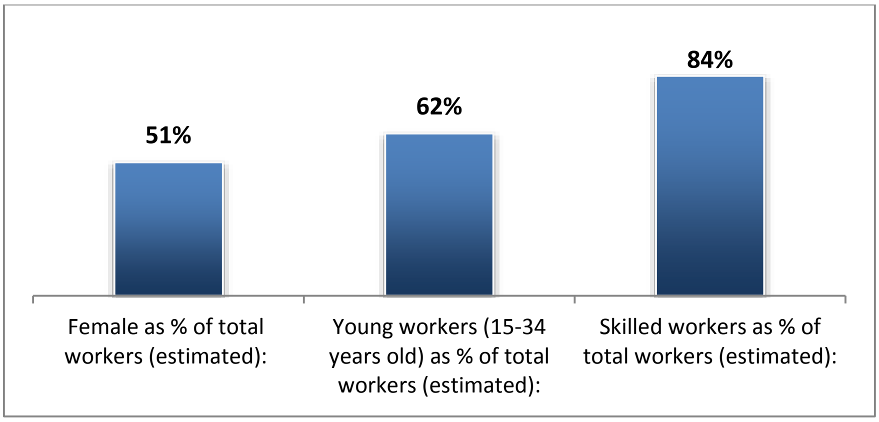
Figure 60. Characteristics of livestock sector



Source: Authors

The total number of enterprises in the meat-processing sector has shown an upward trend, increasing by 39 per cent. Similarly, total numbers of labours employed in this sector as well as the average numbers of employees/enterprise has continuously increased during the period 2008-2011. The structure of the meat-processing sector is similar to that of the livestock sector with the majority of enterprises in this sub-sector being either micro or small sized, with a marginal level of medium-sized enterprises. More than half of the workers in the meat-processing sector are female. The proportion of young labour (aged from 15 to 34 years old) reached 62 per cent, and the per centage of labour receiving at least one training course or higher schooling is high, at 84 per cent (see Figure 61).

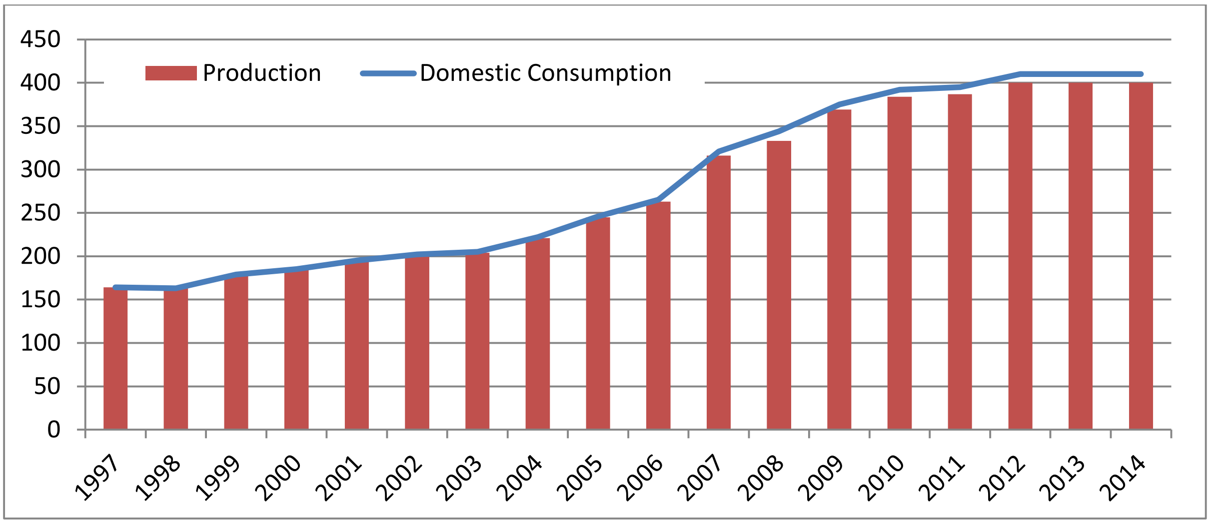
Figure 61. Labour structure of enterprises in meat processing sector (per centages)



Source: Authors

Almost all of the beef and swine meat produced in Vietnam is produced to satisfy domestic demand. Both production and domestic consumption have continuously been increasing since 1997 and reached about 400,000 tons for beef (see Figure 62) and 2.5 million tons for swine in 2013.

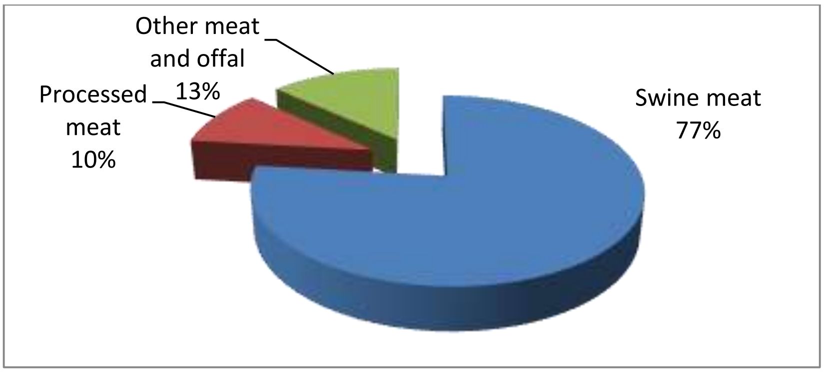
Figure 62. Beef meat domestic consumption and production (unit: 1,000 MT)



Source: USDA

Of the total meat export value, swine meat export accounts for up to 77 per cent, followed by processed meat, representing 10 per cent (see Figure 63).

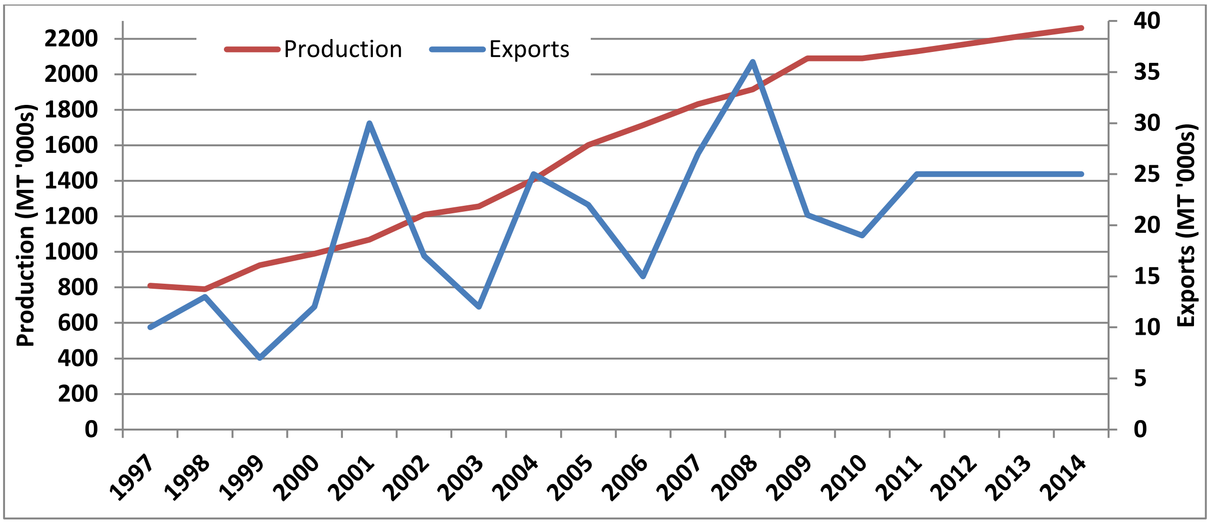
Figure 63. Meat export value structure, 2013 (per cent)



Source: General Department of Vietnam Customs

However, export volume of swine meat is small, ranging from 7,000 MT to 36,000 MT/year in comparison with 800,000 MT to 230,000 MT of swine meat production every year.

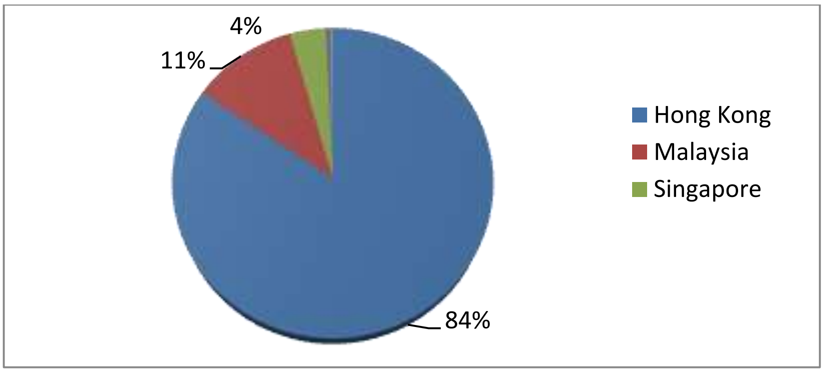
Figure 64. Swine Meat Export volume



Source: USDA

Pork is exported mainly to Hong Kong, which accounted for 84 per cent of Vietnam's export market share in 2012 (Figure 65).

Figure 65. Swine meat export market shares in 2012



Source: General Department of Vietnam Customs

According to consulted stakeholders, the highest level of competition is national driven, although there is also a noted threat of international competition, from Australia and New Zealand. However, the EU is also perceived as presenting a moderate risk, mainly as a result of EU subsidies to this sector (see Table 17).

Table 17. Stakeholders' perception of sources of competition in meat

Beef and swine			
Domestic			✓
EU		✓	
ASEAN	✓		
China	✓		
Japan	✓		
Australia, New Zealand			✓

Source: Authors

The level of competition in the meat sector is considered to be relatively low. There are no major factors of competition, in comparison to other sectors of agriculture. The greatest factor of competition in third markets would relate to standards (Table 18).

Table 18. Stakeholders' perception of factors of competition

	Low	Medium	High
Beef and swine			
Price competitiveness	✓		
Technology advantage	✓		
Seeds or species	✓		
Brand name	✓		

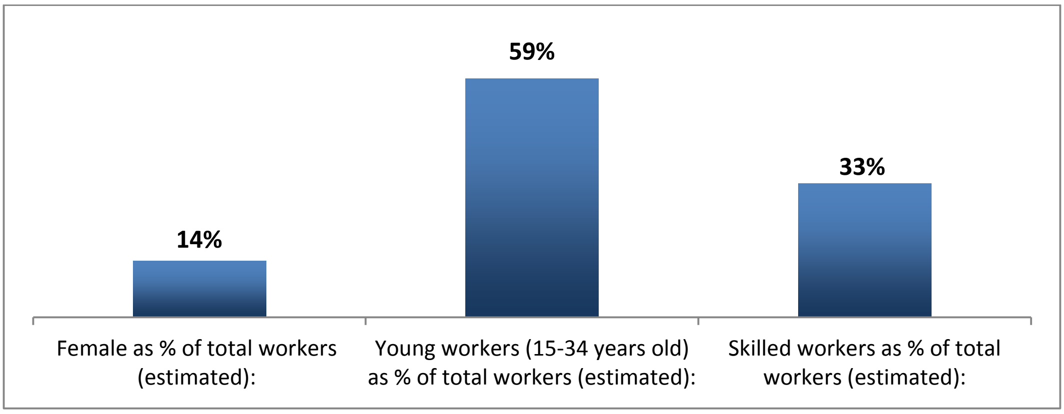
Source: Authors

III.3.3.2.3 Fisheries

The industry of fishing and aquaculture employs a large number of workers. There has been a steady rise in the number of enterprises in this sector since 2008. However, the average number of employees per enterprise is quite low with about 30 people. The sector is estimated to employ 44,000 workers and there are 1,546 enterprises working in this industry. Despite the large number of enterprises, almost all of them are small or micro-sized (under 250 labour/enterprise) and less than 1 per cent is medium sized. Only 9 firms employ over 250 employees.

The labour structure in the fishing and aquaculture sub-sector is quite different from other sectors in the agro-products sectors. The proportion of female workers is very limited, at about 14 per cent. Around 60 per cent of workers are young (15 to 34). In spite of young labour structure, the per centage of skilled worker is low, at 33 per cent.

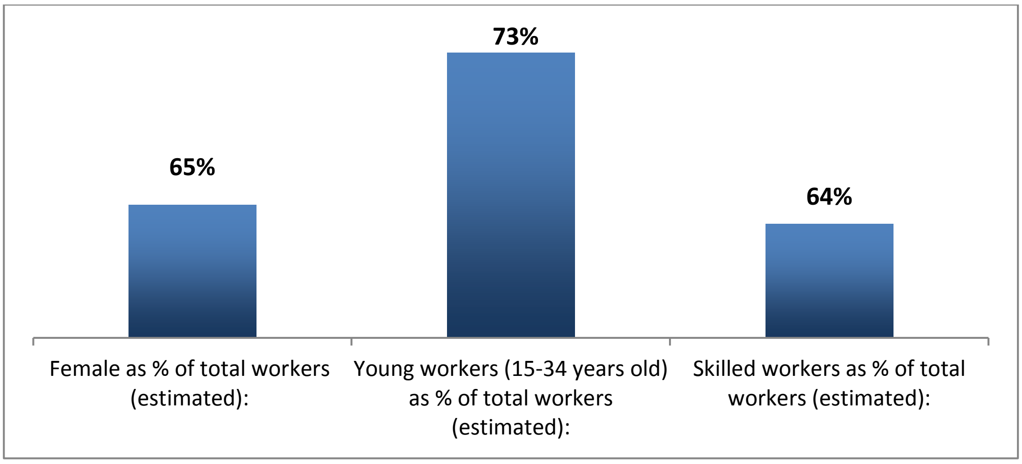
Figure 66. Labour structure of enterprises in fishing and aquaculture (per cent)



Source: Authors

The fish-processing sector has similar characteristics to those in the fishing and aquaculture sector. The number of worker in this sector is high and has kept increasing steadily since. The number of enterprises has also experienced a steady increase. However, the amount of workers per firm is much higher with the average number of worker is about 190. In 2011, around 207,000 persons were employed in 1,120 fish-processing enterprises. Enterprises in this sector are predominantly small and micro, although just under 20 per cent of firms employ 250 workers or more. The proportion of female worker in fish processing sector is high (65 per cent) and the majority of workers are young (73 per cent). The per centage of skilled worker is twice as high as that of the fishing and aquaculture sector (64 per cent) (See Figure 67).

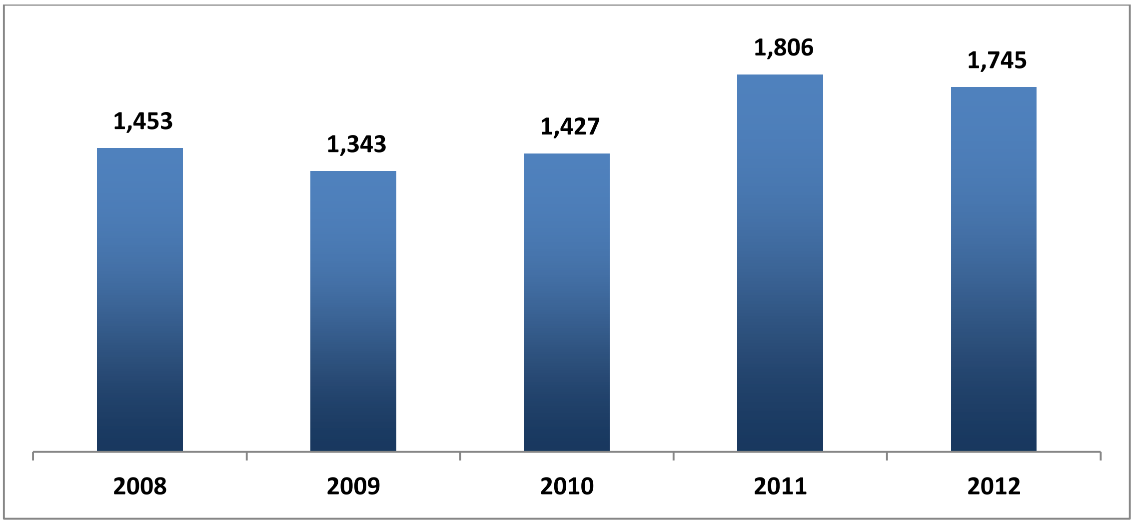
Figure 67. Labour structure of the enterprises (per cent)



Source: Authors

Pangasius (catfish) is produced in Vietnam primarily for exports. Exported pangasius from Vietnam accounts for more than 95 per cent of the world market, with an export turnover, which reached nearly US$1.8 billion over the past 2 years (See Figure 68).

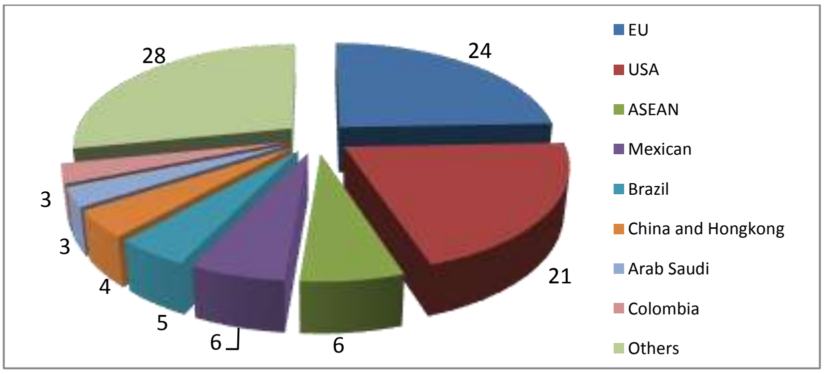
Figure 68. Pangasius export value (2008 – 2012) (US$ Millions)



Source: General Department of Vietnam Customs

The main export markets for catfish are the EU, US, ASEAN, Mexican, Brazil, China and Hong Kong of which EU is the biggest importer, accounting for 24 per cent of the total exports (see Figure 69).

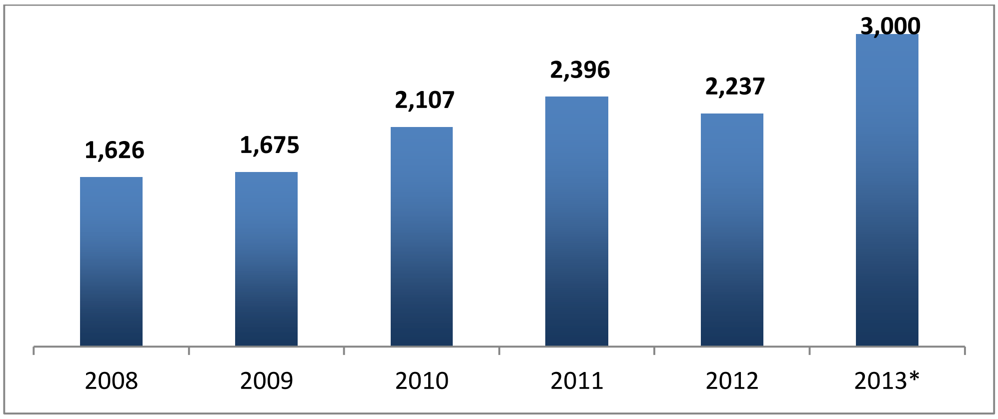
Figure 69. Main pangasius export markets, 2013 (per cent)



Source: General Department of Vietnam Customs

Shrimp exports have kept increasing since 2008, reaching a peak of over US$ 3 billion in 2013, 37 per cent higher than 2012 (see Figure 70).

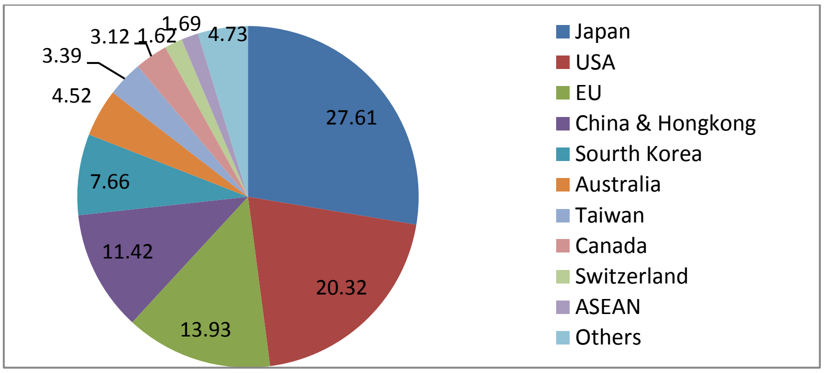
Figure 70. Export turnover of shrimp (US$ Millions)



Source: General Department of Vietnam Customs and VASEP

Japan is the leading market for Vietnamese shrimps, accounting for a share of around 28 per cent of total export turnover. The second largest market for Vietnamese exports of shrimp is the US (20 per cent). The EU is the third biggest market with 14 per cent of the total export value.

Figure 71. Shrimp export market shares (per cent)



Source: VASEP

According to consulted stakeholders, the highest level of competition is national driven, although there is also a noted threat of international competition in the sector of shrimp, from ASEAN countries and China, which compete on similar markets. There is no perceived threat from competition in the sector of catfish (see Table 19and Table 20).

Table 19. Stakeholders' perception of sources of competition in shrimps

	Low	Moderate	High
Shrimp			
Domestic			✓
EU	✓		
ASEAN		✓	
China		✓	
Japan	✓		

Source: Authors

Table 20. Stakeholders' perception of sources of competition in catfish

	Low	Moderate	High
Pangasius			
Domestic			✓
EU	✓		
ASEAN	✓		
China	✓		
Japan	✓		

Source: Authors

The level of competition in the fisheries sector is considered to be relatively high, particularly for catfish. The major factors of competition relate to price, technology and species of shrimp (Table 21).

Table 21. Stakeholders' perception of factors of competition

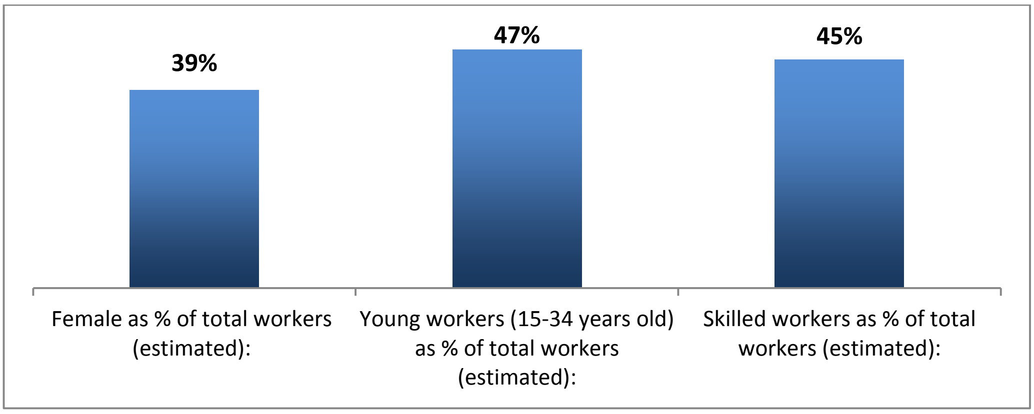
	Low	Medium	High
Shrimp			
Price competitiveness			✓
Technology advantage		✓	
Seeds or species		✓	
Brand name		✓	
	Low	**Medium**	**High**
Pangasius			
Price competitiveness			✓
Technology advantage			✓
Seeds or species			✓
Brand name		✓	

Source: Authors

III.3.3.2.4 Coffee

The number of workers employed in the coffee sector is quite large but has shown a downward trend since 2008, whereas the number of enterprises has increased. In 2011, the sector employed 26,000 workers employed in 536 enterprises in. The majority of enterprises are small and micro-sized. The proportion of medium and large enterprises is about 10 per cent. There are 25 firms, which employ over 250 workers. Two fifths of those employed in the sector are women and nearly half the workers are young. The proportion of skilled workers is very low, at 45 per cent only (Figure 72).

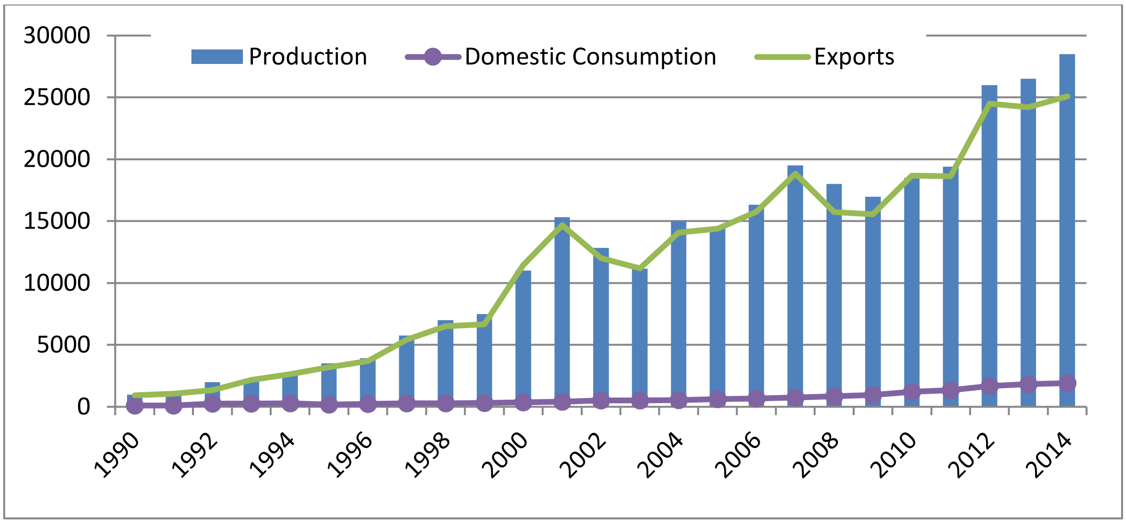
Figure 72. Labour structure of the coffee enterprises (per centage)



Source: Authors

Coffee is considered one of the highest competitive agricultural commodities of Vietnam. Vietnam produces green Robusta mainly: about 90 per cent of total coffee planted areas are used to grow Robusta. Both coffee production and export volume has been increasing rapidly for a long time. Most of the production, more than 90 per cent is exported (Figure 73).

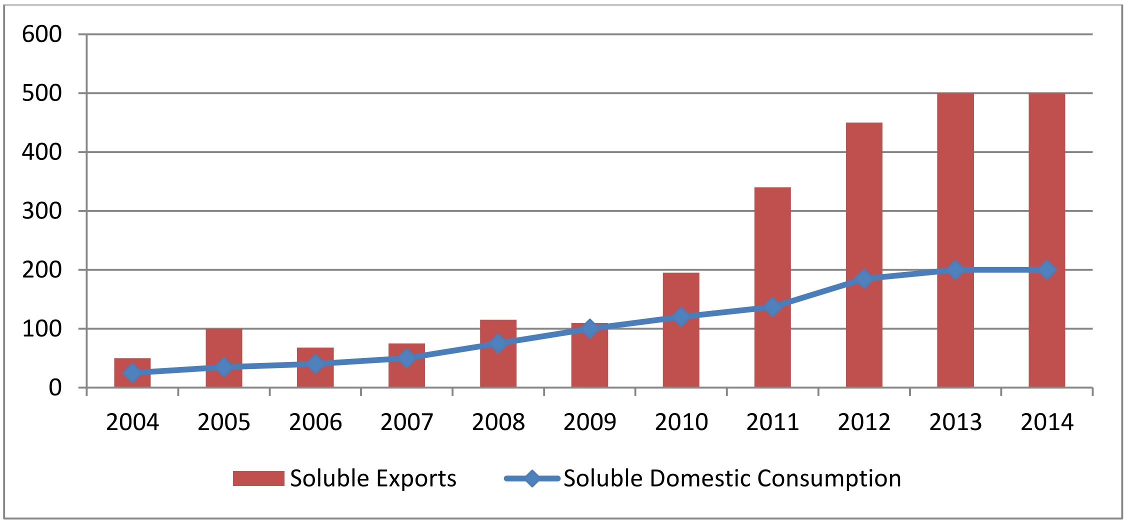
Figure 73. Coffee Exports, Domestic Consumption and Production (unit: 1000; 60kg; bags)



Source: USDA

In the case of soluble green coffee, its export volume has been sharply increasing since 2009 and current export volume is recorded at about 30,000 tons in 2013. The domestic consumption volume of soluble coffee only accounts for about 40 per cent of its export volume yearly.

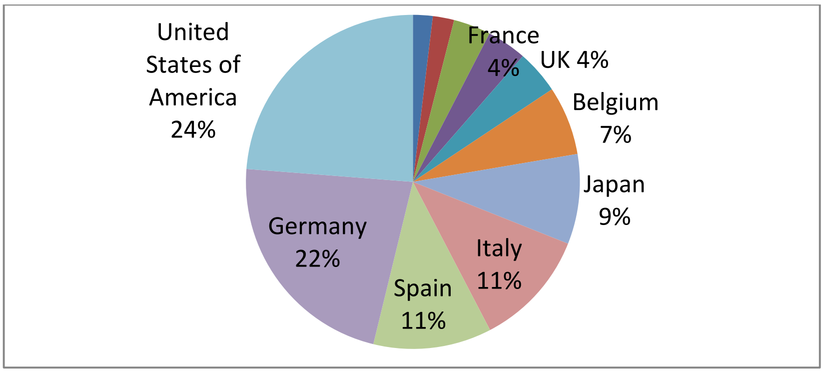
Figure 74. Green Coffee Soluble Exports vs. Domestic consumption (unit: 1000bags; 60kgs/bag)



Source: USDA

The US, Germany, Spain, Italy, Japan, Belgium, the UK, France and the Republic of Korea are the leading importers of Vietnam coffee. Exports to the US account for about 15 per cent of total coffee exports, followed by Germany, Spain and Italy (Figure 75).

Figure 75. Coffee export market shares (per cent), 2012



Source: General Department of Vietnam Customs and VASEP

According to consulted stakeholders, the highest level of competition is national driven, although there is also a noted threat of international competition from ASEAN countries and Latin America, which compete on similar markets. There is a moderate threat also perceived from EU companies (see Table 22).

Table 22. Stakeholders' perception of sources of competition in coffee

	Low	Moderate	High
Coffee			
Domestic			✓
EU		✓	
ASEAN			✓
China	✓		
Japan	✓		
Latin America			✓

Source: Authors

The level of competition in the coffee sector is considered to be relatively high. The major factors of competition relate to price and varieties (Table 23). Branding and production process are also considered to be important factors of competition.

Table 23. Stakeholders' perception of factors of competition

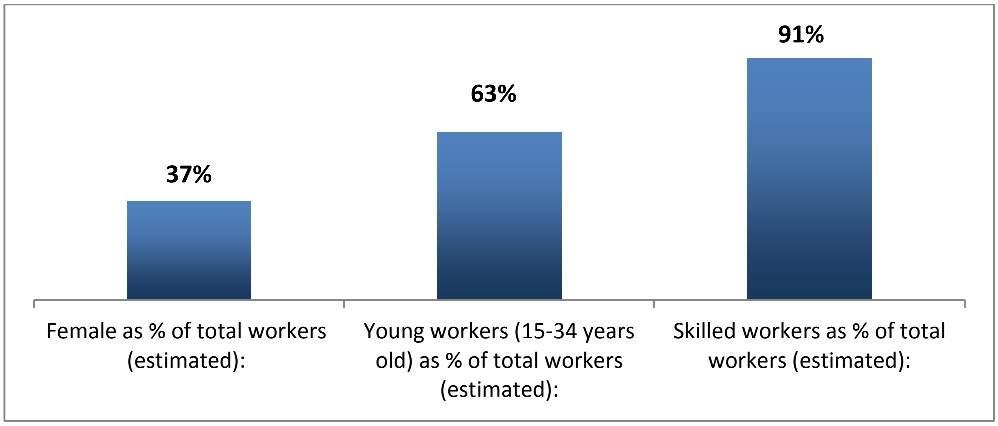
	Low	Medium	High
Coffee			
Price competitiveness			✓
Technology advantage		✓	
Seeds or species			✓
Brand name		✓	

Source: Authors

III.3.3.2.5 Dairy

Although the dairy sector is considered to have a low level of competitiveness, the number of workers employed and the number of enterprises are high. A total of 13,500 workers were employed in 141 enterprises in the dairy sector in 2011. Almost all enterprises were small and micro-sized. Only 8 enterprises employed more than 250 workers. The number of skilled workers in the dairy sector is high, at 91 per cent of total workers. The sector employs a high proportion of young employees (63 per cent) and about 37 per cent of workers are women (Figure 76).

Figure 76. Labour structure of the dairy enterprises (per cent)



Source: Authors

Vietnam imports a large volume of milk products and exports very little, due to unfavourable conditions for dairy milk production. Therefore, domestic production of dairy products is aimed at the domestic market. However, recent statistics show an upward trend of dairy exported despite the low levels. Export turnover of milk and cream, concentrated or sweetened (HS 0402) accounts for the largest proportion of export value (96 per cent).

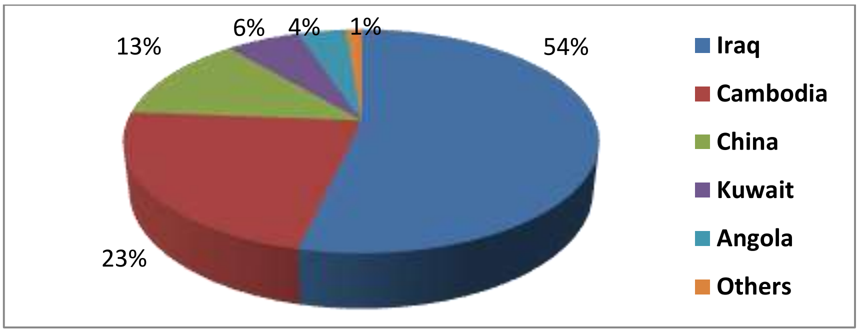
Table 24. Dairy Export turnover (1,000 US$)

HS code	2008	2009	2010	2011
0401	51	242	455	584
0402	28,010	22,745	32,345	64,619
0403	1,083	303	490	810
0404	322	171	311	386
0405	146	207	33	139
0406	2	25	35	45
Total	**29,614**	**23,693**	**33669**	**66,583**

Source: Trademap

The main export markets for dairy products are Iraq (54 per cent), Cambodia (20 per cent) and China (12 per cent).

Figure 77. Dairy export market shares, 2012



Source: ITC Trademap

According to consulted stakeholders, the highest level of competition is national driven, although there is also a noted threat of international competition from the EU, China, Japan and Australia and New Zealand (see Table 25).

Table 25. Stakeholders' perception of sources of competition in dairy products

	Low	Moderate	High
Dairy			
Domestic			✓
EU			✓
ASEAN		✓	
China			✓
Japan			✓
Australia, New Zealand			✓

Source: Authors

The level of competition in the dairy sector is considered to be relatively low. There are no major factors of competition (Table 26).

Table 26. Stakeholders' perception of factors of competition

	Low	Medium	High
Dairy			
Price competitiveness	✓		
Technology advantage	✓		
Seeds or species	✓		
Brand name	✓		

Source: Authors

III.3.3.3. Considerations for an FTA

The analysis of the CGE Model indicates that the agricultural sector in Vietnam will experience a net improved performance as a result of an FTA. These benefits might be slightly overestimated, though the liberalization efforts are expected to bring some positive impact for Vietnam. Those sectors which would benefit most are the beef and veal and fishery product clusters. Below are some non-quantitative considerations of the FTA.

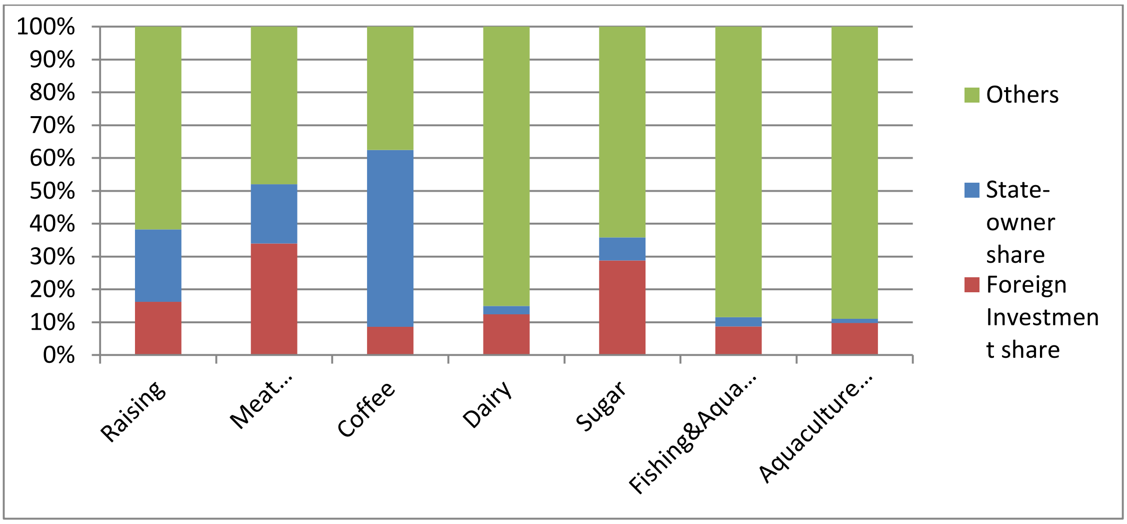
Vietnam registers a strong revealed comparative advantage in a number of agro and fishery products, which would be in direct competition with European sectors, such as roasted coffee, tomatoes, sugar, rice, fish, shrimp, etc. Equally, the EU is competitively strong in pork, diary and agro-processing, sometimes as a result of subsidies and large protective measures (through tariff peaks).

Vietnam has significant input requirements across the entire supply chain of agro-processing sector with a high propensity to import. For example, around 70 per cent of animal feed is imported and in 2013, Vietnam imported US$3 billion of rice, US$4 billion of animal fees and US$1 billion of materials for agriculture (maize, soybeans, and wheat for animal feeds). Vietnam also has a high propensity to export (and is thus competitive) in a number of sectors, from coffee, cashew nuts, seafood to rice, while it is clearly less export oriented in other sectors, such as the dairy industry. The competitiveness of the sector is expected to improve under an FTA, owing to the degree of input reliance of Vietnam's industries from abroad.

Dependence on external markets is also relevant to the dependence on external resources. The structure of ownership of enterprises also differs across sectors, with the meat processing, dairy, sugar and coffee sectors enjoying a significant level of FDI. The coffee sector has a large state owned share in its capital structure. The dairy sector is the only sector to report facing strong competition from overseas producers. With regard to competition, the seafood and coffee sectors report being the most price sensitive sectors.

FDI is important for some agro-processing sectors, and the EU-VIETNAM FTA is expected to boost foreign direct investment. Coffee is a sector dominated by state capital, which account for over 50 per cent of its capital. Foreign investment accounts for a large proportion of capital in sugar and meat processing enterprises (34 per cent and 29 per cent respectively). Aquaculture is the sector having highest shares from non-state, non-foreign sources. The degree to which FDI would be encouraged through the signing of an FTA is not clear. High tariffs are a catalyst for FDI in order to circumvent large trade barriers. In the case of Vietnam, significant tariffs remain. FDI could also be the result of a strategy by EU firms to access the regional ASEAN (and ASEAN+) markets.

Figure 78. Shares of equity by ownership (Per cent)



Note: Other includes private enterprises, cooperatives, with less than 50 per cent equity owned by State enterprises
Source: GSO Enterprises census for 2012.

According to stakeholder views, the degree of value added created in the agro-products sector is quite low, ranging from 20 per cent or less in the cashew, coffee shrimp and meat sectors, to betwene 20 per cent and 40 per cent in the dairy, sugar and catfish sectors. The low levels of transformation are not of concern for the rules of origin requirements of an FTA, since the basic commodities are locally grown and the meat sourced from Vietnamese live animals.

Table 27. Stakeholders' views on production methods and value creation in Agro products

	Raw materials exploitation/extraction	Light Manufacturing and transformation	Heavy Manufacturing and major transformation	Degree of Value addition created
Cashew	✔	✔	✔	<20%
Pangasius		✔	✔	21-40%
Shrimp		✔	✔	<20%
Coffee	✔	✔	✔	<20%
Beef and pork	✔	✔	✔	<20%
Sugar	✔	✔	✔	21-40%
Dairy	✔	✔		21-40%

Source: Authors

Non-tariff measures are significant in the agricultural sector. NTMs include SPS concerns, packaging and labelling requirements, traceability requirements and stringent customs procedures. The standards imposed by the EU are recognized as some of the highest in the world and most difficult (and costly) to attain. Vietnam will need to continue investing heavily in its national quality infrastructure in order to ensure that its competent authorities and private sector are well equipped to verify the traceability and safety of products across the value chain. Beyond standards voluntary standards such as HACCP and EuropGap along the value chain, demanding environmental and animal welfare rules are also often challenging for developing countries to meet. In the beef sector for example, where higher prices paid by EU consumers bring substantial benefits to exporters from developing countries, the costs related to compliance dwarf those benefits. Therefore an agreement on border measures alone is unlikely to yield significant benefits for exporters of agricultural products.

Despite some reforms of the EU's Common Agricultural Policy (CAP), the EU maintains subsidies to production and exports of a number of agricultural products. Although there has been decoupled of subsidies from production, though the so called “Green Box”, which is permitted under the WTO Agreement of Agriculture, the indirect effect of these farm payments is to reduce the price of agro-products vis-à-vis production costs. Further CAP reforms have reduced import quotas and non-price measures and transferred payments towards non-farming activities rather than specific crop production. For the 2014-2020 budget, around € 363 billion will be spent on agricultural subsidies, representing an average of €50 billion a year. This is significantly lower than the previous budget (2007-2013) when € 417 billion was spent.

III.3.4. Sector wide effects on key manufacturing sectors

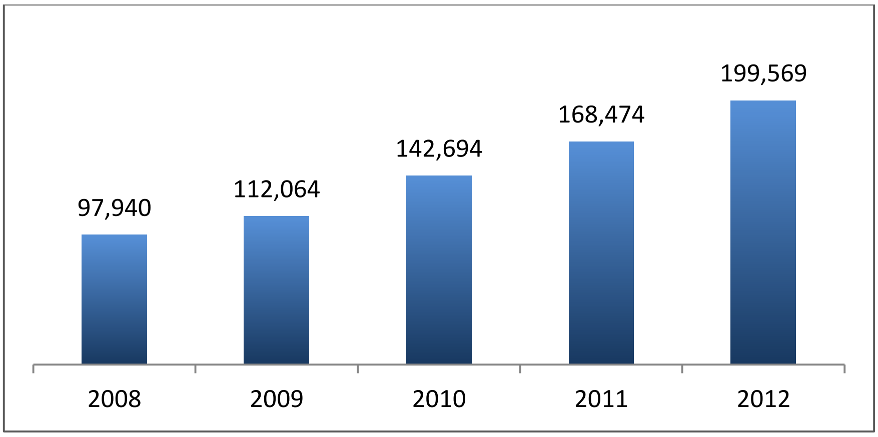
The analysis on industry focused on six core sectors: textiles and clothing, footwear, automotive products, high-technology products, handicrafts and wood processed products. In general, all sectors have experience tremendous growth and are highly competitive industries. Three sectors are particularly outward oriented: textiles and clothing, footwear and handicrafts have very high propensities to export. Investment is also drawn significantly to four of these sectors: textiles and clothing, footwear, high-technology and automotive. State owned enterprises are present at varying degrees of intensity across all sectors. Employment is significant for all sectors, with handicrafts having a major rural development, pro-gender and poverty alleviation dimensions. To a still significant extent, textiles and clothing, and footwear also share some of these dimensions. Employment nevertheless remains significant for all sectors.

III.3.4.1. Wood processing sector

III.3.4.1.1 Characteristics of the wood processing sector

The wood processing industry has made vigorous and considerable progress, and increasingly becomes a significant contributor to the country's GDP. Vietnam’s wood processing industry has grown tremendously over the past five years, with gross output of the industry doubling between 2008 and 2012 (see Figure 79).

Figure 79. Gross output of the wood processing industry
(Unit: Current VND billions)



Source: GSO

Wood processing industry has become one of the key export sectors of Vietnam. It includes pulp and panel mills as well as wood manufacturing enterprises. Accordingly, the number of acting enterprises in the wood processing industry has continuously increased over past few years. There were approximately 6,964 enterprises in the industry in 2011, but the majority are small and medium firms (81 per cent of total firms) with less 50 workers.

With the growth in the number of wood processing firms over past few years, the number of employees in this industry also increased, from 384,712 in 2008 to 400,471 in 2011. Notably, due to the global crisis that led to a reduction in the world demand for wood products in 2009, the wood processing firms in Vietnam were forced to reduce their production levels, which led to fall in the number of employed workers in the industry.

The industry's ownership is a mixture of state-owned enterprises, private-owned enterprises, and foreign owned enterprises. According to the Enterprise census of 2012, the state owned firms accounted for 3.5 per cent of total firms in the industry; 85.7 per cent are private-owned firms while the remaining 10.7 per cent are FDI firms. Foreign investment in this industry is mainly from Asia (in particular Taiwan, Singapore, Malaysia and China) as well as from Denmark, Norway, Sweden and France. In addition, there are hundreds of thousands of small and medium-sized wood manufacturers that are not registered. The proportion of export-oriented firms is around 15 per cent.

III.3.4.1.2 Vietnam's trade in processed wood products

Vietnam's wood processing industry has enjoyed steady growth, with export values increasing at an average annual growth of 12 per cent for the 5-year period of 2008-2012. The export turnover of Vietnam's wooden products increased from US$ 3.3 billion in 2008 to US$5.1 billion in 2012. It is estimated that the export value of this industry exceeded US$5.4 billion in 2013. Whereas Vietnam exported its wooden products to only 60 markets in 2003, it now reaches over 120 countries. The attraction of Vietnam's wood products is attributed to the low cost of products as well as the improvement in quality. However, it can be noticed that the proportion of wooden product exported to the EU market in total exports is diminishing, from 41 per cent in 2008 down to 36 per cent in 2012 (see Table 28). The main causes for this decline in exports to the EU market relate to the economic slowdown of the European economies which reduced its demand for wood products; the

EU has raised more stringent requirements and standards; and increased competition in the EU market from China, Malaysia, Indonesia and Thailand, which have easier access to raw materials.

As mentioned above, Vietnam is dependent on imports for its wood processing industry. The wood import value of Vietnam in 2012 was US$1.1 billion (and is estimated to have increased another 24 per cent the following year). According to MARD, Vietnam imports about 4 million cubic meters of hardwood timber each year and at least 80 per cent of this is re-exported as final products, principally as furniture. Timber has been imported mainly from over 20 countries, of which the main source markets are China, United States, Malaysia, Thailand, New Zealand and Laos.

Table 28. EU & Vietnam Trade in Wood Processing

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	3,301	3,001	3,882	4,423	5,128	
Imports from the World	847	736	984	1,107	1,102	
Trade Balance	**2,454**	**2,265**	**2,897**	**3,316**	**4,026**	
Exports to EU	1,360	1,092	1,150	1,143	1,126	
Imports from EU	32	55	54	45	45	
Trade Balance	**1,328**	**1,036**	**1,096**	**1,098**	**1,081**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	116,290	90,664	95,578	108,953	101,647	
Imports from the World	109,682	84,528	91,331	100,633	91,030	
Trade Balance	**6,609**	**6,137**	**4,247**	**8,320**	**10,617**	
Exports to VN	32	55	54	45	45	
Imports from VN	1,360	1,092	1,150	1,143	1,126	
Trade Balance	**-1,328**	**-1,036**	**-1,096**	**-1,098**	**-1,081**	

Note: EU reported data

Source: World Bank WITS

Some key trade indicators that express trends and competitiveness of Vietnam's wood processing industry are presented in Table 29. Exports have grown by 12 annually over the last five years (2008-12) and the trade surplus in wood products is increasing.

Table 29. Trade Indicators for Vietnam's trade in wood products

Trade Profile	
Growth of Exports last 5 yrs (%)	12%
Growth of Imports last 5 yrs (%)	7%
Share in National Exports (%)	4.5%
Share in World Exports	1.8%
Revealed Comparative Advantage	3.04

The furniture sector is one of the largest export components of the wood processing sector, worth around US$3 billion in terms of export value[48]. The Vietnam Government strongly supports the wood processing industry and has policies for encouraging the development of timber plantation to reduce the dependence on timber imports. At present, the planted timber is mostly processed into pulp or reconstituted panel products.

Wood products exported from Vietnam can be categorized into 4 main types, including: (i) outdoor wooden products; (ii) indoor wooden products; (iii) fine art wooden products; and (iv) wood particles. For Vietnam, outdoor products are largely exported, while indoor products are predominantly traded on domestic market.

In the wood processing industry, the main manufacturers for export are concentrated in two geographical clusters: the South Central Coast (mostly in Quy Nhon), and South East (mostly in HCMC). In addition, a smaller proportion of exporting manufacturers are located in the Central Highlands.

National wood processing firms have limited opportunities to export furniture due to their lack of internal funds and access to credit. Statistics show that exports are dominated by FDI firms, mainly firms from Taiwan, China because these firms have stable orders, access to finance and economies of scale.

III.3.4.1.3 Considerations for the wood sector under the EU-Vietnam FTA

Exported wooden products from Vietnam to the United States are now enjoying near zero tariff rates, thus Vietnam's benefit in exporting wooden products to Trade Pacific Partnership (TPP) countries should not be overtly positively affected by the tariff reductions. Vietnam is now the sixth largest exporter of wood products to the US In addition to tariffs though, the TPP is expected to tackle non-tariff barriers (e.g. technical barriers - LACEY act, trade remedies such as anti-dumping lawsuit) that are now making it difficult for wooden product exports from Vietnam. In the event of a TPP being signed, it is expected that Vietnam would divert trade in favour of the US market.

An EU-Vietnam FTA would present a great opportunity for Vietnam's wood processing industry to make breakthroughs in the EU market, and reverse the current downward trend. The EU is the second largest importer of Vietnam's wooden products while it is also a major supplier of woodworking machinery in the world. The EU-Vietnam FTA could benefit both sides in terms of bilateral trade and investment. Specifically, EU exports to Vietnam are expected to increase, especially high-tech woodworking machinery at more reasonable prices, which will help boost labour productivity and production efficiency of wood processing firms in Vietnam. Stakeholders also feel that more EU investors will invest in Vietnam as a result, which helps the wood processing industry to upgrade its role and position in global woodwork value chains and enhance its output capacity and competitiveness.

There some concern expressed that if gone uncontrolled, large influxes of FDI to build more competitive FDI firms, could pose a serious threat to the survival of Vietnamese (domestic) wood

[48] UNSD COMTRADE data

processing firms. The FTA should also seek to foster a revision of the legal framework towards protection of intellectual property rights and geographical indications for domestic products, and the revisiting of environmental standards (FLEGT or VPA for example) and labour laws in a complete and effective manner.

Adhering and adopting international standards will be stimulated by the EU-VIETNAM FTA, simply because EU consumers are significant demanders of it. Notably, the Forest Stewardship Council (FSC) certified lumbers like acacia, eucalyptus and teak, are always in high demand in the EU market because of the sustainability, environmental friendliness, guaranteed quality and reasonable price of such demand. Accordingly, the FTA will have a positive impact on Vietnam's exports of these items. It is estimated that around 90 per cent of total wood materials imported by Vietnam are FSC-certified.

With macro-economic stability, low labour costs, quality craftsmanship, highly adaptable work force, and its WTO membership, Vietnam has become a very attractive partner for wooden product importers. Vietnam is abundant in skilled and low cost labour. Many FDI firms of wood processing invest in Vietnam because of such attributes. These advantages are often translated into lower price to customers, greatly enhancing competitiveness of Vietnam's wood products. The cost and labour advantages, along with the country`s political social stability and its convenient geographical location strongly enhance Vietnam`s competitiveness in wood processing.

Despite the increasing level of exports, the industry has still encountered several challenges, especially heavy dependence on imported wood materials. The domestic resources of raw wood materials have not met the demand from the wood manufacturers both in terms of volume and quality. Vietnam has not yet developed supporting industries for furniture production along the entire value chain. The imported parts (e.g. raw timber and accessories) make up 30-40 per cent of the wood product value[49]. Currently, around 80 per cent of the wood materials used in the wood processing industry are imported. For the period 2007-2010, the volume of timber imported was equal to 80 per cent of the volume of timber processed.

According to the Vietnam Forestry Development Strategy 2006-2020, the volume of wood materials lumbered a year is expected to be 20-24 million m^3. This figure is much higher than Vietnam's current annual wood material volume of 1.5 million m^3. With implementation of the Strategy, it is expected that import of raw wood materials will fall drastically. Notably, increasing domestic supply of wood materials for the wood processing industry also contributes to the promotion of afforestation and environmental protection.

Besides the shortage of wood materials, Vietnam is facing some of the following challenges:

- *Low value–added*: the wooden products of Vietnam have low value-added because cost of imported wood materials is high, while product designs that are high value-added is supplied by foreign buyers.
- *Development of products*: The world demand has shifted from out-door to in-door wooden products, this requires Vietnam to adjust product quality, design, etc.

[49] Source: Vietnam Timber and Forest Product Association (Vietfores)

- *Lack of linkages with secondary suppliers*: Because of the shortage of wood materials, Vietnam has to import wood materials at increasing costs. This is a big difficulty for exporting firms.

In summary, Vietnam's wood processing industry is heavily reliant on imported parts (e.g. raw timber and accessories) make up 30-40 per cent of the wood product value[50]. Currently, around 80 per cent of the wood materials used in the wood processing industry are imported. Moreover, compliance with Forestry Stewardship Council (FSC) and Voluntary Partnership Agreements (VPA) and the Forestry Law Enforcement, Governance and Trade (FLEGT) are some of the difficult mandatory standards which have good sustainability objectives but high compliance costs. Additionally high levels of demand from EU consumers are difficult to reach, as well as rules of origin (since the EU imports many raw materials) and the EU's Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) add further difficulties to access the EU market. The FTA will need to address stronger cooperation in the setting and awareness of standards, and greater cooperation for the transfer of technology and promotion of investment in the sector.

III.3.4.2. Handicraft sector

III.3.4.2.1 Characteristics of the handicraft sector

Handicraft is a sector characterized by human skills, talents and creation, which is classified as creative manufacturing in some developed countries in the world. According to United Nations Educational, Scientific and Cultural Organization/Information Technology Community (UNESCO/ITC)[51] definition: "*Handicrafts can be defined as products which are produced either completely by hand or with the help of tools, as long as the direct manual contribution of the artisan remains the most substantial component of the finished product. Handicrafts are made from raw materials and can be produced in unlimited numbers. Such products can be utilitarian, aesthetic, artistic, creative, culturally attached, decorative, functional, traditional, religiously and socially symbolic and significant.*"

Vietnam's handicrafts[52] sector has witnessed an impressive production growth only during the past decade, mainly due to increasing exports to the world market. The handicraft sector not only represents the country's culture and spiritual values, but its emergence also has considerably contributed to the overall socio-economy development in Vietnam, especially in terms of poverty reduction and rural development. The sector contributes to the economy by providing jobs and generating incomes for more than a million rural households, developing new rural areas and creating high export earnings. Handicraft has also established as a sector of thousands of producers, traders, exporters and other support service agencies in Vietnam. In the world market, Vietnam's handicraft products have proved to be highly competitive for interior decoration, accessories and gift articles.

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[50] Source: Vietnam Timber and Forest Product Association (Vietfores)

[51] United Nations Educational, Scientific and Cultural Organization/Information Technology Community (UNESCO/ITC) International Symposium on "Crafts and the International Market: Trade and Customs Codification", Manila, Philippines, October 1997

[52] Handicraft products can be classified in some main groups: rattan and bamboo, pottery and porcelain, wooden art, lacquer, embroidery, metal ware art, handmade paper, fine art and other products. This paper uses the classification of "Methodological Guide to the Collection of Data on Crafts" published by UNESCO.

According to data from Vietnam handicraft exporters association (VIETCRAFT), there are roughly 1,000 to 1,200 enterprises operating in the sector, locating mainly in Hanoi, Binh Duong and Ho Chi Minh City. The majority of those enterprises are of small and medium size. Enterprises with an investment capital of more than US$ 5 million account for 15 per cent of the enterprises; those with an investment capital of between US$1 and 5 million account for 50 per cent to 55 per cent of enterprises; and those with an investment capital of less than US$ 1 million make up the remaining 30 to 35 per cent of enterprises. In general, the handicraft sector in Vietnam is mainly dominated by domestic producers. Foreign investment, mainly from Germany and Netherland, makes up a relatively small share of enterprises, representing roughly 15 FDI enterprises.

Handicraft production in Vietnam is based on a system of more than 3,350 craft villages across the country. According to Vietnam Association of craft villages, the craft villages is located mainly in the Red river delta (representing 60 per cent of craft villages, of which Hanoi alone has more than 1,350 craft villages), central provinces (30 per cent), and southern provinces (10 per cent).

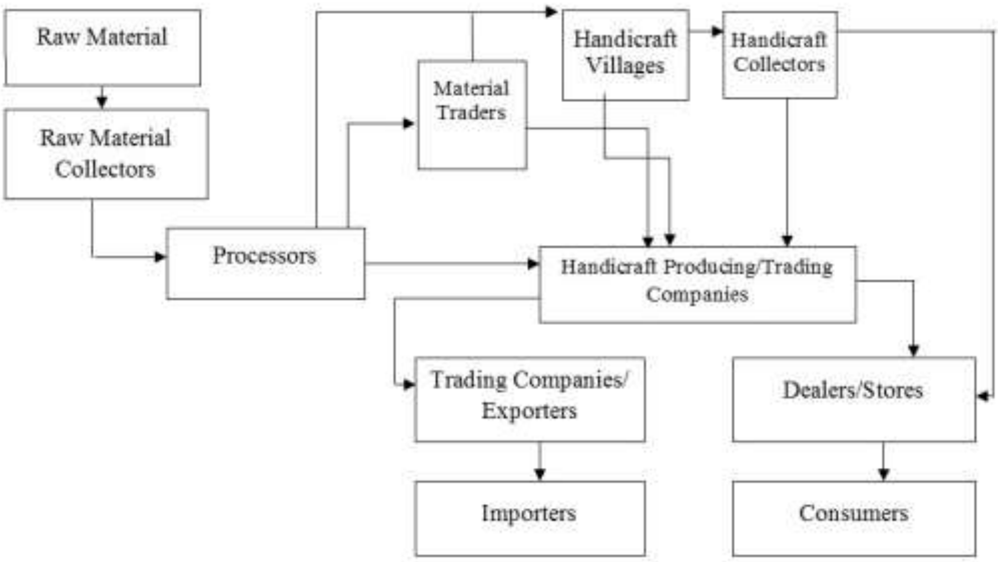
Craft villages have created jobs and incomes for more than 20 million labourers in rural areas, of which 30 per cent are regular jobs and the rest are seasonal ones[53]. Labourers in the handicraft sector are mainly in the rural areas. The sector creates job opportunities for handicapped people and provides sustainable incomes, which is much higher than agricultural production, for labourers in the rural areas. However, the craft villages are presently facing many problems related to labour: limited labour quality (only 12,3 per cent of labourers are formally trained), lack of skilled labour and designers, lack of business and marketing knowledge, weak awareness about environment and labour safety, decreasing young labour force[54].

Taking a value chain approach, we present briefly the different links in the value chain and the salient characteristics along the different phases (see Figure 80).

[53] Nguyen Van Hien (2012) Sustainable development of craft villages in Vietnam in the process of integration, in *Journal of Development and Integration,* no. 4 (14)

[54] United Nations Industrial Development Organization (*2013) Greening Value Chains For Sustainable Handicrafts Production in Vietnam*, UNIDO: Vienna; and Ministry of Agriculture and Rural Development (2012) *Program for craft villages reservation and development*, MARD: Hanoi

Figure 80. Value chain of handicrafts



Source: Synthesized from interview with Vietcraft

*The **raw materials*** used for the handicraft sector in Vietnam are quite abundant. The materials such as rattan, bamboo, wood, pottery are exploited directly from natural forests, farms, and mineral ores. This exploitation does not have a strong environmental effect since the trees have short life cycle and are replanted. Import demand for essential materials is quite small.

However, recently handicraft producers have to deal with many problems, ranging from the high price of materials, energy, transportation costs to the higher quality and standards requirements of the importing markets. There is a big concern regarding the availability of certain species of essential raw materials, some species have become rare without sustainable exploitation. For instance, Vietnam has started to import bamboo from China, and a large amount of rattan is imported from Laos and Cambodia.

The ***products collectors*** are those middlemen who are living in the craft villages, playing a bridging role between trading enterprises and production households. Besides collecting products, they can also provide materials for the households and do the packaging of the products.

The ***trading/producing companies*** collect orders and carry out some stages of the production process and place orders with households. These companies are normally of small size with limited trading and production capacity[55]. Trading companies take part only in the final stage of production such as products completion, packaging, etc. In the past, 100 per cent of handicraft exporters were state-owned enterprises. However, recently, the number of private enterprises exporting handicraft products has been increasing dramatically[56].

The ***importers*** are mainly wholesalers from Europe, Asia, America and big foreign retailers. Presently, the appearance of a range of world famous retailers in Vietnam such as IKEA, ICA (Sweden), NITORI (Japan), CAREFOUR (France); big agents such as Li & Fung, William E-Connor, is

[55] According to representatives from Vietcraft
[56] VCCI (2011) *Survey on integration issues of business community– Handicraft sector,* Report

playing an important role in exporting handicraft products of Vietnam to many countries in the world.

III.3.4.2.2 Trade in the handicraft sector

Currently, Vietnam is among the largest handicraft exporters in Asia, selling its products to more than 160 countries in the world. According to the data from Vietcraft, 75 per cent to 80 per cent of the output of this sector is for export. Exports of handicrafts peaked at US$5 billion in 2010, and fell to US$2.8 billion in 2013. Exports are estimated to be at a similar level in 2013[57]. Export growth rate of the handicraft sector has been relatively low, at 2 per cent per annum between 2008 and 2012.

Exports to the EU account for a large proportion of Vietnam's total exports (42.6 per cent in 2012). Sales to the EU have however fallen over the years. Vietnam has a large trade surplus in handicrafts with the world (US$2.6 billion in 2012) and with the EU (US$1.2 billion in 2012) (sees Table 30). It should be noted that the EU's exports of handicrafts reached 30 times that of Vietnam and therefore is quite competitive from an economies of scale's perspectives.

Table 30. EU & Vietnam trade in handicrafts

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	2,562	3,645	4,952	4,911	2,818	
Imports from the World	176	179	223	248	261	
Trade Balance	**2,386**	**3,466**	**4,729**	**4,662**	**2,557**	
Exports to EU	1,598	1,233	1,301	1,312	1,200	
Imports from EU	21	37	29	32	36	
Trade Balance	**1,577**	**1,196**	**1,272**	**1,280**	**1,163**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	82,092	64,655	72,011	86,084	83,876	
Imports from the World	77,724	62,221	69,313	78,899	76,047	
Trade Balance	**4,368**	**2,434**	**2,698**	**7,185**	**7,830**	
Exports to VN	21	37	29	32	36	
Imports from VN	1,598	1,233	1,301	1,312	1,200	
Trade Balance	**-1,577**	**-1,196**	**-1,272**	**-1,280**	**-1,163**	

Note: EU reported data for trade with the EU

Source: World Bank WITS based on COMTRADE

A number of indicators for Vietnam's exports of handicrafts reveal that Vietnam has a relatively low revealed comparative advantage. Despite it having a net comparative advantage, Vietnam's export basket is close the world's average. Its exports have gown slower than its imports, although does not give cause for concern due to the low base of imports. Handicraft products represent around 2.5 per

[57] VIETRADE (2013) *Annual Report on export promotion 2012 – 2013*, Report

cent of Vietnam's exports and it captured a 2 per cent market share in world exports of handicrafts (Table 30).

Table 31. Trade Indicators for Vietnam's trade in handicraft products

Trade Profile	
Growth of Exports last 5 yrs (%)	2%
Growth of Imports last 5 yrs (%)	10%
Share in National Exports (%)	2.5%
Share in World Exports	1.9%
Revealed Comparative Advantage	⇨ 1.36

Major import markets of Vietnam's handicraft products are the United States, EU and Japan. Among them, the United States is the most potential market with the annual import turnover of US$ 13 billion in the period 2005-2010. EU is also an important partner[58]. The demand for decoration products and gifts in the EU reaches up to EUR 13 billion every year, with a growth rate of 3 per cent. The biggest markets in the EU are Germany (23 per cent), Italy (16 per cent), England (13 per cent), and France (11 per cent). In Asia, Japan is the largest market with the annual import turnover of approximately US$ 3.8 billion.

The export turnover of rattan, bamboo products of Vietnam to the EU accounted for 30-40 per cent of its exports to the world. Germany is the largest importer for this group of products. As for ceramic art products, Japan, Taiwan, the United States and EU are the largest importers from Vietnam. Exported products are mainly small statues and decorative products.

The main markets for lacquer products are the United States, Spain, Japan, Australia, Italy, England, France and Russia[59]. Silk products are also exported directly and indirectly by trading companies to a wide range of markets, including to Japan, the EU, the United States and Canada.

According to Gold Association of Vietnam, gold jewellery and craft products are popular in markets such as Turkey, Dubai and China. However, products made from precious metal, especially gold, are considered as sensitive products and controlled strictly by the Government's regulations. In 2012, export tariff of 10 per cent was levied on jewellery made of 80 per cent to 99,99 per cent gold has remarkably reduced the export turnover of this group of product in 2012. Subject to a new circular (164/2013) by the Ministry of Finance, from January 2014 the export tariff on jewellery and craft products has been abolished.

Regarding competition, Vietnam's handicraft sector has to compete with large exporters in the region, including China, Indonesia and the Philippines. Compared to other exporters in the region, Vietnam ranks first in terms of competitiveness for rattan, wood art, lacquer, and embroidery products.

[58] Pham Nguyen Minh (2012) *Solutions to develop markets for handicraft products of Vietnam*, Doctoral dissertation 62.34.10.01.

[59] Tran Xuan Kha (2012) *Export of Vietnam's handicraft products to US market.*

According to the evaluation of Hanoi Association of handicraft and villages, the most significant problems for Vietnam's handicraft products is the lack of market led designs and weak commercialization of the products. The products also suffer from a weak adoption of technology.

III.3.4.2.3 Considerations for the handicraft sector under the EU-Vietnam FTA

The EU represents a large and potential market for Vietnam's handicraft products. Although the EU is one of the largest markets for Vietnam's handicraft products, the EU market also raises many challenges for Vietnam. Vietnamese producers have difficulties in maintaining supply consistency because of the lack of designs, variable quality, and a lack of market information.

Another big challenge for Vietnam's exporters is the strict standards in EU market. Handicraft products exported from Vietnam to the EU are subject to many regulations and standards, such as rules of origin, REACH (EU's Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals), regulations on the dangerous substances in the products, packaging requirements… Besides, the EU also places requirements on adopting the Business Social Compliance Initiative (BSCI), corporate social responsibility (SA 8000), labourers' protection, safety conditions, environmental protection, and sustainable conservation of forest.

It is quite difficult for Vietnam's handicraft products to meet the EU's regulations and standards to enter EU market. As handicrafts products in Vietnam are produced traditionally on small scales in the craft villages, the proofs for certificates of origin are difficult to meet. Traditional methods of production also create difficulties in reaching product homogeneity and consistent quality, as well as technical and safety requirements. As for the BSCI and other CSR requirements, Vietnam's production faces most challenge in labour standards since labourers in craft villages traditionally include also workers under and over working ages.

To summarise, the **handicraft** sector relies primarily on domestic resources (rattan, bamboo, wood, pottery), although recently, Vietnam has started to import bamboo from China, and that large amount of rattan is imported from Laos and Cambodia. Handicraft producers are faced with constraints relating to the high price of materials, energy, transportation costs to the more strict quality and standards of the importing markets. The sector faces tough competition is mainly located in China, Indonesia and the Philippines. To access the EU market, Vietnam's exporters are faced with strict demands on rules of origin, standards (such as REACH and regulations on the dangerous substances in the products, packaging requirement), and voluntary standards, such as Business Social Compliance Initiative (BSCI), Corporate Social Responsibility (CSR) (SA 8000), labourers protection, safety conditions, environmental protection, sustainable conservation of forest[60]. The FTA is expected to facilitate the import of inputs and modern technology to support its traditional handicraft production. The FTA can also incorporate some provisions related to cooperation in mutual recognition, technical support for meeting products and other requirements and standards, in order to improve cooperation and awareness in these areas.

[60] Rules of origin are difficult to meet owing to traceability issues in raw material origin. Traditional methods of production also create difficulties in reaching products quality, technical and safety requirements. As for the BSCI and other CSR requirements, Vietnam's production faces most of its challenges in labour standards since labourers in craft villages traditionally include also under age workers and difficult conditions.

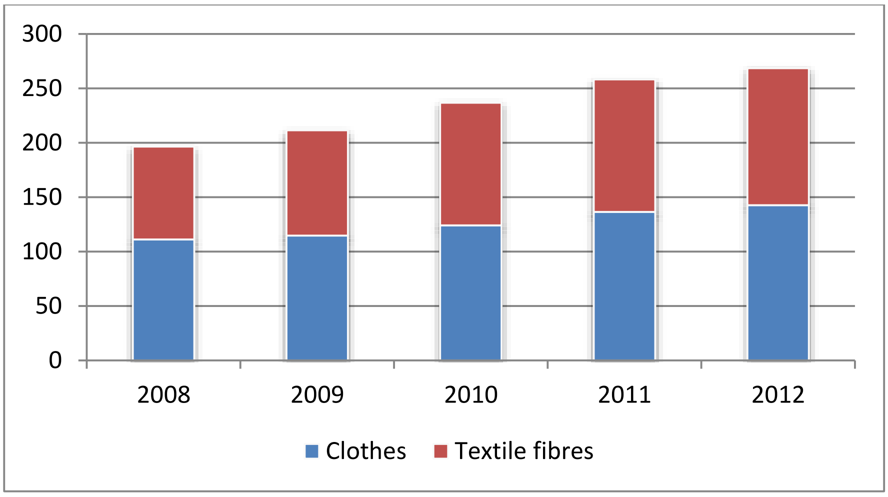
III.3.4.3. Textiles and clothing sector

III.3.4.3.1 Characteristics of the textiles and clothing sector

The Vietnam's textile and clothing (T&C) industry consists of three sub-sectors (i) up-stream sector: fibre production, (ii) mid-stream sector: fabric production and dyeing and (iii) down-stream sector: clothing manufacturing.

Vietnam's T&C sector has experienced rapid growth since over the past five years, the annual growth rate of the production reaching 8.1 per cent per year on average during the period 2008 – 2012, with an annual growth of production for the textile sector and clothing sector of 10.18 per cent and 6.42 per cent, respectively. In 2012, the total value of production of T&C totalled 384.7 billion VND (current prices).

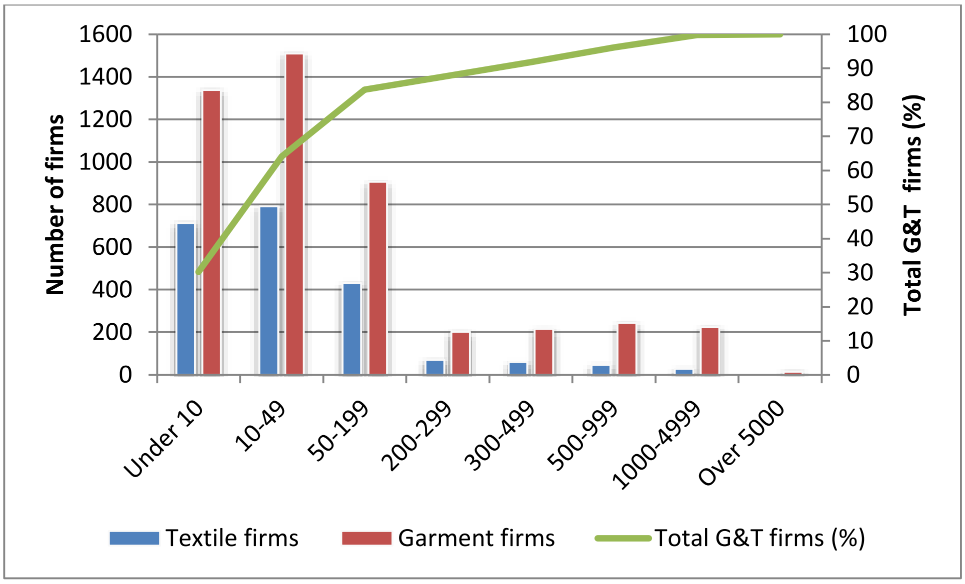
Figure 81. Total Production of product clusters in the Sector (VND Trillion; constant 2010 prices)



Source: GSO Enterprise Surveys 2013

The T&C industry has become one of the key export sectors of Vietnam. Accordingly, the number of acting enterprises has continuously increased over past few years. On 31 December 2011, there were 6,792 registered enterprises in the sector, 4,654 operating more specifically in the clothing subsector and 2,138 operating in the textile sub-sector. The vast majority of these companies however remain small in size, 64 per cent employing with less than 50 workers (Figure 82).

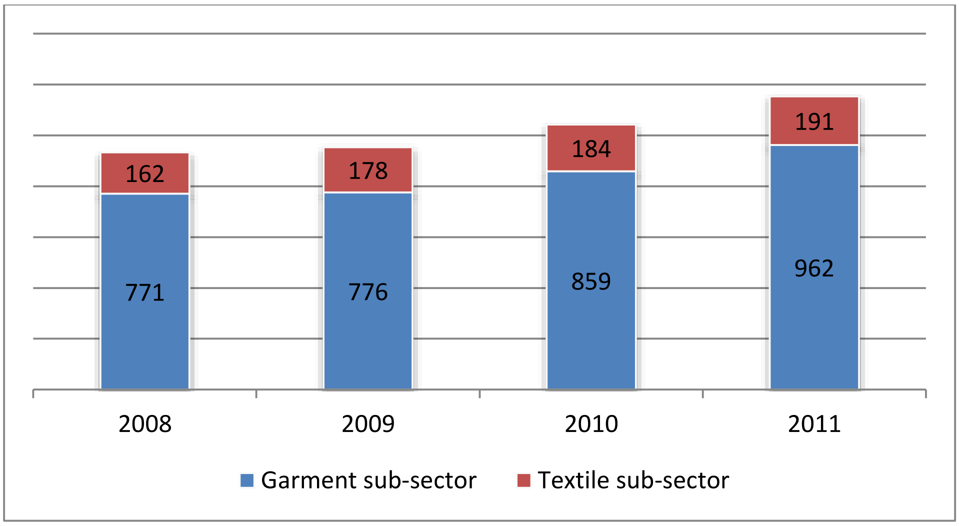
Figure 82. Estimated number of firms according to number of employees (until 31 Dec 2011)



Source: GSO Enterprise Surveys 2013

To meet the growing demand, the labour-intensive T&C sector has significantly increased its labour force, employing 1,153,364 in 2011 compared with 933,805 in 2008 (Figure 83), women accounting for 57.48 per cent of the workers in textile industry and 80.52 per cent in the clothing industry. This labour force of the T&C is also characterised by the large number of young workers aged between 18 and 25, the later representing 55 per cent and 70.5 per cent of the total workers in the textile and clothing industries, respectively. Finally, it appears that only 57 per cent of the 962,474 workers of the clothing industry are considered skilled worked. This ratio falls to 26 per cent in the textile cluster.

Figure 83. Number of person employed in the T&C sector (thousands of persons)



Source: GSO Enterprise Surveys 2013

Looking at the ownership of these firms, if the share foreign owned only represents 15.8 per cent, they contribute to 46.2 per cent the total production of the T&C sector (2011). The 76 state-owned enterprises (SOE) operating in the sector, or 1.1 per cent, also represent a significant share of 14.1 per cent of the sector's output. Together, SOE and foreign owned firms, generate above 80 per cent of total export value of the sector. Geographic disparities are also strong in the sector, T&C enterprises being mainly concentrated around two poles: the North (30 per cent) and the South (60 per cent).

III.3.4.3.2 Trade in the textiles and clothing sector

The T&C sector currently represents the second largest sector in terms of exports, behind crude oil. Despite the recent global economic downturn, T&C still have impressive export performance, with an annual growth rate of total export value reached around 15 per cent in the period 2008-2012. In 2012, the T&C sector exported a total value of US$ 18,178 million worth of goods, accounting for 15.9 per cent of the national total export revenue.

The main export markets for T&C products are United States, EU, Japan, Korea and China. According to the Vietnam Textile and Apparel Association (VITAS), in 2012, Vietnam was the second-largest exporter of clothing and textiles to the United States, the third-largest to Japan and the EU, and the fifth-largest globally. Other markets include Turkey, Canada, Indonesia, and Thailand.

Exports to the EU account for a reasonable proportion of Vietnam's total exports (18.5 per cent in 2012). Despite a contraction in 2012, sales to the EU have significantly increased at an annual growth rate of 6.3 per cent over the period 2008-2012, reaching US$ 3.4 billion in 2012. Vietnam's market share in EU T&C imports has also continuously increased over this period, reaching 14.6 per cent in 2012 (10.6 per cent in 2008).

It should also be noted that despite its high dependence on imported raw materials, Vietnam has a large trade surplus in with the world (US$10.7 billion in 2012) and with the EU (US$3.2 billion in 2012) (see Table 32).

Table 32. EU & Vietnam trade in textiles and clothing

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	10,251	10,489	13,372	16,827	18,178	
Imports from the World	4,934	4,633	5,973	7,385	7,460	
Trade Balance	**5,317**	**5,857**	**7,399**	**9,441**	**10,718**	
Exports to EU	2,628	2,379	2,663	3,443	3,357	
Imports from EU	167	124	145	182	163	
Trade Balance	**2,461**	**2,255**	**2,518**	**3,261**	**3,193**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	189,778	155,321	162,507	190,276	174,818	
Imports from the World	248,080	211,932	225,616	263,173	229,466	
Trade Balance	**-58,302**	**-56,611**	**-63,109**	**-72,897**	**-54,649**	
Exports to VN	167	124	145	182	163	
Imports from VN	2,628	2,379	2,663	3,443	3,357	
Trade Balance	**-2,461**	**-2,255**	**-2,518**	**-3,261**	**-3,193**	

Note: EU reported data for trade with the EU

Source: World Bank WITS based on COMTRADE

Some key trade indicators that express trends and competitiveness of Vietnam's T&C industry are presented in Table 33. Exports have grown by 15 per cent annually over the last five years (2008-12) and the trade surplus in wood products is increasing. Globally, the share of Vietnam's export value in the global textile & clothing export reached 2.6 per cent in 2012.

Table 33. Trade Indicators for Vietnam's trade in textiles and clothing

Trade Profile	
Growth of Exports last 5 yrs (%)	15%
Growth of Imports last 5 yrs (%)	11%
Share in National Exports (%)	15.9%
Share in World Exports	2.6%
Revealed Comparative Advantage	4.47

The ambitious strategy for Vietnam Textile and Clothing Industry development for 2015-2020 presented below illustrate the ambition of the Vietnamese T&C sector[61]:

i. Production growth of 12-14 per cent a year,
ii. Export growth of 15 per cent a year,
iii. Providing employment to 2.75 million people in 2015 and 3.0 million people in 2020, and
iv. Export revenue reaching US $18 billion dollars in 2015 and US $25 billion dollars in 2020.

III.3.4.3.3 Considerations for the textiles and clothing sector under the EU-Vietnam FTA

As the second largest export market for the sector, the EU represents a vast potential Vietnamese T&C products could benefit from. The EU-VN FTA is expected to bring new opportunities to the sector in terms of market access, sector restructuration, capital attraction, and greater value addition of the products. If T&C has made tremendous efforts in liberalizing trade through its commitments under WTO and FTAs, the sector is facing serious challenges, especially related to Rules of Origin (RoO) and quality standards.

Firstly, efforts to increase raw materials made in domestic have not been successful and the country remains highly dependent on of imported raw materials (70 per cent of the raw materials have to import from other countries such China, Taipei and Korea). Domestic raw materials are often more expensive than the imported ones, with longer time delivery. Investment in knitting and dying is also not welcomed in many provinces due to concerns over environmental impacts. The FTA's rule of origin could consequently significantly limit the potential positive impact of the Agreement, restricting the duty-free access of Vietnamese T&C enterprises (see III.3.5. *Rules of Origin*). This problem would be the biggest challenge to T&C sector when the FTA comes into force.

Another challenge lies in the poor quality of the Vietnamese T&C products. Despite the dynamism of the sector, the added value of the sector's production remain is low, 70 per cent in share are pure cutting assembly (CMT: Cut, Make and Trim); 25 per cent are OEM (Original Equipment Manufacturer) or called FOB1 (Free on Board 1), 4 per cent are ODM (Original Design Manufacturer) and just about 1 per cent is OBM (Original Brand Manufacturing). According to GSO, added value in export activities reached around 25 per cent in total exported revenue, with a profit rate of around 5 to 10 per cent. The main constraints to move up the value chain or increase supply include lack of skills, insufficient investment, lack of modern technology & equipment, and high dependence on raw material import. Inappropriate quality standards or criteria might consequently annihilate the expected benefits of the FTA.

In summary, the **textiles and clothing** sector has a relatively high reliance on imports for its production process. Raw materials are primarily imported from China, Korea and Taipei. Machinery is primarily imported from China, Japan, the EU and Taipei. A relatively low level of value addition is created (estimated in general at under 40 per cent). Competition stems primarily from India, Bangladesh, Turkey and Cambodia. Competition is based primarily on price and standards, as well as (to a lesser extent) design and technological advantage. The Vietnam Environmental Protection Law

[61] VITAS

and ISO 14000 are not well established and in the case of the law appear poorly enforced. The sector is also faced with challenges with respect to CSR and labour rights. Vietnam also faces high tariffs and the threat of anti-dumping measures in the EU market.

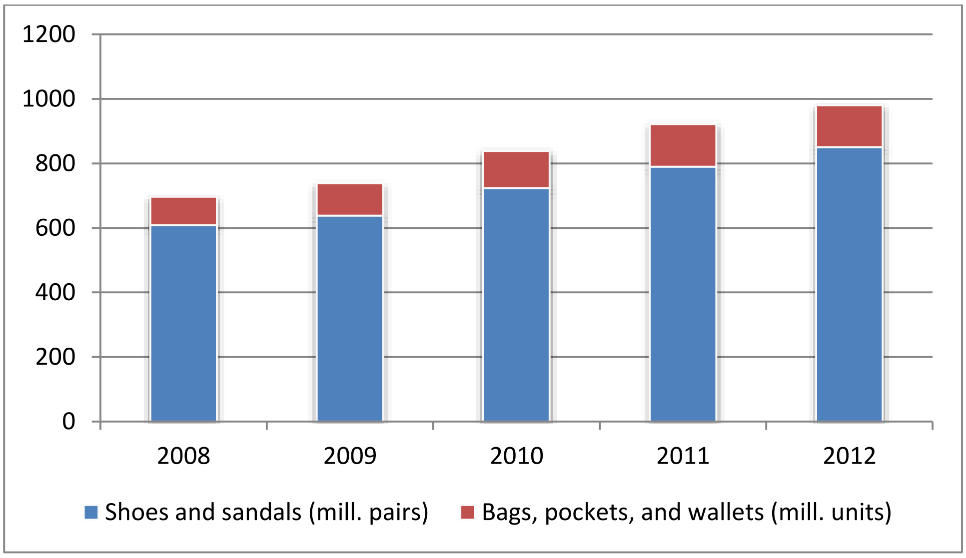
III.3.4.4. Footwear sector

III.3.4.4.1 Characteristics of the footwear sector

Vietnam is one of the top five footwear manufacturers, and one of the top ten exporters in the World. Since 2008, the production of shoes and sandals has continuously increased to reach 850 million pairs in 2012 compared with the 673 million pairs produced in 2008. The total production of bags, pockets and wallets as well the production of leather have followed the same trend, reaching 130 million units and 312 million square feet (28.8 million m^2), respectively (see Figure 84).

In 2013, the total production value of the sector was VND 152,013 billion (current price), accounting for 3.75 per cent of the total processing industry output and 3.3 per cent of the national industry production.

Figure 84. Gross output of the footwear industry, in volume (million units)



Source: Statistical yearbook of Vietnam 2012

The footwear industry has become one of the key export sectors of Vietnam and has recently entered in the top ten exporters in the world. Accordingly, the number of acting enterprises in the industry has exploded over past few years, from 489 entities registered in 2005 to 1,260 in 2011. Half of these are small and medium firms with less than 50 persons, this figure reaching 73 per cent for enterprises employing of less than 200 workers[62]. It is also to be noted that the investment capital remains limited, inferior to 5 billion VND (or US$ 235,000) for 54 per cent of them.

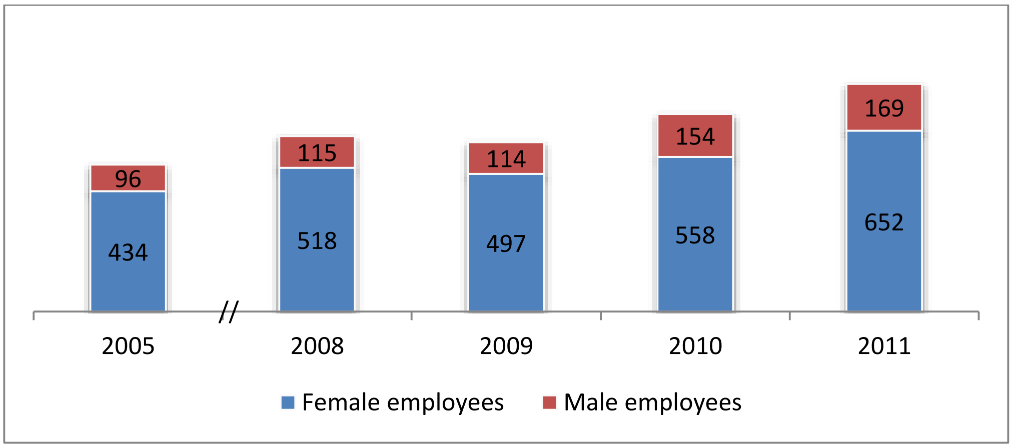
Looking at the ownership of these companies, 18.7 per cent of total number of enterprises are foreign owned enterprises, or 235 enterprises, with investment capitals mainly injected from Taiwan and Korea. These FDI firms possess advanced technologies and equipment, modern management

[62] Statistical yearbook of Vietnam 2012

and organization structures, marketing and distribution systems, and high investment capacity, which explain their 60 per cent share in the total potential production capacity of the sector. In comparison, the 230 local enterprises - of which 6 are state owned enterprises - remain largely underdeveloped with low levels of productivity, due to poor management skills, unskilled labour force, lack of marketing system and inability to design products. Small, individual and handwork manufactures, representing the majority of the footwear producers, have not been able to export their products due to the poor quality of their products which are produced for the domestic market.

A direct consequence of the booming number of footwear firms over past few years is the increase of the number of employees in this industry, reaching 820,735 persons in 2011 of which 79.5 per cent, or 652,176, are women[63] (Figure 85). The footwear sector's share in total employment was approximately 7.5 per cent that year, and 16.85 per cent of the manufacturing and processing industries employment, not taking into account unregistered workers in small households, and traditional crafts villages. So far, the Vietnamese footwear sector has focussed on quantity rather than the quality of its products, with low levels of labour productivity based on handwork - unskilled workers represent 54.5 per cent of the industry's labour force - and low added value products.

Figure 85. Labour of the footwear sector (thousands of persons)



Source: Statistical yearbook of Vietnam 2012

III.3.4.4.2 Trade in the footwear sector

With US$7.3 billion in 2012 worth of goods exported in 2012, the Vietnamese footwear industry is the third most performing export sector behind crude oil and textiles sectors, accounting for 6.3 per cent of the total national exports in value and representing a share of 10.5 per cent of the processing industry export. The footwear sector has enjoyed steady growth, with export values increasing at an average annual growth of 11 per cent for the 5-year period of 2008-2012, driven by FDI firms which have approximately generated 75 per cent of the total footwear export turn-over.

If the EU remains the main trading partner of the sector, its share in Vietnam's total exports has sharply decreased, from 93 per cent in 2008 down to 60 per cent in 2012. The main cause for this decline is that, while Vietnam's exports were booming, EU's imported volumes have remained stable, around US$ 4 billion a year, due to the economic slowdown of the European economies

[63] Ibid.

which slightly reduced its demand for footwear products. In terms of shares, EU's imports of footwear products from Vietnam have slightly decreased since 2008, accounting for 9.8 per cent in 2012 compared with 11.2 per cent in 2008.

Other key export markets include US, Japan, China and Brazil. Vietnamese footwear industry has also considerably diversified its targets markets, now exporting to new markets with steady growth such as Cuba, Australia, Saudi-Arabia, Peru, New Zealand and Colombia. Exports to ASEAN countries - Singapore, Malaysia, and Philippines mainly - are also taking off with a 14.2 per cent export growth in 2012, but remain limited in value, only reaching US$ 111 million that year according to the General Department of Customs of Vietnam.

Table 34: EU & Vietnam trade in footwear

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	4,770	4,071	5,123	6,549	7,264	
Imports from the World	16	20	25	33	39	
Trade Balance	**4,754**	**4,051**	**5,099**	**6,516**	**7,225**	
Exports to EU	4,445	3,630	4,022	3,989	4,139	
Imports from EU	2	2	3	4	4	
Trade Balance	**4,443**	**3,628**	**4,019**	**3,985**	**4,135**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	32,884	28,891	31,077	37,974	36,303	
Imports from the World	39,685	36,001	39,544	45,503	42,229	
Trade Balance	**-6,801**	**-7,110**	**-8,468**	**-7,529**	**-5,926**	
Exports to VN	2	2	3	4	4	
Imports from VN	4,445	3,630	4,022	3,989	4,139	
Trade Balance	**-4,443**	**-3,628**	**-4,019**	**-3,985**	**-4,135**	

Note: EU reported data for trade with the EU

Source: World Bank WITS based on COMTRADE

Some key trade indicators that express trends and competitiveness of Vietnam's footwear industry are presented in Table 35. Exports have grown by 11 per cent annually over the last five years (2008-12) and the trade surplus in wood products is increasing. Vietnam's share in world exports has reached a significant 6.7 per cent, placing the country in the top five exporters of footwear products. The health of the sector has recently been confirmed, with an expected export turn-over of US$ 9.7 in 2013, in which US$ 8 billion of export turn-over is expected to be shoe and sandal products only[64].

Finally, the Revealed Comparative Advantage (RCA) of 10 highlights the high level of comparative advantage of Vietnamese footwear products on international markets.

[64] Footwear export turn-overs for the first 10 months of 2013 reached US$6.7 billion, according to the General Department of Customs of Vietnam

Table 35. Trade Indicators for Vietnam's trade in footwear products

Trade Profile	
Growth of Exports last 5 yrs (%)	11%
Growth of Imports last 5 yrs (%)	24%
Share in National Exports (%)	6.3%
Share in World Exports	6.7%
Revealed Comparative Advantage	10.25

Exports of shoes and sandals are obviously the largest export components of the footwear sector, bags, pockets, and wallets, and leather playing a minor role. More particularly, the main products exported are *Footwear, upper of leather* (HS 6403), *Footwear nes, outer soles and uppers of rubber or plastics* (HS 6402), and *Footwear, upper of textile material* (HS 6404). While key export products of the Vietnam footwear industry are primarily sport and canvas shoes, the sector is also focusing on developing exports of briefcases and bags which present high export potential.

III.3.4.4.3 Considerations for the footwear sector under the EU-Vietnam FTA

To date, Vietnam-EU trade relationship for the footwear sector have mainly consisted in EU Member States importing finished or semi-finished footwear products from Vietnam, and Vietnamese enterprises purchasing machineries and equipment as well as consulting services. The EU being the most important trading partner for the Vietnamese footwear sector, accounting for 60 per cent of the sector's total exports in 2012, the EU-VIETNAM FTA will be critical for the trade relationships between the two Parties.

Since January 1st, 2014, exported products from Vietnam to the UE are enjoying the generalized tariff preference (GSP). Under GSP, Vietnamese enterprises in general, and footwear businesses in particular, enjoy more development opportunities, especially with regards to FDI attraction, and the promotion of Vietnamese products' export to the EU market. The EU-VIETNAM FTA will go beyond the scope of GSP preferences and exported footwear products from Vietnam to the European will enjoy near zero tariff rates, down from 12.4 per cent, for many kinds of footwear products, hence strengthening the Vietnamese footwear industry's competitive advantage. With the EU-Vietnam FTA, applied anti-dumping measures by the EU will also come to an end, allowing the footwear sector to more fully exploit its export capacity.

For the Vietnamese footwear industry, opportunities in attracting direct investments and in accessing advanced machineries and equipment from EU member States would also arise from the EU-VIETNAM FTA, hence contributing to the development of its industrial infrastructure and upgrading the sector's role and position in global footwear value chains

Finally, the Agreement represents an opportunity for Vietnam to build sustainable relationships with high quality suppliers, such as designers and other value addition services, with the view to modernize its outdated technologies and, in time improve the overall quality of the Vietnamese footwear products. More specifically, the FTA would allow Vietnam to fully benefit from the

European technology and know-how at more reasonable prices, which will help boost productivity and production efficiency of the footwear industry in Vietnam.

Adhering and adopting international standards will however be a prerequisite to access EU markets. Businesses will indeed have to comply with strict requirements on product quality, safety and security standards, domestic market ownership, etc. to satisfy the conditions necessary to have access to tariff preference. To comply with these requirements, domestic enterprises will have to invest massively in quality and technology developments

Despite the increasing level of exports, the industry has still encountered several challenges, especially heavy dependence on imported raw materials from China. The resources of domestic materials do not yet meet international standards in terms of quality and the country has not yet developed local supporting industries along the entire value chain. For instance, saddle and artificial leather, the most important materials, currently have to be imported. A direct consequence of this is the low level of localisation ratios of the sector, only representing 40 to 45 per cent in the sector on average, which can pose a problem of compliance with the Rules of Origin principle of the FTA.

The Vietnamese footwear industry is a promising sector with an undeniable comparative advantage, with a young labour force, a good investment environment, and a stable political environment. The competitive advantage related to its cheap labour is however gradually losing ground to other footwear export countries in the region, labour costs in Vietnam being equal or even slightly higher than Indian and Indonesian standards. In addition, the labour quality is generally low and the majority of the workforce, unskilled. To maintain its preferential trading relationship with the EU, and despite tax dumping elimination on leather shoes in the EU market, the sector should therefore work towards improving its productivity, a prerequisite to face on strong competition from countries that have developed footwear sectors, such as India, Indonesia, and Thailand.

In addition, the Vietnamese footwear industry seems more sensitive to external shocks than its regional competitors. For instance, following the anti-dumping measures on leather shoes adopted by the EU in 2006, Vietnam’s exports have contracted while China and other competitors increased their EU market shares (from 12.1 per cent in 2004 up to 21.1 per cent in 2009 for China). The sector’s exports have also decreased by 1.1 per cent in 2009 due to the economic crisis, contrasting with China's progression of 1.5 per cent.

From the questions described above, another challenge arises linked to the benefits deriving from the Agreement. As mentioned earlier, approximately 75 per cent of the total export turnover from the sector is generated by the 18.7 per cent of joint stock or 100 per cent foreign owned companies (most shoes and sandals that are major export products of the footwear sector are not branded in Vietnamese products). These companies, through their investment capacity, technical know-how, suppliers’ networks, marketing systems, etc. are more likely to benefit from the FTA compared to most Vietnamese owned companies for whom complying with EU requirements represents a much greater challenge, these adjustments lying outside most Vietnamese enterprises’ capabilities. Greater competitive pressures in the domestic market are also being anticipated with the signature of the FTA, threatening the development of local enterprises, SMEs and start-up companies in particular.

In order to seize advantages and EU-Vietnam FTA opportunities, the Vietnamese footwear sector should:

- Work toward the adaptation of the industry at an early stage in order to comply with the FTA requirements, especially in improving the localisation rates and finding solutions to tackle the issues related to the labour force;
- Provide support to the Vietnam Leather and Footwear Association (LEFASO) to comply with administrative procedures, production area, and request governmental support and capital inflows from sector's enterprises to improve saddle leather production, and gradually reduce the import rate.
- Update FTA information in a timely and regular manner to fully exploit the opportunities offered by this agreement, and to allow prevent businesses practices that might be inconsistent to the FTA;
- Focus on developing the domestic market; develop luxury footwear production; gradually reduce handwork production and upgrade the production process using modern technologies; build the international market's trademarks; expand domestic retail network; develop modern marketing methods; build and promote product trademarks and reputation of Vietnam on internationally;
- Get a better understanding of the FTA rules for implementation, especially for businesses; redefine the market strategy, clearly identifying the opportunities and challenges arising from the EU-Vietnam FTA; promote business trade support institutions (TSIs) to adopt structural changes in the supply chain with the view to develop the industry in a sustainable manner.

In summary, an FTA with the EU would eliminate tariffs on footwear from 12.4 per cent today. This margin of preference over other exporters to the EU would benefit Vietnam significantly. However, the EU has applied anti-dumping measures in the past and this could arise again. Design and other value addition services are still not being captured by Vietnam. An FTA is expected to foster European FDI, bringing with it technology and know-how. The Vietnamese footwear industry is still a promising sector, with young and skilled labour, good investment environment, stable politic, although the sector is facing on strong competition from countries that have developed footwear sectors, such as India, Indonesia, Thailand and is expected to faced growing competition from emerging markets such as Myanmar.

III.3.4.5. Automotive sector

III.3.4.5.1 Characteristics of the automotive sector

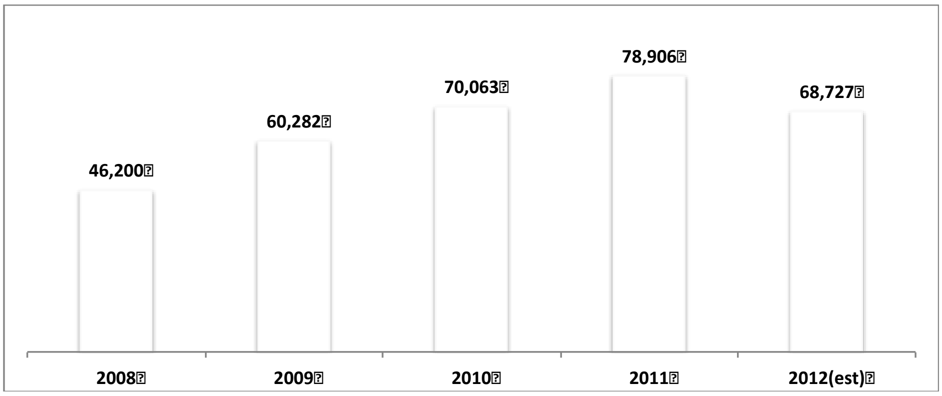
The automotive industry has a complicated supply network with many layers of suppliers. Normally, automakers develop their network of 1st tier suppliers, and 1st tier suppliers will develop their own supply network of 2nd tier suppliers, and so on. As such, the automotive industry will need a large number of supporting industries. In a word of deeper integration, the scope of supply chains of the automotive industry is spread across countries, region, and the world. ASEAN has an emerging automotive production base owing to the trends of shifting production from America and Europe to

Asia[65]. AFTA/CEPT has accelerated the development of supply and value chains of automotive industry among ASEAN countries.

In ASEAN, there are five countries manufacturing motor vehicles, namely Thailand, Malaysia, Indonesia, The Philippines, and Vietnam. The region's automotive industry still depends on foreign automakers with a dominance of Japanese firms, such as Toyota, Nissan, Honda, and Mitsubishi. While auto markets of Thailand, Malaysia and Indonesia have reached the motorization stage, The Philippines and Vietnam are not yet at that stage. In Vietnam, the biggest players are Toyota and Ford in the North, and Thaco in the Central part of the country. From the EU, Mercedes Benz has a small plant in the South.

The number of workers employed by the automotive sector fluctuates quite significantly from year to year. We estimate that these reached just under 70,000 in 2012, down from a peak of 79,000 in 2011 (see Figure 86), owing to a marked slowdown in the production levels of the industry.

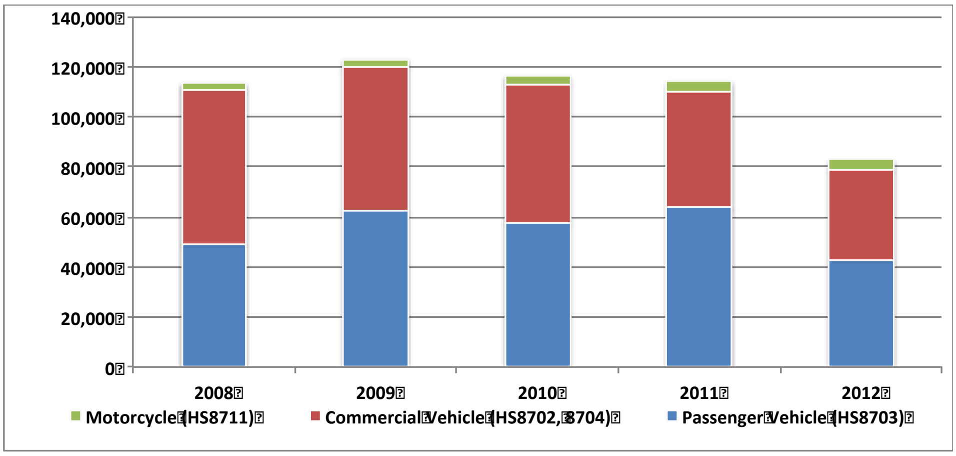
Figure 86. Number of direct workers in the automotive sector



Note: Author estimations
Source: GSO Enterprise surveys

The number of units produced has shown lacklustre performance in the last five years, with near stagnating levels from 2008-2011, and a sharp decline in 2012. The largest units produced are in passenger vehicles, followed by commercial vehicles, with only limited numbers of produced units of motorcycles (see Figure 87).

Figure 87. Production of motor vehicles in units



Source: GSO Enterprise surveys

[65] KPMG (2012)

Vietnam has a small market demand for motor vehicles, which has remained stable- in the range from 100,000 to 120,000 units per year. Vietnam's market is about half the size of The Philippines, one fifth of the size of Malaysia's, one tenth of the size of Indonesia's and one twenty fourth of the size of Thailand. Being protected by high tariff barriers, local production can satisfy about 60-70 per cent of local demand. Five-seat passenger cars and trucks are two key growth segments of Vietnam's automotive industry, with local production satisfying 33.9 per cent and 31.2 per cent respectively of total demand in 2012.

The level of car density remains low in Vietnam, especially when compared with neighbouring countries. With 19 cars per 1,000 people in 2011, the ratio of car ownership in Vietnam is still low. This number reaches 379 in Malaysia, 173 in Thailand, 84 in Indonesia, and 34 in The Philippines[66].

The Vietnamese government considers the automotive sector to be a key industry in the economy that needs to be protected and promoted, and the industry is actually protected by high tariff barriers in free trade agreements. However, inconsistency and instability in policy, especially frequent changes in regulations on taxes and fees imposed on motor vehicles, have created negative impacts on the development of automotive industry in Vietnam. The entry into force of the AFTA/CEPT implementation is leading automakers to revise a Master Plan on Automotive Industry to 2020 with a vision to 2030. The Master Plan focuses on the promotion of small trucks for rural area, small coaches for short to medium distant transportation, and passenger vehicles under 9 seats. The master plan is expected to be finalized and submitted to the Government for approval in early of 2014.

Vietnam is one of the largest markets and the largest producers of motorcycles in the world. Vietnam's motorbike market has entered a saturated stage of the product lifecycle, with a market size of over 30 million since 2011, and the ratio of motorbikes in use has reached more than 300 motorbikes per 1,000 people. Supporting industries for the motorbike industry in Vietnam well established, and as a result, motorbike manufacturers can procure between 70 per cent to over 90 per cent of its inputs from local suppliers. Most of the suppliers are FDI companies.

III.3.4.5.2 Trade in the automotive sector

Despite the low level of development of the automotive industry, Vietnam exports auto parts to other countries, mainly through FDI firms, via supply networks of their parent companies. For example, Toyota Vietnam exports parts to other Toyota plants in other countries, Robert Bosch Vietnam exports push-belt and auto spare parts and accessories to the EU, and Sumiden Vietnam and Denso Vietnam exports auto parts to Japan and US. In the motorcycle sector, the industry has started to export motorcycles and their parts to other countries, such as Piaggio exports about 30,000 units to ASEAN countries every year, Honda Vietnam exports to Japan, the EU, and SYM also exports its products to ASEAN market.

Vietnam's exports from the automotive sector have increased by 22 per cent yearly between 2008 and 2012. This increase has been supported by a major surge in exports to South East Asian markets. Total exports reached US$1.6 billion in 2012, representing 1.4 per cent of national exports. Just

[66] OICA (2011)

under one fifth of Vietnam's exports are destined to the EU. Imports from the EU exceed its exports and the trade deficit has been growing for automotive products, from US$0.5 million in 2008 to US$1.2 million in 2012 (see Table 36). Overall in its trade with the world, Vietnam's trade deficit has improved over the last five years, owing to the growth in exports and a decline in imports.

Table 36. EU & Vietnam trade in the automotive sector

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	718	606	890	1,176	1,587	
Imports from the World	3,453	3,490	3,450	3,777	2,746	
Trade Balance	**-2,735**	**-2,883**	**-2,560**	**-2,602**	**-1,159**	
Exports to EU	104	219	297	512	285	
Imports from EU	653	691	1,192	1,310	1,462	
Trade Balance	**-549**	**-472**	**-895**	**-798**	**-1,178**	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	861,134	636,654	742,327	880,786	841,332	
Imports from the World	727,967	536,031	599,919	678,816	614,180	
Trade Balance	**133,167**	**100,623**	**142,407**	**201,970**	**227,152**	
Exports to VN	653	691	1,192	1,310	1,462	
Imports from VN	104	219	297	512	285	
Trade Balance	**549**	**472**	**895**	**798**	**1,178**	

Note: EU reported data for trade with the EU

Source: World Bank WITS based on COMTRADE

Vietnam represents around just 0.1 per cent of the world market for automotive products. Owing to the low share of the sector in its exports, Vietnam has a very large level of revealed comparative disadvantage in this sector.

Table 37. Trade Indicators for Vietnam's trade in automotive products

Trade Profile	
Growth of Exports last 5 yrs (%)	22%
Growth of Imports last 5 yrs (%)	-6%
Share in National Exports (%)	1.4%
Share in World Exports (of this product)	0.1%
Revealed Comparative Advantage	0.15

III.3.4.5.3 Considerations for the automotive sector under the EU-Vietnam FTA

The Vietnamese auto industry is engaged mainly in assembly activities that have a high import content. Since 1995, Vietnam has seen significant investment in automotive production facilities, although its actual market is limited. There are currently about 50 carmakers in Vietnam, but the industry is mainly dominated by 18 members of Vietnam Automobile Manufacturers Association (VAMA), and most of them do not operate at full capacity. The main activities at these automakers' factories are welding, painting, and assembling. So far, the domestic auto industry has been constrained due to the small market, frequent changes in policy, and undeveloped supporting industries.

As a result of the high import content of production processed, the production costs of domestically manufactured cars are high. This make the price of cars manufactured in Vietnam to be higher than in other ASEAN countries, between US$2,400 to US$12,000 depending on vehicle types. The local content is different among vehicle types and manufacturers, only 10-20 per cent for passenger cars, more than 30 per cent for trucks, and more than 40 per cent for coaches. Parts and components are mainly in-house produced while procurements from local suppliers are low, so that most of the inputs are imported. Flat rolled steel is imported and then stamped in Vietnam. Engines are imported fully assembled. Local primary input production consists only of bulk or low value items, such as tires, batteries, wire harnesses, seats, windscreen and windows, etc.

The automotive sector seems to be one of the most vulnerable industries, especially considering the change in tariffs to be applied after 2018 under the AFTA agreement (see Table 38 for the tariff phase-outs under AFTA). Auto makers, on the one hand expect cheaper imported parts and accessories after this date, which will help them to reduce production costs for locally assembled vehicles, and on the other hand worry about competition from imported (assembled) vehicles from neighbouring countries.

Table 38. Tariff of passenger vehicles (HS8703) in MFN and AFTA in 2014

HS Code	Description	Highest rate		Lowest rate		End year	
		MFN	AFTA	MFN	AFTA	MFN	AFTA
870321	Other Vehicles, Spark-ignition Engine Of a cylinder capacity < 1,000 cc	70	50	70	0	2014	2018
870322	Other Vehicles, Spark-ignition Engine Of a cylinder capacity > 1,000 cc but <1,500 cc	70	50	70	0	2014	2018
870323	Other Vehicles, Spark-ignition Engine Of a cylinder capacity > 1,500 cc but < 3,000 cc	67/70	50	52/70	0	2014/19	2018
870324	Other Vehicles, Spark-ignition Engine Of a cylinder capacity > 3,000 cc	59/67	50	47/52	0	2017/19	2018
870331	Other Vehicles, Compression-ignition Engine (diesel) Of a cylinder capacity <1,500 cc	70	50	70	0	2014	2018
870332	Other Vehicles, Compression-ignition Engine (diesel) Of a cylinder capacity > 1,500 cc but not < 2,500 cc	70	50	70	0	2014	2018
870333	Other Vehicles, Compression-ignition Engine (diesel) Of a cylinder capacity > 2,500 cc	70	50	70	0	2014	2018
870390	Electric Vehicles	70	50	70	0	2014	2018

Source: Vietnam Customs

In terms of the potential impact from signing an FTA with the EU, the policy makers will have to consider how to balance the need to import low-cost parts and accessories versus the development of supporting industries in Vietnam, which would find it difficult to compete with imports. There is concern that the adjustment of the AFTA conditions will already cause significant strain on the Vietnamese producers and could lead to delocalisation from Vietnam to other cheaper ASEAN countries. The current negotiation of the TPP would add another layer of competition from North America and Mexican manufacturers of automotive parts and vehicles.

In contrast to electronic products, which are small sized high value-added goods which can overcome the logistical and transportation hurdles of Vietnam, motor vehicles are bulky items which are shipped by sea. When a market size is big enough, automakers tend to set up their production bases within the sales market to overcome these transportation and logistical problems. Vietnam has been seen as a potential market, with a huge population and stable economic and political conditions. As a result, automakers have invested in building their plants in Vietnam since 1990s. However, the market did not expand as expected, mainly because of unpredictable changes in government policy. The small scale of the national market is a key reason that hinders the development of automotive supporting industries.

2018 will be a landmark year for Vietnam's automotive industry, when tariffs on motor vehicles imported from ASEAN are phased out, under the AFTA/CEPT. Vietnam has only a few years remaining to improve its local automotive industry's competitiveness. Otherwise, automakers will close their plants in Vietnam and shift to produce in (lower cost) neighbouring countries and use those countries as an export platform for exporting to Vietnam.

It is expected that in the near future, the automotive industry in Vietnam will face following challenges:

- High competitive pressure from ASEAN countries once tariffs on motor vehicles imported from ASEAN are phased out in 2018.
- Underdeveloped supporting industries, and weak human resource capacity, especially mechanical technicians, and middle managers.
- Inconsistency and incoherencies in policies related to the automotive industry among state bodies (e.g. introducing a policy to promote production and consumption of motor vehicles on one side, and introducing another policy to limit personal vehicles in large cities on the other hand). In addition, tax policies do not follow a long-term strategic roadmap, and instead change frequently which makes it difficult for automakers to design long-run production plans.
- New FTAs (i.e. TPP, EU-VIETNAM FTA) bring opportunities to access cheaper parts and accessories but also cause competitive pressures on domestically assembled vehicles.

The motorcycle industry can still enjoy a large-scale market in Vietnam over the next few years, but this segment also faces some challenges. Firstly, fiercer competition from ASEAN countries will emerge after 2018. Secondly, when the local market becomes fully saturate and automotive consumption increases, the industry must strengthen its global competitiveness to export. However, the industry is currently highly dependent on foreign motorcycle makers so that strategic decisions are taken by firms at headquarters (not inside Vietnam). Finally, market information, including knowledge of demand, distributors, buyers, etc. is also another problem for the Vietnam motorcycle industry to strengthen its global competitiveness.

In summary, the automotive industry has different local content requirements depending on the vehicle types and manufacturers: only 10-20 per cent for passenger cars, more than 30 per cent for trucks, and more than 40 per cent for coaches. Parts and components are mainly in-house produced while procurements from local suppliers are low, so that most of the inputs are imported. Flat rolled steel is imported and then stamped in Vietnam. Engines are imported fully assembled, while local primary input production consists only of bulk or low value items, such as tires, batteries, wire harnesses, seats, and glass. Vietnam will be faced by high competition from ASEAN countries when tariff on motor vehicles imported from ASEAN are phased out in 2018.

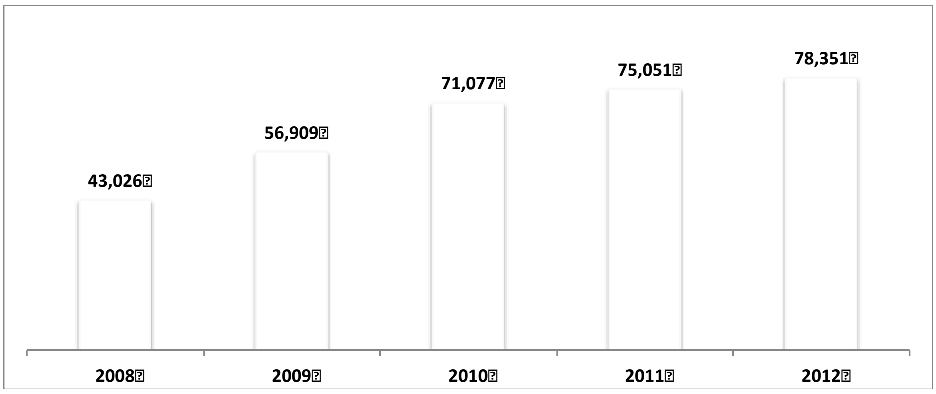
III.3.4.6. High-technology sector

III.3.4.5.1 Characteristics of the high-technology sector

Vietnam has prioritised some key segments of the high-tech industries, namely biotechnology, new materials, automation capital-goods and the IT industry. The Vietnamese government has provided high incentives to attract investment into these industries, as well as establishing high-tech parks (Lang Hoa Lac in Hanoi and Ho Chi Minh high-tech Park in HCM city). However, these industries remain emerging industries and have not yet yielded the expected results.

In 2012, there were 530 enterprises in the hi-tech sector, which employed 78,000 workers (see Figure 88). The majority of firms are medium or large in the high-tech industry. The majority of firms are export ready (90 per cent of large firms and 84 per cent of medium sized firms are already exporting or ready to export). The majority of the sales of the industry are destined for overseas markets and less than 10 per cent is for the national market. The industry employs predominantly women (57 per cent of the workforce), and skilled workers (88 per cent of the workforce).

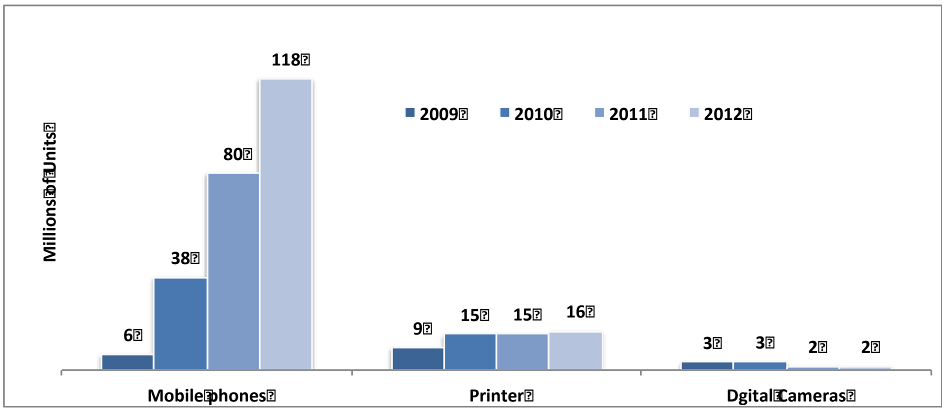
Figure 88. Number of workers directly employed in the high-tech sector



Source: GSO Enterprise Survey, 2013

Production levels for some high tech products, such as mobile telephones have grown at near exponential rates, reaching within a four period, 20 times the production levels. Other products performed less well, and in the case of digital cameras, production levels fell from 3.2 million units in 2009 to just 1.5 million by 2012 (see Figure 89). Next we review some nascent industries within the high-tech sector.

Figure 89. Production of Selected High-Tech Products



Source: GSO Enterprise Survey 2013

The ***bio-technology industry*** emerged from Vietnam's bio-agriculture industry, including fisheries and veterinary medicine. The more sophisticated segments of the industry, such as beverages and medical services, remain undeveloped. However, Vietnam has started to produce antibiotics, oral medications, injections for humans and animals feed with simple preparations, and conventional vaccines. Human bio-tech industries in Vietnam are relatively strong in natural raw materials for the pharmaceutical industry; but the processing technology and degree of mass production is limited. The main reasons are that the research capability is focused in bio-agriculture with many public research institutes and universities; and there is a limited market size yet requires large amounts of investment.

The ***new materials industry*** has certain achievements in scientific research in Vietnam, such as composites, magnetic materials, carbon nanotubes. The Institute of Materials Technology and the Institute of Applied Mechanics in Ho Chi Minh City have new material applications for railway, automobile, shipbuilding and construction industries. However, these researches are only applied in very few cases to manufacturing processes and the underlying materials are mostly imported. The industry is still in its infancy.

The ***automation capital-goods industry*** has experienced very dynamic growth. The industry is flourishing on the back of other fast growing sectors such as those of mechanics, energy, chemicals, mining, agro-industries, which are stimulating investment to enhance production capacity and competitiveness. This is an important driving force to promote the formation and development of business enterprises and services in Automation Industry. However, the number of newly established enterprises is very few and there is a limited number of enterprises which gain access to high value added segments such as manufacturing, system integration, or providing solutions in in large and complex scale operations. Some of the main reasons leading to these limitations are that the equitisation process of SOEs has been slow, which limited investment levels. Another reason is that key industries, such as those linked to mechanical engineering, remain weak, of limited size and lack export-orientation. Other reasons advanced by stakeholders are that there are not sufficient incentives to support enterprises and there is a non-transparent way of applying regulations and treating applications from foreign contractor.

The ***IT industry*** has substantially improved its performance in recent years. According to the ranking from the International Telecommunication Union's (ITU) Information Technology Communication Development Index, Vietnam has improved its ranking and was positioned 81, in 2012. According to the Gartner report, Vietnam is still in the top 30 of the world's leading countries for outsourcing service providers and top 10 in the Asia-Pacific region (position 8). Vietnam became the largest game markets in Southeast Asia and became one of the 10 online game markets with the fastest growing rate in the world. In 2012, sales of online games in Vietnam reached nearly 5 trillion VND. The software industry in general, and in spite of including many small and young businesses with good human resources, is still primarily outsourced to other countries.

In the field of telecommunication equipment, Vietnam mainly assembles the final products, while all materials, designs, inputs and component are imported. Mobile phones are produced by large multinational corporations, such as Samsung, LG and Nokia. Electronic components and support industries are supplied mainly by FDI enterprises. These firms mainly invest in assembling a large number of components products and electronic assemblies, such as circuit boards, electronic circuit boards, electronic chips, inductors conditioning, refrigerator, parts& accessories for mobile phones, etc. A small per centage of these components are provided to the domestic market, with the bulk exported. Exported products are mainly produced by FDI enterprises (Fujitsu, Canon, Samsung, etc.).

III.3.4.5.2 Trade in the high-technology sector

In 2012, the electronics hardware industry achieved sales of around US$ 21 billion, although imports surpassed this level, leading to a trade deficit in this industry. Exports have increased 13-fold in the last five years, which is a spectacular level of growth (see Table 39). Exports to the EU reached US$9.4 billion, or 45 per cent of total exports. The EU is Vietnam's main export market and Vietnam records a trade surplus in high tech products (US$7.6 billion) with the EU market. SMEs on the other hand, rank South East Asian markets as their main markets.

Exports have grown much faster than imports in general, with exports increasing by 89 per cent per annum and imports by 36 per cent per annum between 2008 and 2012. High-tech products are one of the largest product groups exported by Vietnam, and accounts for 18 per cent of its exports (see Table 40). Vietnam accounts for 0.5 per cent of the world market and enjoys a small revealed comparative advantage in this industry, owing to the surge in exports since 2012.

The ratio of value addition which takes place in the industry is around 20 per cent according to stakeholders. The stakeholders have indicated that they face severe competition mainly from Asian and EU forms, and that the main sources of competition relate to price (and scale economies) and technological advantage in production processes.

Table 39. EU & Vietnam trade in electronics

Vietnam Exports (Millions US$)

	2008	2009	2010	2011	2012	Trends 2007-11
Exports to the World	1,659	2,202	4,227	9,672	20,988	
Imports from the World	6,515	7,450	8,849	13,326	22,035	
Trade Balance	-4,856	-5,248	-4,622	-3,654	-1,046	
Exports to EU	385	348	835	3,627	9,431	
Imports from EU	896	1,015	1,343	1,513	1,786	
Trade Balance	-510	-666	-508	2,114	7,645	

EU Exports (Millions of US$)

	2008	2009	2010	2011	2012	Trends 2007-12
Exports to the World	584,064	508,901	569,426	639,352	635,128	
Imports from the World	621,420	532,508	619,643	673,329	648,478	
Trade Balance	-37,356	-23,606	-50,218	-33,977	-13,351	
Exports to VN	896	1,015	1,343	1,513	1,786	
Imports from VN	385	348	835	3,627	9,431	
Trade Balance	510	666	508	-2,114	-7,645	

Note: EU reported data for trade with the EU

Source: World Bank WITS based on COMTRADE

Table 40. Trade Indicators for Vietnam's trade in electronic products

Trade Profile	
Growth of Exports last 5 yrs (%)	89%
Growth of Imports last 5 yrs (%)	36%
Share in National Exports (%)	18.3%
Share in World Exports	0.5%
Revealed Comparative Advantage	1.26

III.3.4.5.3 Considerations for the high-technology sector under the EU-Vietnam FTA

The high tech sector faces many difficulties in emerging as a global player. Some of the main constraints include:

- Vietnam's high tech industry is supported by research activities which are quite developed, but there is insufficient applied research and commercialisation of technologies.
- FDI levels remain insufficient. Except for the IT sector, other sectors have very little foreign investment capital.
- The lack of supporting industries for the high tech industry, as well as support services such as assessment, testing, etc. also makes the industry difficult to develop
- Lack of qualified and skilled human resources, especially engineers and skilled workers for the manufacturing is hampering the development of the industry.

For the electronics industry, the reduction of tariffs actually is expected to provide a huge business advantage to European exporters compared to Asian competitors from Japan, Korea and China. At the same time, liberalization may limit the potential for Vietnam's industry to gain economies of scale to compete against imports. For this reason, the FTA should promote strong cooperation in technology research and investment. However, such cooperation can only occur with a tightening of the intellectual property framework in Vietnam, which would require substantial change and enforcement.

The EU has already opened up its border to Vietnamese exports of high tech products. The greatest obstacle to taking advantage of this is that FDI enterprises are those companies which have the export capacity and they follow their own global supply chain strategies. Another obstacle is the multitude of standards in the EU market, and which are not always harmonized at the EU level. Stakeholders have highlighted the problems related to market information relating to market volume, quality standards, environmental standards, CSR requirements and standards such as REACH, ISO14001, CE Mark, OHSAS 18001 (for occupational health and safety) or SA8000 (for social accountability).

The outlook for exporting to the EU will depend on how an FTA can change the logistics, trade facilitation, enforcement of IPRs, investment and business enabling environments. Otherwise, the FTA is expected to lead to a significant deterioration in the trade balance for this sector vis-à-vis the EU market.

In summary, the **electronics** sector, imported parts are significant, as are the support services (engineering and design services). An FTA is expected to benefit EU exporters in the Vietnamese market. However, as with the EU-Korean agreement, mutual recognition of standards and distribution will be essential for ensuring liberalization. The opportunities to export to the EU market are expected to be limited and driven primarily by the decisions of foreign investment companies.

In the automation **capital-goods industry**, tariffs are also very low so that the effect will be quite limited although it may spur investment from the EU. In fact, the development of domestic industry and general economic growth of Vietnam could create spillover effects for all other supporting industry, which is currently lacking. EU investment may Vietnam for also exporting to other neighbouring countries such as Laos or Cambodia.

III.3.5. Rules of Origin

Vietnam is a country with a high degree of dependence on foreign inputs in order to be able to export. This high propensity to import in order to export reflects Vietnam dependence on external service and goods suppliers since it cannot source these easily locally, and is also an indication of Vietnam's participation in international supply chains. The degree of value added as a per centage of gross exports is presented in Figure 90. Exports from the textiles and apparel sector have a relatively low level of value addition (just over 20 per cent), of which only around one third originates domestically[67]. Other sectors, such as agriculture and agro-processing have overall even lower levels

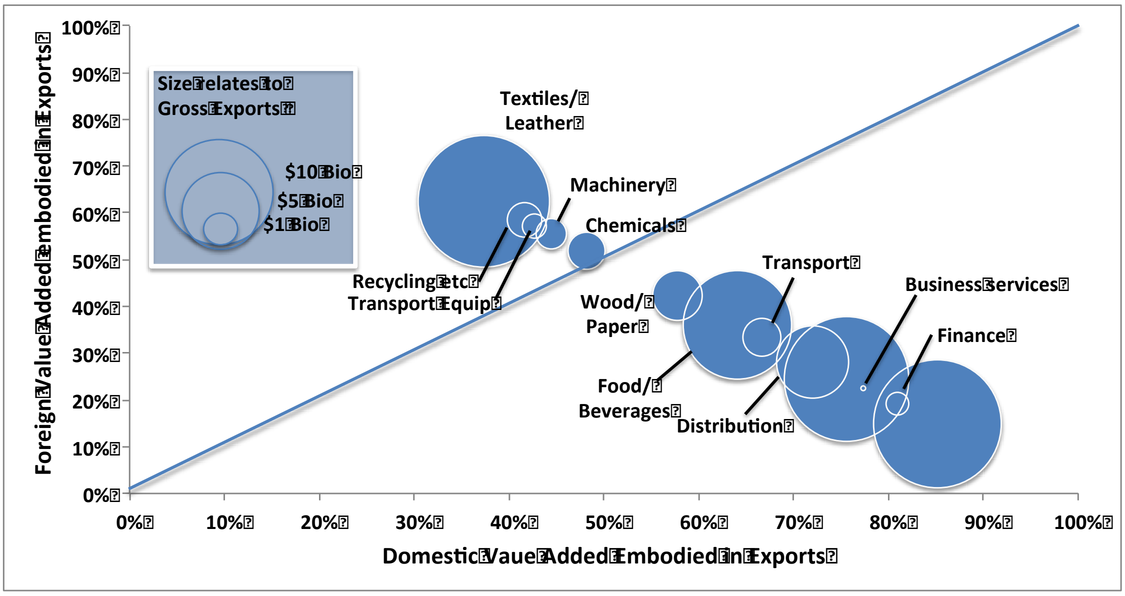
[67] Value addition is obtained from input-output tables.

of value addition, although the level of domestic value addition is higher.

Figure 90. Trade in Value Added of Exports for Vietnam

Source: OECD (2014) TiVA Databases

Figure 91. Foreign & domestic value addition embodied in Vietnam's exports



Source: OECD (2014) TiVA Databases

During stakeholder consultations, one issue which came to the forefront of concerns by businesses was their ability to comply rules of origin (RoO) requirements. The rules of origin dictate the degree of transformation required in order to comply with securing a certificate of origin (CoO). One method used to calculate originating status is to use the value addition criterion. It is well documented that many firms do not actually make use of the preferences granted under free trade agreements, simply because the cost of complying is too high or the degree of transformation required is not adapted to the needs of the sector[68]. In the case of ASEAN, less than one third of the firms are using the preferences (i.e. comply with a CoO), and even less plan to do so in the future[69].

[68] On the problems linked to rules of origin and FTA usage, see for example for World Bank (2007) Trade Issues in East Asia: Preferential Rules of Origin, in *Policy Research Report*, East Asia and Pacific Region (PREM), Washington, DC: World Bank
[69] Kawai, M. & G. Wignaraja (2009) The Asian Noodle Bowl: Is It Serious for Business?, in *ADBI Working Paper Series,* No. 136, April, Tokyo: Asian Development Bank Institute.

The low margins of preference, as well as difficulty in proving the 40 per cent regional value content are cited as the main problems with AFTA use[70].

Box 1. Recommended actions for Vietnam on rules of origin

A study conducted by MUTRAP proposes a series of negotiating strategies for Vietnam to adopt in its negotiations of future FTAs, such as the one with the EU:

• Progressively adopt a value of material calculations of Regional Value Content (RVC) across all FTAs with identical numerator and denominator.

• Lower the thresholds of value of materials calculations from the current 40 per cent to 30 per cent to facilitate the integration of production networks.

•Adopt clear, transparent and predictable rules for cumulation, *de minimis* and roll-up (absorption) rules in all FTAs

• Streamline and facilitates issuance and verification of certificate of origin by progressively adopting self-certification by firms. The current rules for the administration of rules of origin are extremely burdensome and cumbersome.

• Government authorities, customs and trade supporting institutions should step up efforts to assist firms and especially SMEs to comply with ROO requirement. Modules and templates for value of material calculation and accounting should be developed for SMEs.

Source: Adapted from Inama, S., H. Q. Trung, T. B. Cuong & P. Sinh (2011) Assessing the impact of rules of origin in Vietnam FTAs, MUTRAP Activity Code FTA-5, Hanoi: MUTRAP.

Since making use of the FTA incurs a cost, econometric evidence supports the finding that large firms are more likely to make use of preferences than small firms[71], and that rules of origin introduce a significant barrier to entry. However, more recent research suggests that other more important reasons exists for not making use of the FTA, such as information asymmetries on the tariff preferences and how to make use of other areas of the agreement[72].

Among the various methodologies for determining the origin of a good, Vietnam has traditionally followed the ASEAN approach, which requires that 40 per cent must be added to the value of a good. Recent reforms to AFTA have introduced the concept of Regional Value Content (RVC) and the change of tariff classification as an alternative criterion[73].

The EU tends to use a variety of approaches in negotiating FTAs. It favours value addition criteria (between 30 and 60 per cent in most cases) for manufactured goods, but also uses wholly obtained condition for agricultural and processed agricultural products, specific production processes or methods and changes in tariff classification (CTH or CTSH) for industrial goods. The rules may

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[70] Manchin, M., and A.O. Pelkmans-Balaoing (2007) 'Rules of origin and the web of East Asian Free Trade Agreements', in *World Bank Policy Research Working Papers*, 4273, Washington, DC: World Bank; and World Bank (2007), *ibid*

[71] Takahashi, K. and S. Urata (2008), "On the Use of FTAs by Japanese Firms" RIETI Discussion Paper Series 08-E-002, Tokyo: The Research Institute of Economy, Trade and Industry.

[72] Another issue is the fact that respondent firms (to the surveys) hold their main partners outside of the FTA region. See Ganeshan Wignaraja (2013) Regional Trade Agreements and Enterprises in Southeast Asia, in *Coxhead, I. (ed) Handbook of South-East Asian Economics,* Routledge: UK

[73] Inama, S. *et al* (2011) Assessing the impact of rules of origin in Vietnam FTAs, MUTRAP Activity Code FTA-5, Hanoi: MUTRAP.

therefore have a different level of stringency and can be complex for operators to understand. As mentioned before, difference in rules of origin requirements represent additional costs and barriers for smaller firms to be able to make use of the FTA. This should be of great concern for policy makers. At the same time, it is necessary to balance the requirements in such a manner that they can promote legitimate value addition being created in Vietnam and not a circumvention of rules by third party exporters which simple repackage good in Vietnam or engage in a minimum level of transformation. The complexity of the rule might also take into account the margins of preferences existing on a product since this will also determine the real value of compliance and usage of the FTA. It should not be forgotten that the EU has relatively low tariffs in most industrial sectors, except for textiles and clothing and footwear.

Ultimately, on a line by line basis, it is necessary to determine the value of the preferences, the complexity of complying with whatever criterion is being proposed, and the ability for the criterion to discourage the establishment of low value added activities from third parties.

Box 1Box 1 makes a series of recommendations based on existing rules adopted by Vietnam, and makes a strong case for simplifying, lowering and streamlining different rules across different agreements: the larger the number of differences in rules across agreements, the lower the likelihood of utilization of preferences thereafter.

The negotiators will need to carefully consult with industry on the feasible rules and ensure that industry is sufficiently aware of how to comply with the rules, in order to ensure that firms make maximum usage of the benefits afforded under the FTA.

III.3.6. Standards and technical barriers to trade

Standards and technical barriers to trade are measures applied to products in order to ensure that they conform to certain minimum requirements in terms of human safety, measurements, environmental conditions, etc. For example, they may relate to the axle load of trucks, to the labelling requirements of jams, to the testing procedures on pharmaceutical products, or the dying chemicals in textiles. Most measures related to human disease control are under the TBT measures, unless they concern food safety or disease, which are carried by plants or animals (thereby falling under the SPS measures[74].

The agreements of the EU incorporate an SPS and TBT chapter of varying degrees of depth. The EU stated that “Addressing non-tariff barriers is complicated, resource-intensive and is not fully covered in the WTO. Instruments such as mutual recognition agreements, international standardisation and regulatory dialogues, as well as technical assistance to third countries, will play an increasingly important role in promoting trade and preventing distorting rules and standards. This will require new ways of working within the Commission and with others, including Member States and industry in order to identify and tackle barriers”[75]. In most agreements, references are made to the WTO SPS

[74] In terms of food, labelling requirements dealing with nutrition claims, quality and packaging regulations are normally considered TBT measures, while labelling requirements dealing with food safety are considered to be SPS measures. See http://www.wto.org/english/tratop_e/sps_e/sps_agreement_cbt_e/c1s4p1_e.htm

[75] See EC (2006) Competing in the World Economy: a Contribution to the EU’s growth and jobs strategy. COM 2006(567)

and TBT Agreements, and are governed by the principles and rules of those agreements. During the consultation phase of the study, stakeholders raised the inherent problems of reaching EU standards. This is not a unique problem for Vietnam but for developing countries in general.

An FTA with the EU will not lead to a lowering of standards, but it can promote a comprehensive framework for technical assistance, consultation and co-operation on SPS and TBT issues, encouraging and fostering compliance of Vietnamese exports with EU standards[76]. An agreement can also encourage mutual recognition of standards and improved awareness of each other's quality infrastructure. An earlier MUTRAP report provides some recommendations for the TBT and SPS chapters of the agreement[77]:

- SPS Chapter should include provisions on:
    - co-operation in implementing and developing international standards
    - transparency and information exchange
    - promote the adoption of international norms, such as the codex alimentarius where possible
    - co-operation in the determination of areas where diseases and pests are either absent or of low prevalence
    - Establish a bilateral SPS Committee, which would provide for an appropriate *forum* where problems could be discussed and solutions sought before any recourse to the multilateral WTO system.

- TBT Chapter should include provisions on:
    - close co-operation with the EU in the field of standards, technical co-operation and conformity assessment procedures
    - transparency and information exchange
    - promote the adoption of international norms wherever possible, and recognized regional adopted norms (for example by the EU for ASEAN based norms)
    - establish a bilateral Committee could, which as in the case of the SPS committee could provide a medium for settling disputes and improving consultation between parties.

The agreement should contain capacity building provisions promotion, particularly with the implementation of the agreement but also to ensure that the agreement can produce a balance outcome for both parties. Assistance usually comes in the form of specific trainings, technical advice, institutional strengthening, and information dissemination to the private sector, or any of the other aid for trade categories.

[76] See Philip, J-M. *et al* (2011) The free trade agreement between Vietnam and the European Union: Quantitative and qualitative impact analysis, MUTRAP Activity Code FTA-9 EU, October

[77] *ibid*

III.4. Estimated Impacts on Key Service Sectors

III.4.1. Introduction

The analysis of the results from the CGE model indicates that the service sector will experience a net improved performance as a result of an FTA agreement, although imports are expected to outstrip exports of services. These benefits of liberalizing services will however be transmitted to other sectors and is expected to lead to an overall improvement in Vietnam competitiveness across all sectors

As requested by the Ministry of Industry and Trade, four service sectors are the focus of the study. These four sectors are the distribution and retail, communications, finance and professional service sectors. All sectors have experience strong growth and have strong linkages throughout the economy, providing effective means to increase efficiency and competitiveness. State owned enterprises are most visible in the communications and distribution sectors. Foreign direct investment has been most notable in the financial sector, followed by communication and distribution. There are still severe restrictions in some of the sectors despite major commitments undertaken by Vietnam in its accession protocol. These restrictions are often of a regulatory order. The EU also poses severe restrictions on professional services, and investment requirements, though transparent in nature, causing some challenges for Vietnamese firms.

III.4.2. Distribution Services

III.4.2.1. Characteristics of Distribution Services

The distribution sector is an industry that establishes a network to sell goods either imported or locally made to the end-consumers. As classified by United Nations Central Product Classification and adopted in GATS (General Agreement on Trade in Services), the distribution sector is defined to include four major sub-sectors: commission agents' services, wholesale trade services, retailing trade and franchising services.

The distribution sector has an important socio-economic role for (i) providing the link between producers and consumers within and across borders, (ii) being a key driver for both production and consumption development, (iii) facilitating trade in goods and other services and contributing to competitiveness of other sectors, (iv) creating jobs, (v) contributing to GDP growth and (vi) playing as an integral part of the global supply chain.

After accession to the WTO, Vietnam has made strong changes in the distribution sector. Despite being a small market but with rapid and potential growth, political stability, young population structure and a rapid growing consumption demand, distribution sector in Vietnam has a strong attraction for both foreign and domestic investors. So far, Vietnam has enthusiastically liberalized the distribution sector in consistence with numerous FTAs such as AFAS (ASEAN Framework Agreement on Services), ACTIS (Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China, and AKTIS (Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation among the governments of the member countries of ASEAN and the Republic of Korea).

The distribution sector in Vietnam[78] plays an important economic role. The sector was made up of around 151,000 enterprises in 2011, mostly of small and medium size, accounting for approximately 39 per cent of total enterprises and 61 per cent of services enterprises.

The sector employs nearly 6.4 million persons, contributing to 12.3 per cent of total employment and 39.1 per cent of service employment in 2012. Of 6.4 million persons engaged the in distribution sector, 97,400 persons work in the state sector.

In 2012, the wholesale and retail trade in Vietnam contributed VND 423,919 billion to GDP, accounting for 13.16 per cent of total GDP. The wholesale and retail trade is also the biggest service sector in term of GDP, contributing more than 31 per cent of total service GDP[79].

Regarding to retail services, the distribution landscape of Vietnam has been dominated by small household stores and traditional markets, which are distributed nationally wide and considered as the dominant retailing model in rural areas in Vietnam. Recently, the Vietnamese distribution market has caught up very quickly with global markets, progressing from a simple, rudimentary market to a key economic sector.

The modern retails such as convenient stores, supermarkets and shopping centres have been increasingly prevalent in Vietnam even though their market share is still at low level, around 15 per cent. The number of supermarkets increased 20 per cent in the five years following WTO accession, while the number of shopping centres rose by 72 per cent[80]. In the end of 2012, Vietnam there was 8,547 traditional markets, 659 supermarkets and 115 trade centres[81].

In 2012, the total retail sales in Vietnam reached VND 1,790,143.3 billion, accounting for 77 per cent of total retails of goods and services. It is believed that the retailing market in Vietnam will continue to expand. Firstly, the modern retails will develop more strongly especially in urban areas due to its advantages of good and services quality, variety, modern business and attractive promotion programs. Secondly, the traditional retails will keep its dominant market share but must change under competition of the modern retails towards improving good and service quality. Thirdly, the application of scientific and technological advances in the retailing trade will be more prevalent. These tendencies will certainly affect the strategy of both domestic and foreign distributors in Vietnam in the coming years.

III.4.2.2. Trade in Distribution Services

Currently, there is a rapid development of e-commerce distribution in Vietnam, originating from the sharp increase in the number of personal computers and persons using Internet. A lot of websites specifically for online order and distribution have established for example vnnabook.com, tienphong-VDC.com.vn, and Megabuy.com. The types of commodities distributed through e-

[78] According to Vietnam GSO's statistics, distribution services' statistics include wholesale trade, retail trade and repair of motor vehicles and motorcycles.
[79] GSO 2013. Statistical Data. Hanoi, Vietnam: General Statistics Office of Vietnam.
[80] WTO 2013. Trade Policy Review: Vietnam. World Trade Organization.
[81] GSO, 2012. Statistical Data. Hanoi, Vietnam: General Statistics Office of Vietnam.

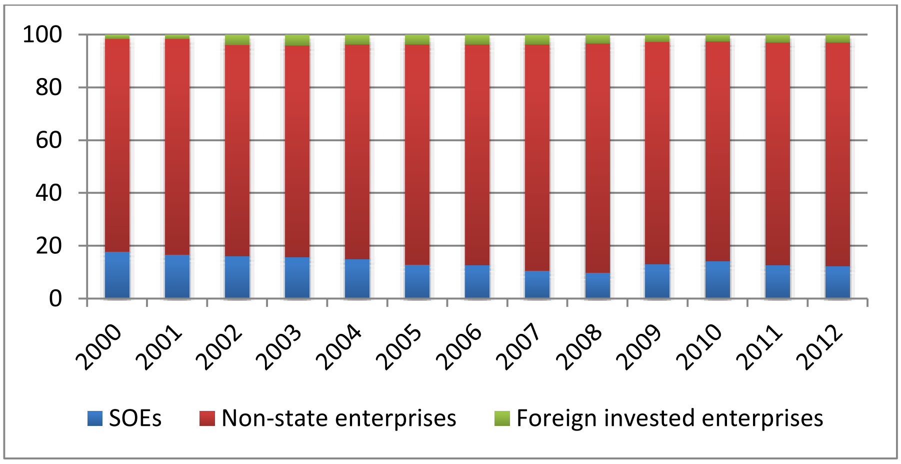
commerce are in variety such as book, household appliance, stationary, garments, cosmetics and even foods. This distribution channel has advantage of low cost and quick delivery, thus is considered to be potential in Vietnam and can promote Mode 1 in distribution in the future.

Franchising in Vietnam has taken place strongly in fast-food restaurants, retail trade, education, restaurants and real estate. Together with franchising, the rapid establishment and development of foreign agents and representative offices in distribution has facilitated the appearance of global brand in the Vietnamese market.

Vietnam has been considered a potential distribution market because of its area and population size, young people, high demand for consumption, stable economic growth rate and investment attractiveness. After five years of joining the WTO, Vietnam's distribution market has been proliferated with the emergence of global suppliers and dramatic expansion of the domestic distributors.

The distribution channel in Vietnam is made up of a mixture of state-owned import and export companies; state-owned, private and foreign wholesalers and retailers; independent Vietnamese distributors and agents and retail outlets. The SOEs (State-owned enterprises) have still played important role in distributing key goods and services such as petroleum, fertilizer, cement and steel, stabilising market prices, and balancing between supply and demand even though the contribution of SOEs to total retails of goods and services has gradually declined (Figure 92). Household retails under the form of traditional stores are most prevalent. Following the recent opening of the market, the number of foreign-owned retail outlets has been increased. In addition, a wide range of the leading Asian foreign retailers has increasingly penetrated Vietnam's market by opening supermarkets and commercial centres.

Figure 92. Retail sales of goods and services at current prices by type of ownership, 2012



Source: GSO Enterprise Surveys 2013

Despite advances achieved by the distribution sector over the last decade and the emergence of modern retailing, Vietnam's distribution sector is characterized by very low productivity and competitiveness. The modern retail sector accounts for only around 15 per cent of total retail sales in Vietnam compared with approximately 50 per cent in per Asian countries, because of the existing habit to buy products at traditional markets or stores with limited range of product at low price. The infrastructure for distribution is underdeveloped, cooperation among domestic distributors is weak and policy framework for the sector is not adequate[82]. In addition, human resources for the sector have been low educated. The domestic distributors also cope with substantial difficulties in finding business premises because the clearance cost is normally high. Therefore, under the context of recovery of the global economy after financial crisis and negotiation of EU-Vietnam FTA, the domestic distributors must be better prepared for increasing competition in the near future.

In the recent years, an increasing number of foreign distributors have established themselves in Vietnam, especially distributors from EU, US and Asia. It is worth nothing that while Asian retail distributors are more focusing on investing in supermarkets and trade centres, European distributors are focusing on franchising activities.

In this field, three remarkable long-lasting EU's retailers in Vietnam are France's Big C, Germany's wholesaler-Metro Cash and Carry and France's Luis Vuitton[83]. One striking point is that the supermarkets such as Big C and Metro Cash and Carry have a relatively high local content, implying that they have developed links with domestic suppliers. However, the local content of foreign trade centres is low, showing that trade centres normally sell the imported products.

A lot of EU distributors have chosen franchising as a way to penetrate Vietnam's distribution market. Up to 2013, UK has the highest number of enterprises carrying out franchising activities in Vietnam, followed by Italia, France and Germany[84]. Most of the EU companies are engaged in distributing garments and textile products in the Vietnamese market. Some of them are engaged in distributing toy, educational and cosmetic products. It is different from Asian companies that have often conducted franchising in restaurant. This feature will have some implications for EU - Vietnam negotiations. For distributing cars and motorbikes, a lot of foreign distributors in Vietnam, including EU car distributors, operate in form of joint venture or commission agents.

However, following Vietnam's accession to the WTO, foreign distributors have so far not displaced domestic distributors. Foreign-invested firms have to fiercely compete with domestic brands and in 2012 ten domestic retailers were in the top 500 largest retailers in Asia. According to GSO (2013), by the end of 2012, about 12.2 per cent of retails sales of goods and services were accrued to the SOEs. The corresponding numbers for non-state and foreign direct invested (FDI) sector were 84.9 per cent and 2.9 per cent. The proportion of FDI sector even declined from 3.7 per cent in 2007 (the year of Vietnam's accession to the WTO) to only 2.9 per cent in 2012. In 2013, SOE, non-SOE and FDI sectors contributed 9.9 per cent, 86.7 per cent and 3.4 per cent of total retails revenue respectively.

Among non-SOE sector, household sector's proportion in total retails was highest at 50.3 per cent, followed by private sector with 35.3 per cent[85]. Two most important reasons for large household sector's contribution to total retails revenue is that most of the consumers in Vietnam are still

[82] MINISTRY OF PLANNING AND INVESTMENT 2012. Report on performance of trade and services in December and the whole year 2012. Hanoi, Vietnam: Ministry of Planning and Investment.
[83] WTO commitments in distribution services: some issues for Vietnam (2010), VIETNAM COMMERCIAL UNIVERSITY & PARLIMENT'S ECONOMIC COMMITTEE, Hanoi, Statistical Publishing House.
[84] KIM T. (2013). Doanh nghiệp nước nào nhảy vào nhượng quyền tại Việt Nam đông nhất? Bao Moi [Online]. Available: http://www.baomoi.com/Doanh-nghiep-nuoc-nao-nhay-vao-nhuong-quyen-tai-Viet-Nam-dong-nhat/45/12052337.epi
[85] Xuan L., (2013), Ministry of Industry and Trade, Nhận diện thách thức của thị trường bán lẻ năm 2014. Bao Moi [Online]. Available: http://www.baomoi.com/Nhan-dien-thach-thuc-cua-thi-truong-ban-le-nam-2014/45/12939651.epi.

dependent on habit to buy products at traditional stores and the household retails are prevalent nationally wide. It is agreed by some interviewees and experts that domestic supermarkets and small shops to some extent still overwhelm the foreign ones in terms of market share. In contrast, the foreign retailers overwhelm domestic ones in the field of trade centre[86]. Therefore, it can be seen that the entrance and increasing development of foreign distributors have so far not put substantial pressure on domestic distributors. The retails remained dominated by domestic distributors.

In fact, Vietnam and the world's statistics (including WTO service databases) unfortunately have not provided separate trade data for Vietnam's distribution sector.

The number and registered capital of FDI projects in distribution services in Vietnam in 2012 reached 220 and US$ 772.8 million, representing 17 per cent of total FDI projects but only 5 per cent of total registered capital[87]. This is another information implying that imports of the distribution sector under Mode 3 is at relatively low level even though there is a slight increase in 2012's proportion of both FDI projects and registered capital compared with that of 2011 (14 per cent and 3 per cent respectively).

Also concerning distribution import model of Mode 3, according to survey results conducted by GSO in 2012, most of foreign distributors in Vietnam operate in types of joint venture and in wholesale trade sector (Table 41). Among 133,211 surveyed distribution enterprises in Vietnam, there are only 18 100 per cent foreign-invested companies whereas 15,801 joint-venture companies. 100 per cent foreign-invested distribution companies in Vietnam operate in all three sub-sectors including wholesales services, retailing services and commission agents' services. More specifically, they are in engaged in wholesale of agricultural products, beer, machinery, equipment and gas; retails, repair and maintenance of car, sale of car on a free or contract basis (agents) and supermarkets. Joint-venture companies operating in wholesale distributes a wide range of products. A large number of joint venture companies distribute machinery and equipment, foods, drinks, garments, cosmetics, toys, and household electronic products. These types of enterprises also distribute in wholesale services other specialized products such as woods, construction materials and chemical products. The enterprises engaged in retails often sell, repair and maintain of car and motorbikes and sell car on a free or contract basis (agents). The other common fields are retails in supermarkets and convenient stores. The joint-venture distribution enterprises also actively participate in distributing duty free goods, wines, perfumes, foods and garments and electronic products.

Table 41. Proportion of foreign owned enterprises in distribution, 2012

Sub-sector	100 per cent foreign invested enterprises		Joint-venture enterprises	
	Number	Per centage (per cent)	Number	Per centage (per cent)
Commission Agent	2	11	1	0.00
Wholesales	11	61	15786	99.99
Retails	5	28	18	0.01
Total	18	100	15801	100

Source: Author's calculations from GSO's 2012 enterprise survey data

[86] WTO commitments in distribution services: some issues for Vietnam (2010), VIETNAM COMMERCIAL UNIVERSITY & PARLIMENT'S ECONOMIC COMMITTEE, Hanoi, Statistical Publishing House.
[87] GSO 2013. Statistical Data. Hanoi, Vietnam: General Statistics Office of Vietnam.

Contradicting with the dramatic and vivid development of both domestic and foreign distributors in Vietnam's market, the domestic distributors have so far not been successfully penetrated the international markets, especially in EU whose requirement on good and services quality are high and where has been witnessing the widespread performance of giant distributors.

The internationalization of the retail sector is relatively new and most retailers still operate in their home country only[88]. The Vietnamese retailers also follow this trend. Most the big Vietnamese retailers such as Hapro, Phu Thai and SaiGon Co.op have the similar strategies that they will focus on developing retail network, serving domestic consumers and becoming leading distributors domestically. Therefore, generally, the Vietnamese retailers have so far not focused on developing supermarkets and trade centres abroad.

Regarding franchising, at present, there is only one Vietnamese company, i.e. Duc Trieu Trade and Service private company, undertaking franchising to distribute T&T leather shoes and bags abroad.

In 2012, export turnover of "other services" including distribution services reached US$ 238 million, accounting for only 2.5 per cent of total service export turnover. It implies that the 6 other services sectors, including distribution, have not actively and substantially participated in exporting.

In addition, the number and registered capital of direct investment oversea projects in the distribution sector accumulated as of 31 December 2011 was 122 (accounting for 19 per cent of total project overseas) and US$ 168.9 million (accounting for 1.5 per cent of total registered capital). The corresponding number, as of 31 December 2012, was 152 (21 per cent) and US$ 187.5 million (1.45 per cent). Thus, the distribution export under Mode 3 is at very low level in terms of registered capital with small-scale project. In comparison with distribution imports in 2012, distribution exports of Vietnam have substantially lower number of project, registered capital and scale.

III.4.2.3. Treatment of Distribution Services in EU and Vietnam FTAs

The level of commitments undertaken in EU agreements applies to the following sectors and sub-sectors:

- **Wholesale Trade Services**
  - ⇨ Wholesale Trade Services of motor vehicles, motorcycles and snowmobiles and parts and accessories thereof (part of CPC 61111, part of CPC 6113 and part of CPC 6121)
  - ⇨ Wholesale Trade Services of telecommunication terminal equipment (part of CPC 7542)
  - ⇨ Other wholesale trade services (CPC 622 excluding wholesale trade services of energy products
- **Retailing Services**
  - ⇨ Retailing Services of motor vehicles, motorcycles and snowmobiles and parts and accessories thereof (CPC 61112, part of CPC 6113 and part of CPC 6121) Retailing Services of telecommunication terminal equipment (part of CPC 7542)
  - ⇨ Food retailing services (CPC 631)
  - ⇨ Retailing services of other (non-energy) goods, except retail sales of pharmaceutical, medical and orthopaedic goods (CPC 632 excluding CPC 63211 and 63297)

[88] LAKATOS, A. & LAURENZE, E. (2009). Regulatory Review of Vietnam's distribution services and recommendations for WTO compatible sectors regulations. Hanoi, Vietnam: MUTRAP III.

In the case of Vietnam, the restrictions are very similar in the 3 agreements with just one exception in the agreement with China, which is listed below. The central product classification codes used for this sector are:

- Wholesale trade services - (CPC 622, 61111, 6113, 6121)
- Retailing services - (CPC 631 + 632, 61112, 6113, 6121)

Table 42. Restrictions in EU and Vietnamese FTAs in Distribution Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Retail & Wholesale Services							
Mode 1	◕	◕	◕	◕	●	●	●
Mode 2	◕	◕	◕	◕	○	○	○
Mode 3	◑	◑	◑	◑	○	○	○
Mode 4	◔	◔	◔	◔	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1 and Mode 2 in EU agreements, the four agreements present similar level of restrictions. However, with regards to the distribution of chemical products, and of precious metals (and stones), which the sector is unbounded for all Member States in Modes 1 and 2, the agreement with Singapore excluded Austria, Slovenia and Finland. The same agreement has also stated no commitments in Sweden for biocide products and in Croatia for tobacco products. Different restrictions applied across the European Union, for instance for Modes 1 and 2, Austria has no commitments for the distribution of pyrotechnical goods, of ignitable articles and blasting devices and of toxic substances. The same country, together with Bulgaria, has adopted no commitments also for distribution of products for medical use such as medical and surgical devices, medical substances and objects for medical use. In Mode 1, Austria, Bulgaria, Poland and Romania have no commitments for distribution of tobacco and tobacco products. In Italy, there is a state monopoly on tobacco for wholesale trade services. The distribution of alcoholic beverages is unbound in Bulgaria, Finland, Poland and Romania. In Sweden, the retail distribution of alcoholic beverages is unbound. For the same mode, in Austria, Bulgaria, Czech Republic, Finland, Romania, Sweden and Slovenia have no commitments for distribution of pharmaceuticals. Bulgaria, Hungary and Poland have no commitments for commodity brokers' services. The wholesale of pharmaceuticals is unbound in France. Retailing services, except for mail order is unbound in 18 Member States (BE, BG, CY, CZ, DE, DK, ES, FR, EL, IE, IT, LU, MT, NL, PL, PT, SK, UK).

In Vietnamese agreements, there are no commitments under mode 1, except for the distribution of products for personal use and distribution of legitimate computer software for personal and commercial use. Under mode 2, there are no restrictions applied by Vietnam.

Mode 3 in EU agreements, the rules are applied differently across the EU. In Austria, there is no commitment undertaken for the distribution of pyrotechnical goods, of ignitable articles and blasting devices and of toxic substances and the distribution of pharmaceutical products and of tobacco products, is only allowed to EU nationals or EU juridical persons with headquarters within European Commission. In Finland, the distribution of alcoholic beverages is unbound. In the case of the agreement with Singapore, Croatia has no commitments for the distribution of tobacco products. In the wholesale trade services subsector, in France, there is a monopoly on tobacco and the authorization of wholesale pharmacies is subject to an economic needs test. The monopoly on tobacco also exists in Italy. In retailing, there is a state monopoly on tobacco in Spain and Italy. In 7 Member States (BE, BG, DK, FR, IT, MT, PT), an authorization for department stores is subject to an economic needs test. Sweden has no commitments for the retail sale of alcoholic beverages and requires an authorization for temporary trade in clothing, shoes and foodstuffs that are not consumed at the point of sale. In Ireland, there is also no commitment for retail sale of alcoholic beverages. Under the Vietnamese agreement, as of 11 January 2010, foreign-invested companies working in distribution services will be permitted to engage in the commission agents', wholesale and retail business of all legally imported and domestically produced products. In the case of the agreement with China, this rule is applied within 3 years after entry into force of the agreement.

Mode 4 in EU agreements, restrictions applied in France where there is a condition of nationality for tobacconists in all 4 agreements. In the case of the Vietnamese agreement, there are no bound restrictions in this sector.

III.4.2.4. Considerations for Distribution Services in the EU-Vietnam FTA

Under the EU-Vietnam FTA, the distribution sector in Vietnam is certainly challenged by not only an increase in the number but also control of EU's distributors in the domestic market because domestic distributors are not strong enough to lead the market but also disadvantageous compared with EU distributors in finance, human resources, experience and advertisement skills. The EU-Vietnam FTA might also lead to the proliferation of EU distributors engaged in wholesales and especially modern retails such as supermarkets. In addition, with the new regulation of ENT requirements, the domestic distributors will have to compete with the rapid expansion of two existing EU's giant retailers including Metro Cash and Carry and Big C. Therefore, under the context of recovery of the global economy after financial crisis and negotiation of the EU-Vietnam FTA, the domestic distributors must be better prepared to cope with the increasing competition from EU enterprises in the near future and try to create a cooperative linkage between domestic enterprises to avoid loss of market share. One more challenge is the movement of high-educated employees from domestic to EU's distributors which normally offer higher salaries and better working conditions, resulting in shortage of qualified employees for domestic enterprises. Finally, distribution is the sector connecting production and consumption, and producers and consumers. EU distributors might set up standards on food safety and quality for agricultural products which might be so high for Vietnam's farmers with the existing farming techniques and infrastructure, leading to failure of farmers to supply agricultural products to supermarkets. Therefore, the dramatic increase of foreign distributors without appropriate government control will negatively affect the allocation of resources, the production, consumption and then economic development of the whole nation.

Consumers will be the most beneficiaries with a much wider range of choice of consumption goods, lower prices, better promotion programs and more professional after sale services. Domestic produces will have more opportunities to learn modern management and business practices from EU's distributors. They will also have motives to renovate and improve their services as well as competitiveness. The EU-Vietnam FTA can also bring opportunities even minimally for capable domestic enterprises to access the EU's distribution market, whose requirements on good and services quality are at high level. Increasing employment is another possible opportunity for Vietnam because this sector, especially retail trade, has a big potential in job creation. However, it is noted that a part of retail households might lose their jobs. Finally, made-in-Vietnam products might have a chance to be sold in many parts of the world though modern and worldwide distribution systems of EU's distributors.

Regarding to liberalization of domestic distribution market:

- The government should put priority to keep a certain level of protection to domestic distributors. It is of great importance to negotiate to maintain ENT requirements for establishing retail outlet beyond the first one while putting effort to clarify ENT criteria, standards and contents to increase transparency.
- The government might consider proposing local content requirements that request EU's supermarkets to sell Vietnam made products at a certain level and facilitate domestic enterprises to put their products in supermarkets at reasonable fees and conditions. Vietnam can also provide incentives for EU's retailers operating in rural and mountainous areas.
- Vietnam can liberalize more franchising sub-sector that is recognized to be promising but less risky than others in return for concession of EU in other distribution sub-sectors such as retails or even in other services sectors such as business services, where Vietnam might has advantages.
- The government can consider some preferences beyond the existing WTO commitments to EU distributors. For example, Vietnam can consider shortening the list of excluded commodities to EU enterprises, for example tobacco as suggested through survey results, but with cautious approach and set up some strict conditions for distributing these commodities in Vietnam. In contrast, Vietnam can request EU to do the same way for chemical products.
- Vietnam should ask EU to take into account the different levels of development between Vietnam's and EUs distribution sector. Therefore, it is of great importance for Vietnam to receive a certain measure of flexibility in overall terms as well as in distribution sub-sectors. In addition, Vietnam can ask for a transitional period of around 10 years.
- It is noted that some EU's commitment and regulations in distribution services are different among EU's member states. Therefore, in some cases, Vietnam might have to thoroughly grasp each nation's distribution market and related policies when negotiating. For example, understanding of legislative regulations related to department stores is important because some EU member states set up specific ENT requirements for different type of department stores.

Regarding to increase in access to EU's distribution market:

- Negotiations to facilitate the Vietnamese distributors' commercial presence (Mode 3) in EU must be put in priority. In addition, reducing import tariff and revenue tax for Vietnam's commercial presence in EU should be also put in negotiation.
- As mentioned above, Vietnam can take into account proposing EU to reduce the list of excluded products such as chemical products or to remove state monopoly on some products such as matches.

- Vietnam can propose some EU states such as Spain, Portugal, Italy and France to be more flexible in tobacco industry to allow Vietnam to distribute this commodity in EU's market.
- Vietnam negotiate with the EU to liberalize Mode 4 in distribution services gradually to facilitate the Vietnamese people to go to EU to supply distribution services by removing or at least lowering the residence requirements for natural persons or condition of nationality for tobacconists.
- Vietnam can propose EU to lower ENT requirements for Vietnam's distributors, for example with criteria of creation of new employment.
- The Vietnamese government should strengthen support of domestic companies to penetrate EU's market, enabling help them to take full advantages of future VEFTA. This can be done by putting priority in supporting domestic distributors, especially retailers, to understand about EU's market through trade promotion, training, and market research even before the conclusion of VEFTA. In addition, in some cases, the domestic enterprises need government's guidance and support on registering property right of commodities in EU's market.

In 2012, in the **distribution** sector, about 12 per cent of retails sales of goods and services accrued to the SOEs, 85 per cent private enterprises and 3 per cent to foreign direct invested enterprises. 100 per cent foreign-invested distribution companies operate in Vietnam in all three sub-sectors including wholesales services, retailing services and commission agents' services. More specifically, they are in engaged in wholesale of agricultural products, beer, machinery, equipment and gas; retails, repair and maintenance of car, sale of car on a free or contract basis (agents) and supermarkets. Joint-venture companies operating in wholesale distributes a wide range of products. A large number of joint venture companies distribute machinery and equipment, foods, drinks, garments, cosmetics, toys, and household electronic products. These types of enterprises also distribute in wholesale services other specialized products such as woods, construction materials and chemical products. The enterprises engaged in retails often sell, repair and maintain of car and motorbikes and sell car on a free or contract basis (agents). The other common fields are retails in supermarkets and convenient stores. The joint-venture distribution enterprises also actively participate in distributing duty free goods, wines, perfumes, foods and garments and electronic products. The establishment of outlets for retail services (beyond the first one) is only allowed on the basis of an Economic Needs Test (ENT). According to Vietnam's WTO Accession Protocol, applications to establish more than one outlet shall be subject to objective criteria. The main criteria of the ENT include (i) the number of existing service suppliers in a particular geographic area, (ii) the stability of market, and (iii) geographic scale. So far, there is a concern by EC that Vietnam has no nation-wide legislation used to clarify in detail the ENT criteria, which results in different interpretation by different local authorities of the ENT criteria. The lack of implementing and clarification of ENTs creates legal uncertainty for EU companies[89]. Therefore, in the near future, more specific regulations about ENT are needed to avoid discretionary and subjective decisions of local authorities in allowing the opening of outlet beyond the first one. Vietnam has not stipulated any limitations on foreign suppliers and consumers engaging in commission agents' services, wholesale and retail business in Vietnam (for national treatment).

[89] http://madb.europa.eu/madb/barriers_details.htm?barrier_id=105361&version=2

III.4.3. Communication Services

III.4.3.1. Characteristics of Communication Services

The Communications Sector in Vietnam, which includes courier services, telecommunication services and audio-visual services (motion picture production, motion picture distribution), is a fast developing sector and an important contributor to the country's economic, political and social development.

In 2013, the sector of telecommunications services estimated revenue of US$9.9 trillion. Among its business activities, we can highlight the following numbers:

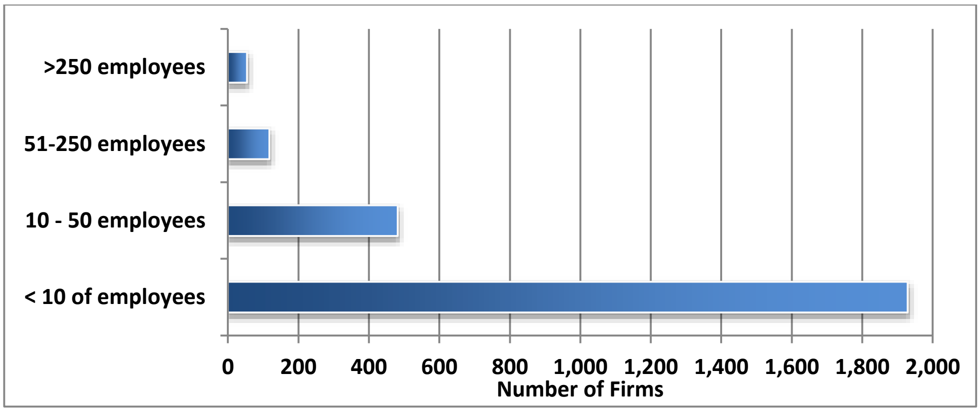
- Telephone subscribers: 105 million, of which mobile accounted for 93 per cent of the share.
- Internet Users: 31 million, of which the total number of broadband internet subscribers (xDSL) reached more than 5.17 million subscribers.
- Number of Domain names ".vn": 263,000, holding number 1 position in South East Asia as well as achieving an average annual growth rate of 172 per cent per year.
- Total number of Vietnamese domain names registered: 950,000.
- The total number of IPv4 addresses has reached over 15.5 million addresses.

The Courier Services in the region are provided by VNPost, which has been operating under a new organizational model since 2013, as well as by other global operators such as DHL, FedEx and EMS. The total revenue generated in the sector is estimated at VND 7.6 trillion, down 30.7 per cent compared to 2012.

Currently, Vietnam has 178 broadcast radio and TV channels (103 TV channels and 75 radio channels) and the country continues to invest and develop the system for pay TV, which currently has 75 foreign channels serving 4.4 million subscribers nationwide.

The number of firms in the sector in the last five years has significantly increased, from 1,084 firms in 2008 to 2,583 firms in 2012. The average number of employees in 2012 per firm is represented in the Figure 93. According to the survey conducted by the General Statistics Office of Vietnam, small firms, predominantly in the area of telecommunications services, motion picture production and courier services, with less of 10 employees, are employing the majority of people in the sector.

Figure 93. Firms in Telecoms Sector according to number of employees, 2012



Source: GSO Enterprise Surveys 2013

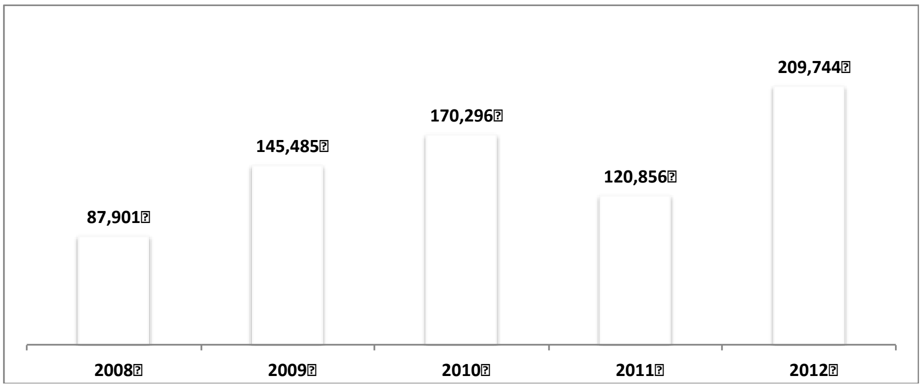
The majority of the firms in the communications sector are privately owned (2,506), followed by state owned enterprises (61). The number of foreign companies established in Vietnam is very small (16), however, through cross-border supply of services, mode 1, and with the exception of the two sub-sectors telecommunications services and motion picture distribution where the main companies are stated owned, the courier services and motion picture productions suffer significant international competition in the domestic market, mainly from the United States and Japan for the first sub-sector and from the United States, Korea and China for the motion picture productions.

The key sources of competition in the sector are price, followed by quality of service, brand or reputation and after sales services, with the physical presence being the least important fact in the list, because services are primarily delivered across borders.

In the past five years, the sector, especially in the areas of telecommunication services and courier, has overall achieved significant sales growth of about 15 per cent a year. Once again, telecommunication services account for the bulk of revenue in the sector, with a total revenue of 8.26 trillion VND in 2012.

In 2012, the communications sector employed about 209,744 people, almost doubled compared with 2011, when the numbers showed that there was 120,856 people employed in the sector (see Figure 94).

Figure 94. Number of persons employed in the Communications Sector



Source: GSO Enterprise Surveys 2013

With regards to the labour structure, women represent 43.2 per cent of total workers in the sector; young workers (18-25 years old) represent 29.1 per cent of total workers and the number of employees trained with at least a technical certificate represents 90.9 per cent of total workers[90].

III.4.3.2. Trade in Communication Services

The import revenue of the sector in 2012 was estimated in 39,992,948 million VND, of which telecommunications services represented 79.42 per cent of the total share. The market share of imports is led by the United States (60 per cent), followed by the EU (15 per cent), Japan and Korea (10 per cent), China (5 per cent), South East Asia (7 per cent) and the rest of the world (3 per cent).

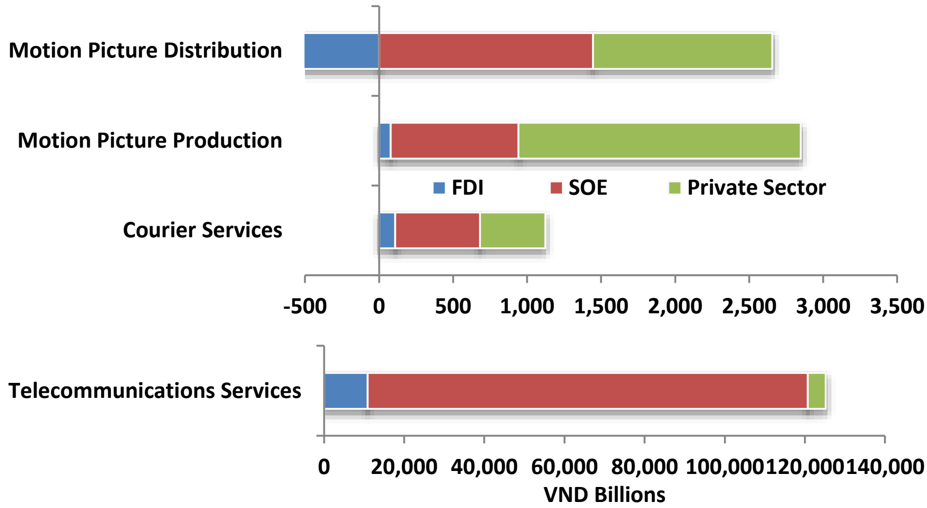
[90] Data provided by the General Statistics Office of Vietnam only for the year of 2011.

With regards to the export revenue, telecommunications services also lead the market share in the sector, 99.60 per cent of total share or 57,062,424 million VND in 2012. Services are mainly provided by mode of supply 1 to the United States (70 per cent) followed by the EU (13 per cent), Japan and Korea (7 per cent), China (4.5 per cent), South East Asia (5 per cent) and the rest of the world (0.5 per cent).

Average values of sales to the EU in per centage of total export are the following: Courier Services: 40 per cent, Motion Picture Production: 65 per cent, Motion Picture Distribution: 65 per cent and Telecommunications Services: 15 per cent.

As Figure 95 shows that the level of FDI in the area of communications is very low in Vietnam. Most of the equity holdings in this sector, especially for telecommunications services, come from the State or Central Government (85.85 per cent). However, in the area of motion picture production and distribution, the balance between investments coming from the private sector companies and SOEs is more balanced.

Figure 95. Equity by ownership in the Communications Sector, 2012



Note: Foreign disinvestment took place in motion pictures services in 2012.
Source: GSO Enterprise Surveys 2013

III.4.3.3. Treatment of Communication Services in EU and Vietnam FTAs

Table 43 presents the overview of the analysis of different trade agreements. Under the four agreements negotiated by the European Union, the Central Product Classifications (CPC) applicable for this sector are the following:

- CPC 7541 - Telecommunications equipment rental
- CPC 7542 - Wholesale Trade Services of telecommunication terminal equipment
- CPC 7543 - Telecommunications connection services
- CPC 7544 - Telecommunications consulting services

Under the three agreements negotiated by Vietnam, the Central Product Classifications (CPC) applicable for this sector are the following:

- CPC 7521 - Voice telephone services, facsimile services
- CPC 7522 - Private leased circuit services

- CPC 7523 - Packet-switched data transmission services, circuit-switched data transmission services, telex services and private leased circuit service
- CPC 7529 - Facsimile services

All the 3 agreements have the same level of restrictions.

Table 43. Restrictions in EU and Vietnamese FTAs in Telecommunication Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Telecommunication Services							
Mode 1	○	○	○	○	◑	◑	◑
Mode 2	○	○	○	○	○	○	○
Mode 3	○	○	○	○	◑	◑	◑
Mode 4	◕	◕	◕	◕	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1, the EU applies no restrictions. With regard to the Vietnamese agreements, no restrictions are applied except that services must be supplied in a partnership with an entity established in Vietnam and licensed to supply international communication services.

In Mode 2, the EU and Vietnam apply no restrictions.

In Mode 3, the EU applies no restrictions. In the case of Vietnam, no restrictions applied except that services must be supplied through a joint venture with a Vietnamese company and foreign capital shall not exceed 51 per cent of legal capital.

In Mode 4, the EU applies no restrictions except that under CPC 7541, the European Union requires nationality condition for specialists and for graduate trainees. Vietnam has not bound any of its commitments for this mode.

III.4.3.4. Consideration for Communication Services in the EU-Vietnam FTA

Due to FTA agreements already in force or about to come into force, which will increase external competition for companies in general, local Vietnamese companies operating in the sub sectors of Motion Picture Production, Motion Picture Distribution and Telecommunications Services have expressed concern at being a disadvantage vis-à-vis with third countries' competitors (US, Korea, Japan and China etc.) - due to competition from scale economies, subsidies, marketing and distribution.

EU's companies will be at a disadvantage vis-à-vis third party Asian and North American countries (US, Korea, Japan, China etc.) in the sub sectors of Courier services, Motion Picture Production, Motion Picture Distribution and Telecommunications Services.

Issues related to the violation of intellectual property rights and labour rights could be potential challenges for negotiating services commitments. In addition, competition regulations and taxation policy, which are claimed to be unpredictable in Vietnam by the business community, as well as the lack of transparency in some projects in the government procurement sector are also listed as potential challenges for the communications sector.

In terms of penetrating the EU market, key problems faced by local companies in exporting to this market are related to meeting labour requirements, recognition of qualifications, capital requirements and taxes. There are no problems faced by communications sector with regard to the temporary movement of natural persons for business purposes in the primary, secondary or tertiary sector in Vietnam.

In summary, the communications sector, skills and policy (un)predictability are major constraints, although investment, regulatory environment and licensing procedures are also important constraints. Courier services and motion picture productions are facing competition from international competition mainly from the US and Japan for the courier services and from the US, Korea and China for the motion picture productions. Meanwhile the sub sectors of motion picture distribution and telecommunications services are not much affected by international competition due to the fact that main companies in these sub sectors are state owned and competition is limited. There are no issues raised in the communications sector with regard to the temporary movement of natural persons for business purposes in the primary, secondary or tertiary sectors in Vietnam. Mode 1 is always used to export services to the EU in the communications sector.

In this regard, the values of sale to the EU in per centage of total export are approximately:

- Courier Services: 40 per cent
- Motion Picture Production: 65 per cent
- Motion Picture Distribution: 65 per cent
- Telecommunications Services: 15 per cent

Labour requirements, recognition of qualifications, capital requirements and taxes are the main barriers faced by Vietnamese firms in the EU. Intellectual Property Rights and Labour Rights are sometime violated in Vietnam and are a source of concern to the EU. The competition policy and taxes policy are also prone to unpredictability in Vietnam and government procurement is reported to take place in non-transparent conditions.

III.4.4. Financial Services

III.4.4.1. Characteristics of Financial Services

The financial services sector experienced a rapid development but has recently been confronted with a large exposure to significant risks. The ratio of total outstanding loans to GDP reached up to 130 per cent in 2011 as a result of many years of credit expansion at the annual average growth rate of more than 30 per cent for five years 2007-2011. However, the government had applied many measures to tighten the growth rate of outstanding loans, down to 9.6 per cent in 2012 and less than 12 per cent in 2013. The securities market indexes at the end 2013 were still lower than those of the early 2008. The insurance sector was also negatively impacted by the global economic crisis in 2008.

Compared to other countries in the region, the financial services sector in Vietnam is still small. Although accessibility to banking services has increased significantly in recent years, Vietnam has one of the lowest banking penetration levels among ASEAN nations, reaching less than 30 per cent of its citizens. It also has a higher loan-to-deposit ratio than Indonesia, Malaysia, The Philippines, and Thailand. The insurance sector has been growing rapidly since its WTO accession in 2007. However, insurance premiums accounted for only 1.98 per cent of GDP in 2010. The securities market has still not become a main channel to mobilize capital for the economy. The total market value of listed companies reached 25.6 per cent of GDP in 2012, equivalent to one fourth of the total credit pumped into the economy from the banking system.

According to the GSO's Enterprise Surveys, the financial services sector consists of 2,830 firms, including 1,171 State Owned Enterprises (SOE), 1,639 private and 20 foreign firms in 2012. The financial sub-sector is the most crowded, with 2,099 firms, while the insurance sub-sector has only 179 firms. However, the insurance sub-sector observes the number of firms increasing doubly during 2008 and 2012, while the number of financial firms is changed slightly. Further, since WTO accession, there has been a growing presence of foreign companies in the insurance sub-sector. Between 2007 and 2013, licences were provided to eight new non-life insurance companies, nine new life insurance companies, and four brokerage firms.

The proportion of women employed in the sector is 56.3 per cent. The proportion of employees aged between 18 and 34 amounted to around 60 per cent and more than 95 per cent of employees in the sector have training certificates or higher degree.

Geographically, a large number of financial and insurance firms are located in Red River Delta Region and South-East Region, especially in Ha Noi or Ho Chi Minh City. Most large firms have their headquarters in Hanoi or Ho Chi Minh City. However, small firms and the network of banking branches and insurance branches now cover all provinces of the country.

III.4.4.2. Trade in Financial Services

The performance of the financial services sector was substantially impacted in 2009 due to the global economic crisis. The total sale in 2009 dropped by 32 per cent compared to that of 2008. However, it substantially recovered in 2010 and doubled in 2011. The performance of the sector was slightly decreased in 2012 due to the economic downturn. It should be noted that the accelerated growth rate of sales in 2010 and 2011 may be exaggerated by the inflation rate, which was 12 per cent in 2010 and 18.1 per cent in 2011.

Trade activities in Vietnam's financial services sector are still small and seem to be sensitive to macroeconomic signals. Services trade is mainly conducted in mode 1, i.e. cross-border. GSO figures show that total import value of the sector was US$ 757 million in 2012, comparable to the results obtained in 2007, before the economic crisis. In 2012, the export value was inferior to the import value, at US$ 214 million, far from 2007 value of US$ 397 million.

Table 44: Services Imported Value (million US dollars)

	2005	2006	2007	2008	2009	2010	2011	2012
Insurance service	249	302	461	473	406	481	567	582
Financial services	230	270	300	230	153	195	217	175
Total	479	572	761	703	559	676	784	757

Source: GSO

Table 45: Services Exported Value (million US dollars)

	2005	2006	2007	2008	2009	2010	2011	2012
Insurance service	45	50	65	60	65	70	81	64
Financial services	220	270	332	230	175	192	208	150
Total	265	320	397	290	240	262	289	214

Source: GSO

Data from GTAP 8 Database in 2007 show that EU is the main supplier of services to Vietnam in the financial services sector. At the same time, the EU is the main destination for exporting financial services from Vietnam. There is only very limited trade with ASEAN Member States.

Table 46: Import and Export in the Financial Services Sector by Regions, US$ million (2007)

	ASEAN	United States	EU
Import			
Financial services	7.7	71.1	220.2
Insurance	7.2	40.8	151.2
Export			
Financial services	4.6	19.2	125.6
Insurance	9.3	68.2	66

Source: GTAP 8 in MUTRAP Report Project SERV-1, 2011.

There is no accurate data on Vietnam's financial services trade under mode 2. However, we may look at the number of foreign visitors to Vietnam as a proxy for the level of trade. According to GSO, in 2013 Vietnam welcomed 7.6 million foreign visitors, substantially higher than in 2009 (3.4 million). EU countries account for around 11 per cent of the total number of foreign visitors, much lower than for China (25.2 per cent).

Vietnam's financial services trade under mode 3 is presented in the figures of inflows and outflows of FDI in Vietnam. After Vietnam joined the WTO in 2007, FDI in this sector reached a peak of US$ 100 million in 2009. Since 2011-2013, the sector only attracted US$ 1.1 million. However, foreign investors started looking at indirect investment by buying shares of commercial banks. Regarding FDI outflows, some Vietnamese banks like BIDV, MB, Sacombank already opened branches in neighbouring countries such as Laos, Cambodia, and Myanmar. Furthermore, in September 2011, the Vietinbank opened the first European branch of a Vietnamese bank in Germany. The accumulative registered capital by Vietnamese investors overseas reached US$ 538.1 million at the end of 2012.

There is no accurate data on the presence of Vietnam's financial services trade under mode 4. However, GSO's Enterprise Surveys provide the number of foreign employees in the financial services sector. There are 620 foreign employees working in the sector in 2012, slightly lower than in 2011 (652 foreign employees).

III.4.4.3. Treatment of Financial Services in EU and Vietnam FTAs

III.4.4.3.1. Banking Services

Table 47 presents the overview of the analysis of different trade agreements. The level of restrictions is all the same in all EU agreements and modes, except for the FTA agreement with Singapore that also includes exceptions for Croatia. The Vietnamese agreements have different level of commitment for each mode of supply, but apply similar commitments across the different agreements.

Table 47. Restrictions in EU and Vietnamese FTAs in Banking Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Banking Services							
Mode 1	◕	◕	◕	◕	●	●	●
Mode 2	○	○	○	○	○	○	○
Mode 3	◕	◕	◕	◕	◑	◑	◑
Mode 4	◑	◑	◑	◑	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ virtually closed ●Fully closed

Source: Authors

In Mode 1 in the EU agreements, various degrees of restrictions exist. In 20 Member States (AT, BE, BG, CZ, DE, DK, ES, FI, FR, EL, HU, IE, IT, LU, NL, PL, PT, SK, SE, UK) provision of financial information and financial data processing for advisory and other auxiliary services, excluding intermediation is unbound. Other types of restrictions are applied differently in 13 Member States (BE, BG, CY, EE, LT, EE, IT, LV, MT, PL, RO, SI, PL). The key restrictions are such as establishment request, requirement of authorisation by local authorities for acceptance of deposits or specific limitations and conditions depending on the type of service provided. In the case of Vietnam, the rules are unbound for this sector except in the case of provision and transfer of financial information and financial data processing, as well as, in the case of advisory, intermediation and other auxiliary financial services.

In Mode 2 in the EU agreements, restrictions are applied by only 2 Member States. In Bulgaria, there are limitations and conditions applied to the use of telecommunications network. In Poland, it is required to use the public telecommunication network or an authorized operator for the provision and transfer of financial information, and financial data processing and related software. Vietnam applies no restrictions in its agreements under this mode of service delivery.

In Mode 3 in EU agreements, there are various degrees of restrictions. In all Member States, only firms having their registered office in the European Union can act as depositories of the assets of investment funds. The management of unit trusts and investment companies must be performed by the company's head office and registered office, which must be established in the same Member State. Other restrictions applied in different forms in 11 Member States (BG, CY, FI, HU, IE, LT, PT, RO, SK, SI, SE, HR). The key restrictions are related to requirements for registered office for the depositories of the assets, permanent residence or Member States nationals for members of the board and incorporated companies (not branches) to perform specific financial activities such as assets and pension funds managements. In the case of Vietnam, restrictions are applied to commercial banks, finance companies, financial leasing companies and credit institutions. The key restrictions are related to requirement of establishing presence only through joint venture with Vietnamese companies and the limitation of foreign capital contribution.

In Mode 4 in EU agreements, restrictions are only applied in 6 Member States (BG, FI, IT, LT, PL, HR) and the key requirements are either permanent residence in the Member State or nationality requirement. In the case of the Vietnamese agreement with ASEAN, entry is permitted in accordance with Vietnam's laws and regulations.

III.4.3.3.2. Insurance Services

Table 48 presents the overview of the analysis of different trade agreements. All the four agreements have similar restrictions; except for the FTA with Singapore which included Croatia. The Vietnamese agreements have different levels of commitments according to the mode of supply, but apply similar commitments across the different agreements.

Table 48. Restrictions in EU and Vietnamese FTAs in Insurance Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Insurance Services							
Mode 1	◕	◕	◕	◕	◔	◔	◔
Mode 2	◕	◕	◕	◕	○	○	○
Mode 3	◕	◕	◕	◕	◑	◑	◑
Mode 4	◑	◑	◑	◑	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ virtually closed ●Fully closed

Source: Authors

In Mode 1 and Mode 2 in EU agreements, commitments under Mode 1 and 2 are unbound in 21 Member States (AT, BE, CZ, DE, DK, ES, FI, FR, EL, HU, IE, IT, LU, NL, PL, PT, RO, SK, SE, SI, UK), except for insurance of risk relating to Maritime shipping, commercial aviation, space launching (including satellites) and freight. Specific restrictions such as requirement for insurance companies to be established within the Community or to provide insurance services only through a branch are also applied by different Member States. In 23 Member States (AT, BE, BG, CZ, CY, DE, DK, ES, FI, FR, EL, HU, IE, IT, LU, MT, NL, PL, PT, RO, SK, SE, SI, UK) commitments under Mode 2 related to intermediation are unbound. In Vietnamese agreements under mode 1, there are no restrictions applied for insurances services supplied to companies with foreign invested capital and foreigners working in Vietnam; reinsurances services and insurance services in international transportation, including maritime and aviation. Insurance broking and consultancy is also exempted from the restrictions. In Vietnamese agreements under mode 4, there are no restrictions applied for insurances services.

In Mode 3 in EU agreements, restrictions are applied in 11 Member States (AT, BG, ES, EL, FI, IT, PL, PT, SK, SI, SE). In some cases, residence to board members and directors is required and an authorization to open offices is subject to the evaluation of supervisory authorities. Services can only be provided in some Member States, by registered offices, not branches. In Vietnamese agreements under mode 3, branches are not allowed for foreign insurances services providers in life, reinsurances and brokerage services. Starting in 2012, non-life branches of foreign insurance services providers shall be permitted, subject to prudential regulations.

In Mode 4 in EU agreements, key restrictions related to residence requirement applied in 6 Member States (AT, EE, ES, IT, FI, PL). In Vietnamese agreements, there are no bound commitments undertaken.

III.4.4.4. Consideration for Financial Services in the EU-Vietnam FTA

Vietnam's WTO rules related to banking and other financial services covers 4 modes of supply and 2 major restrictions: National Treatment and Market Access. After negotiations, level of commitment is either 'unbound' or 'none'. The opening of domestic financial market to foreign participation should reach at least the commitment level and the scheduled timeline. For additional information, see Annex 4 *Current Barriers of Vietnam in Financial Services by Mode and Types of Commitments*.

In line with the WTO accession, EU-Vietnam FTA is expected to push up the liberalization of Vietnamese financial market. The freeing of trade of financial services allows foreign participation as well as domestic reform of regulation and institutional factors to meet up with international accords. It is expected to support better trade activities and increase cross-border investment between Vietnam and EU member States. Further, it will increase competition and therefore improve credit allocation through the private sector, including foreign invested financial institutions.

Financial liberalization offers Vietnam a chance to develop its financial market. There is a large strand of literature that purports the idea of higher-level financial development leading to more growth rate and Vietnam's recent observations also speak the same. Besides, foreign participation in domestic market corrects inherently weak financial structure. Foreign investment flow such as FDI and FII helps to build the whole economy too.

The main constraints on exporting financial services are branding and quality of services of Vietnam's financial institutions. All Vietnam's financial institutions (except three banks having branches in Laos and Cambodia, and Vietinbank having a branch in Frankfurt, Germany) are not recognized outside Vietnam. Their quality of services and risk management are still far from international standards.

The main challenge of the EU-VIETNAM FTA in the financial services sector is the potential trade-off effect of financial liberalization between development and volatility. The experience gained from WTO accession indicates that vulnerability from global crisis occurs when Vietnam deeper integrates into global financial networks. If Vietnam does not have adequate foreign exchange reserves and prudential measures, the country may be still vulnerable when facing adverse shocks as moving further in international integration.

EU-Vietnam FTA is expected to liberalize capital movements in and out of Vietnam. It means that Vietnam has to remove/lift restrictions on foreign exchange transactions. As a result, foreign investment flows to Vietnam, both direct and indirect are expected to increase substantially. This, however, is a threat to the stabilization of macroeconomic environment due to fluctuated capital flows in and out Vietnam.

Restructuring is the buzzword in the Vietnamese banking sector. Rigorous bank restructuring is to solve the problems of bad debts resulted from the unfettered and uncensored credit growth in the last few years accompanied by downturns in property and equities markets. The risk profile of banks and excessive association with unprofitable and overstretched SOEs, raises doubts over capital adequacy requirements. Thus, EU-Vietnam FTA provides a certain number of opportunities for the banking sector for restructuring. Particularly, it is expected to (i) pressure authorities to set up intensive regulatory and supervisory framework over bad debts and foreign currency loans, (ii) pressure commercial banks to make disclosure of information to improve transparency issue, and (iii) easily raise capital for bank recapitalization, M&A and bank privatization as well as reducing their NPL ratio.

The agreement should take into account Vietnam as a country at the medium level of development. That is, Vietnam may be impacted negatively from financial liberalization due to quickly opening capital account. Vietnam still has less experience on controlling large capital flows in and out the country and on fighting against speculation on securities markets. Thus, provisions on opening capital accounts should go along with EU's supports on strengthening prudential regulations and bank supervisions of Vietnam's financial system.

The negotiations should also address market access and national treatment across economic sectors and modes of supply and identify areas in which regulatory disciplines have a greater potential to facilitate mutual trade.

The Agreement will strive for full liberalisation of current payments and capital movement, and include a standstill clause. It will entail carve-out provisions (e.g. in case of serious difficulties for monetary and exchange rate policy, or for prudential supervision or taxation), which will be in accordance with the provisions of the EC Treaty on the free movement of capital. Negotiations shall take into account the sensitivities attached to the liberalisation of capital movements not linked to direct investment.

In summary, activities in Vietnam's financial services sector are still small and seem to be sensitive to macroeconomic signals. Services trade is mainly conducted in mode 1 (cross-border). Data[91] shows that EU is the main source supplying services trade in the financial services sector to Vietnam. At the same time, EU is the main destination importing financial services from Vietnam. FDI figures indicate exports under mode 3 for Vietnam's financial services. After Vietnam joining WTO in 2007, FDI in this sector reached a peak of US$ 100 million in 2009. For three recent years, 2011-2013, there is only US$ 1.1 million putting in this sector. There is no accurate data on the presence of Vietnam's

[91] GTAP 8 Database in 2007

financial services trade on mode 4. However, GSO's Enterprise Surveys provide the number of foreign employees in the financial services sector. There are 620 foreign employees working in the sector in 2012. Among the four modes of supply, Vietnam has unbound commitment on mode 1 and mode 4, while has none restrictions on mode 2 and mode 3. Mode 4 and mode 2 are negligible so that the interest in the FTA agreement is focused around mode 1 and 4. On mode 3, foreign credit institutions have been permitted to establish a commercial presence in Vietnam in a number of forms including representative offices, branches of commercial banks, commercial joint-venture banks with foreign capital contribution not exceeding 50 per cent of charter capital, and banks with 100 per cent of foreign-owned capital. Similar regulations are applied to insurance companies. Restrictions on deposit-raising activities in local currency of foreign bank branches were removed on 1 January 2011. However, the remaining restrictions are in line with the reservations in the WTO, including restrictions on the equity participation of foreign investors in commercial banks of Vietnam, and restrictions on the opening of transaction offices outside the head office of a foreign bank. Further, Vietnam still maintains its national treatment with state owned commercial banks.

The main constraints for exporting financial services are branding and quality of services of Vietnam's financial institutions. All Vietnam's financial institutions (except a few branches in Laos and Cambodia and one in Germany) are not recognized outside Vietnam. Their quality of services and risk management are still far from international standards. The EU-Vietnam FTA is expected to liberalize capital movements, which is expected to result in foreign investment inflows to Vietnam. This could pose a threat to the stabilization of macroeconomic environment due to fluctuated capital flows in and out Vietnam and gradual liberalization will be required.

III.4.5. Professional Services

III.4.5.1. Characteristics of Professional Services

Professional services as business assistance/supporting services are a growing sector in Vietnam and play a crucial role in the functioning of a modern Vietnamese economy. In accordance with the WTO categorisation, professional services are divided by 8 sectors:

a) Legal services (CPC 861),
b) Accounting and auditing and bookkeeping services (CPC 862)
c) Taxation services (CPC 863)
d) Architectural services (CPC 8671)
e) Engineering services (CPC 8672)
f) Integrated engineering services (CPC 8673)
g) Urban planning and urban landscape architectural services (CPC 8674)
i) Veterinary services (CPC 932)

Professional services help create a competitive environment and affect the direction and size of investment and directly influence GDP, so it's considered important for Vietnam to effectively reform, modernize and strengthen this sector of its economy.[92] These services require highly qualified employees and are human capital intensive. Although relatively new in Vietnam, there has been an increase in the number of leading international firms, particularly accounting and legal

[92] Amcham Shanghai (2012) *Professional Services*, Position Paper, American Chamber.

sectors, to advise international firms on the conditions in Vietnam but services are also increasingly provided to Vietnamese clients.

Under Decision No. 175/QD-TTg of the Prime Minister dated January 27, 2011, approving the overall strategy on the development of Vietnam's service sector through to 2020, strategic orientations include efforts to concentrate investment in accelerating the development of service sub-sectors with great potential and those with a high scientific and technological content and high added value to serve as a basis for the development of economy.

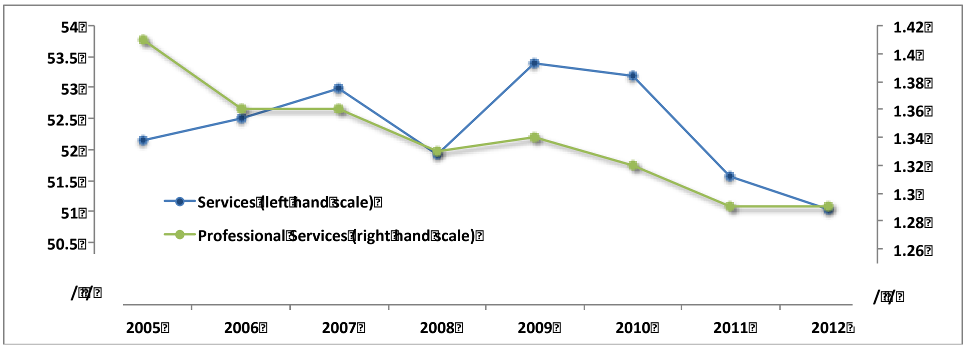
Professional services are considered to fall into "Business assistance services" and/or "Science and technology services" in the list of services that are focused to strengthen until 2020. Fundamental orientations for "Business assistance services" include:

- To formulate projects and programs to develop business assistance services through creating business environment, building and improving enterprises' competitiveness, improving and facilitating enterprises' access to resources, markets and services, and creating and improving business culture and administration capability.
- To identify essential business assistance sub-services for each socio-economic domain or area so as to create favourable conditions for their development to meet development demands in these domains and areas.

The Prime Minister endorsed the crucial role of business assistance services to help improve enterprises' competitiveness and create favourable conditions for their development.

Although professional services is crucial important to Vietnam's efforts to reform and modernize its economy, the contribution of the Sector to the overall growth is still limited, which is gradually going down through years. In 2009, the share of professional services in GDP remains relatively small at 1.41 per cent in 2005 and lowered to 1.29 per cent in 2012 (Figure 96). Professional Practice, Science and Technology also account for about 3 per cent in services sector overall.[93]

Figure 96. Shares of services and professional services in GDP, 2005-12

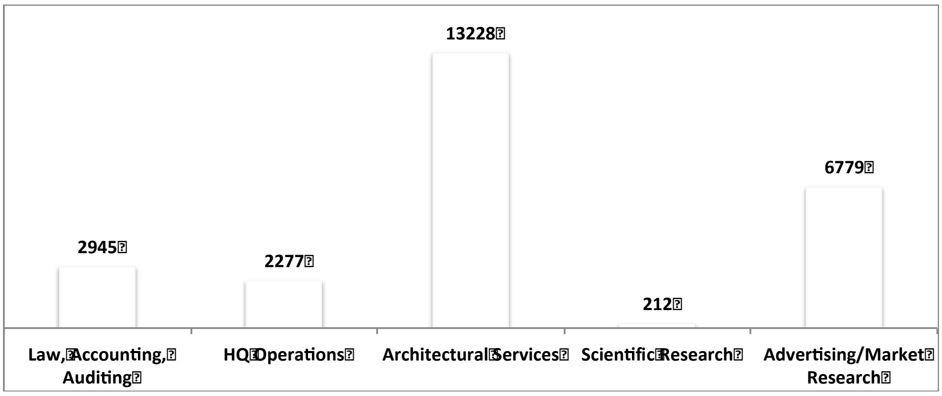


Source: GSO

The total number of professional services firms reached just under 30,000 in 2012, and was dominated by architectural practices, technical inspection and analysis services, following by advertising and market research, and law, accounting and auditing practice (Figure 97).

[93] Calculated by author based on GSO statistics

Figure 97. Number of firms operating in Vietnam, 2012



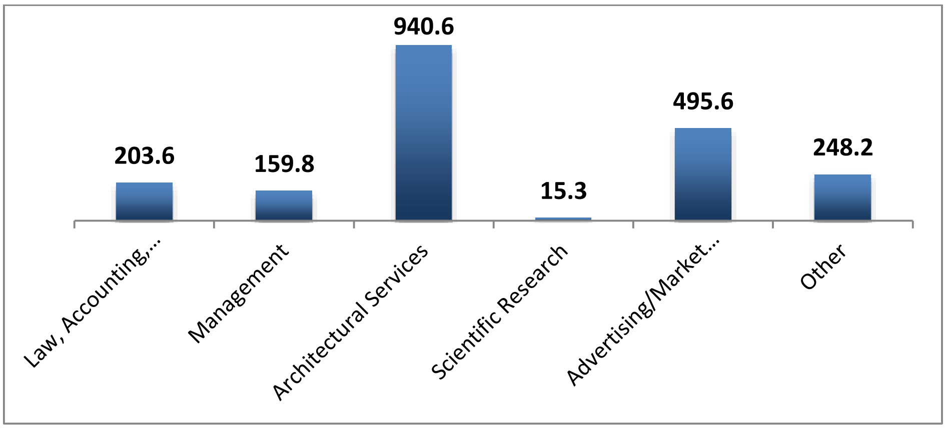
Source: GSO, calcuated by author

Due to its features of high-end services and supporting other sectors to conduct their business transactions, 69 per cent of professional services firms are located in big cities like Hanoi (8,485 firms) and HCM City (10,803 firms).

In 2012, State owned enterprises (SOEs) in the Sector accounted for only 7 per cent of total firms (2,063). Small and medium-scale firms have typically been prominent in the professional services sector if more recently; the sector has experienced a significantly growing number of large multinational firms, especially in legal and accounting services.

Total revenue by each sector is given in Figure 98. Professional services as a whole generated 136.2 trillion VND.

Figure 98. Revenue for Professional Services, 2012 (Trillion VND)



Source: GSO Enterprise Surveys 2013

Vietnam made a series of commitments to effectively open the professional services sector as part of WTO accession, by removing numerous restrictions on scope of services, form of presence, foreign ownership, etc. Vietnam's WTO commitments on professional services include Legal services (CPC 861)[94], Accounting and auditing and bookkeeping services (CPC 862), Taxation services (CPC 863), Architectural services (CPC 8671), Engineering services (CPC 8672), Integrated engineering

[94] Excluding:

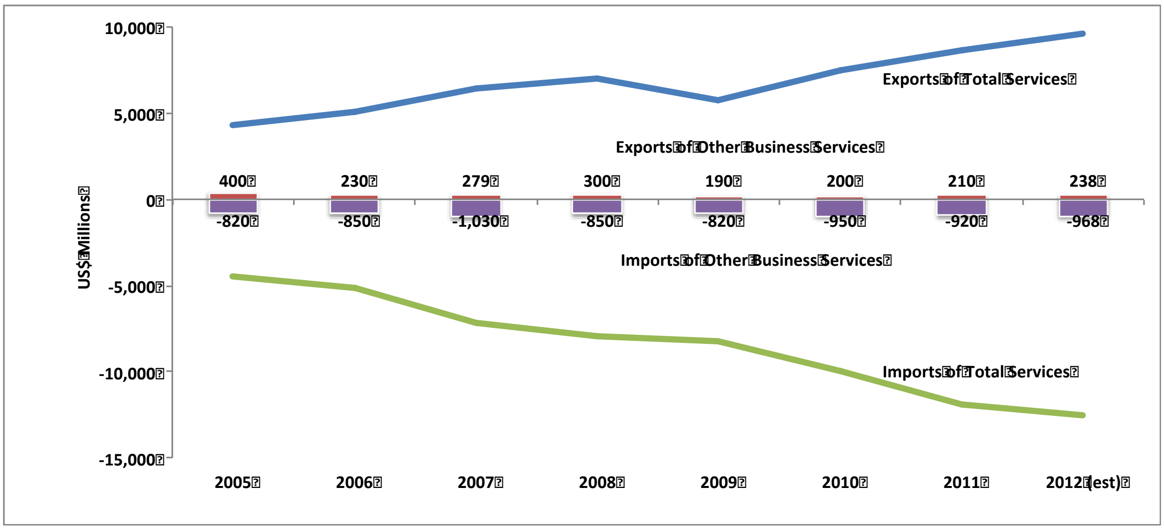
- Participation in legal proceedings in the capacity of defenders or representatives of their clients before the courts of Vietnam;
- Legal documentation and certification services of the laws of Vietnam)

services (CPC 8673), Urban planning and urban landscape architectural services (CPC 8674) and Veterinary services (CPC 932). Except in certain cases[95], Vietnam has fully committed to allow cross-border supply (mode 1) and consumption abroad (mode 2). However, the establishment of a commercial presence (mode 3) of service suppliers in Vietnam remained under restrictions, including restrictions on the scope of activities, forms of commercial presence, limited capital contribution of foreign parties, accession schedule and other restrictions. A more detailed review of each sector and sub-sector, as well as the restrictions by mode of supply is provided in Annex 3 *Detailed characteristics of Professional Services and Sub Sectors*.

III.4.5.2. Trade in Professional Services

GSO makes available information on international trade in service[96], including import and export of all main sectors such as transportation, telecommunication, tourism, financial, insurance, governmental, and other services. Professional services are included in "other services".

Figure 99. Vietnam's Trade in Professional and Total Services



Source: GSO

It can be seen that exports of "other business services" have fallen between 2005 and 2012, reaching US$238 million by 2012. Exports on the other hand have remained constant, at between US$0.8 and US$1 billion per annum.

In Vietnam, professional services can be provided through different modes, although it would appear that mode 3 is the preferred mode of supply at least in the legal and accounting sectors. Trade in these services is also affected by regulatory measures according to the mode of service delivery used, which can have a different impact on business strategies and operations.[97] Professional service are now more associated with international movement of capital and labour, and sometime supplied directly by providers in foreign market. Therefore, international trade between countries is supported by commercial presence established in foreign countries (mode 3)

[95] Cross-border supply (mode 1) - Urban planning and urban landscape architectural services (CPC 8674): None, except the service must be authenticated by an architect who has appropriate practicing certificate working in a Vietnamese architectural organization which has juridical entity status, and comply with relevant laws and regulations of Vietnam.
[96] GSO website, http://www.gso.gov.vn/default.aspx?tabid=393&idmid=3&ItemID=14541, retrieved February 15.
[97] OECD, Towards the Development of a service trade restrictiveness index (STRI) for professional services, Paris, June 24, 2008.

and by professionals travelling overseas (mode 4). These services can also be traded cross-border (mode 1).

III.4.5.3. Treatment of Professional Services in EU and Vietnam FTAs

III.4.5.3.1. Legal Services

Table 49 presents the overview of the analysis of different trade agreements. In all four agreements considered in this analysis (CARIFORUM, Colombia/Peru, Korea and Singapore), the restrictions applied in the different EU Member States were applied in the same manner for the 4 modes. According to the legal texts of the agreements, commitments undertaken for the Legal sector by the EU is under the definition of Central Product Classification (CPC) 861 and it excludes legal advisory and legal documentations and certification services provided by legal professionals entrusted with public functions, such as notaries, bailiff or other pubic officers.

Vietnam has offered the same level of liberalization in the legal sector for all the four modes in the different agreements with ASEAN, China and Japan. The level of liberalization in these agreements was the same one as agreed upon the accession of the country at the World Trade Organization. Under legal services, all the three agreements used central product classification CPC 861, excluding participation in legal proceedings in the capacity of defenders or representatives of their clients before the courts of Vietnam; legal documentation and certification services of the laws of Vietnam.

Table 49. Restrictions in EU and Vietnamese FTAs in Legal Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Legal Services							
Mode 1	◑	◑	◑	◑	○	○	○
Mode 2	◑	◑	◑	◑	○	○	○
Mode 3	◑	◑	◑	◑	◔	◔	◔
Mode 4	◕	◕	◕	◕	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕Virtually closed ● Fully closed

Source: Authors

For **Mode 1 & Mode 2** in EU agreements, restrictions are applied differently in 14 Member States (AT, CY, ES, EL, LT, MT, SK, BE, BG, FR, HU, LV, DK, SE). In most of the cases legal representation services, is subject to a nationality condition, coupled with residency requirements. However in the case of Belgium and France legal representation services, is also subject to quotas. In Vietnamese agreements, there are no restrictions applied for Mode 1 and 2.

In **mode 3** in EU agreements, restrictions for type of establishment for all sectors are applied in different forms in 9 Member States (BG, EE, FI, IT, PL, RO, SE, SI, SK). For instance in some cases, a trade permit is required or the establishment can only be opened in the form of registered partnership and limited partnership. Some Member States require permanent residency for founders and members of the board of directors. With regards particularly to the legal sector, specific restrictions are applied differently in 6 Member States (AT, BE, FR, DK, HU, PL). In the case of Denmark only lawyers with a Danish license to practice and law firms registered in Denmark may own shares in a Danish law firm. In France in a law firm providing services in respect of French or EC law, at least 75 per cent of the partners holding 75 per cent of the shares shall be lawyers fully admitted to the Bar in FR. In Vietnamese agreements, foreign lawyers are allowed to establish commercial presence in Vietnam in the forms of branches, subsidiaries, partnerships and law firms. They are also permitted to make consultations on Vietnamese laws if the consulting lawyers have graduated from a Vietnamese law college and satisfy requirements applied to like Vietnamese law practitioners. With regards to mode 3, foreign companies have less restrictions applied compared to the agreements negotiated by the European Union where in addition to the requirements applied overall by the European Union, different Member States make different requirements such as the demand that only nationals are allowed to hold shares in the company or requesting a certain amount of partners holding shares in the company to be fully admitted to the Bar in the considered country.

In mode 4 in EU agreements, reservations on key personal and graduate trainees - restrictions are applied in 17 Member States (AT, CY, ES, EL, LT, MT, RO, SK, BE, FI, BG, FR, HU, LV, DK, LY, SE). In most of cases the license is subject to a nationality condition, residency requirements or in cooperation with a national of the particular Member State. With regards to the representation of Legal Advisory Services in respect of public international law and foreign law (i.e. non-EU law), there are restrictions applied on the contractual services suppliers and independent professionals in 18 Member States (ES, IT, EL, PL, LV, BE, BG, CZ, FI, HU, LT, MT, RO, SI, SK, DK, FR). In the majority of the cases an economic needs test for independent professionals is required. In Vietnamese agreements, this mode is unbound due to lack of technical feasibility.

III.4.5.3.2. Accounting and Bookkeeping Services

Table 50 presents the overview of the analysis of different trade agreements. In all four EU agreements considered in this analysis (CARIFORUM, Colombia/Peru, Korea and Singapore) the restrictions applied in the different Member States were applied in the same manner in the 4 modes. The codes for central product classification used are:

- CPC 86212 - Accounting review services, other than auditing services
- CPC 86213 - Compilation of financial statements services
- CPC 86219 - Other accounting services
- CPC 8622 - Bookkeeping services, except tax returns

In this sector, Vietnam has also offered the same level of liberalization in the accounting sector for all the four modes in the different agreements with ASEAN, China and Japan. The liberalization was also in line of the same level agreed at the WTO accession. The central product classification code used for this sector is CPC 862.

The only exception was in the ASEAN agreement where in mode 4, instead of being unbound, Vietnam has allowed foreign auditors to provide services under the conditions of residency, possession of an auditor certificate granted by the Vietnamese authorities, registration in the list of practicing auditors managed by the Vietnamese Ministry of Finance and an employment contract with an auditing firm being established in Vietnam.

Table 50. Restrictions in EU and Vietnamese FTAs in Accounting & Bookkeeping Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Accounting & Bookkeeping Services							
Mode 1	◔	◔	◔	◔	○	○	○
Mode 2	○	○	○	○	○	○	○
Mode 3	◔	◔	◔	◔	○	○	○
Mode 4	◔	◔	◔	◔	◕	◕	◕

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1 of EU agreements, **t**he following Member States are unbound to the liberalization: FR, HU, IT, MT, RO, and SI. In Austria, there is a nationality condition for representation before competent authorities. In Vietnam agreements, there are no restrictions in this mode.

In Mode 2 of EU agreements, there are no existing restrictions applied. In Vietnam agreements, there are no restrictions in this mode.

In Mode 3 of EU agreements, **r**estrictions are applied in 3 Member States (AT, CY, DK). For instance in Austria, foreign accountants' equity participation and shares in the operating results of any Austrian legal entity may not exceed 25 per cent, if they are not members of the Austrian Professional Body. In Denmark, in order to enter into partnerships with Danish authorised accountants, foreign accountants have to obtain permission from the Danish Commerce and Companies Agency. In Vietnam agreements, there are no restrictions in this mode.

In Mode 4 of EU agreements, restrictions are applied in France, where Provision of accounting and bookkeeping services is conditional on a decision of the Minister of Economics, Finance and Industry, in agreement with the Minister of Foreign Affairs. The requirement of residence cannot exceed 5 years. In the agreements with China and Japan, Vietnam has established unbound rules for this sector. In the case of the agreement with the ASEAN, Vietnam has opened up the sector under certain rules described above.

III.4.5.3.3. Taxation Advisory Services

Table 51 presents the overview of the analysis of different trade agreements. In all four EU agreements considered in this analysis (CARIFORUM, Colombia/Peru, Korea and Singapore) the restrictions were applied in the different Member States in the same manner for the 4 modes. Under these agreements, the central product classification used is 863 - advisory services related to taxation.

Vietnam has also offered the same level of liberalization in the taxation advisory services sector for all the four modes in both agreements with the ASEAN and Japan. The central product classification code used for this sector is CPC 863. However in the case of the agreement with China for mode 3, Vietnam has requested no restrictions except that for the period of 1 year from the date of entry into force of this Agreement, the licensing shall be made on the case by case basis and the number of service providers shall be decided by Ministry of Finance subject to the need and development scope of Vietnam's market. For the same period, foreign-invested enterprises providing taxation services are only permitted to supply services to foreign-invested enterprises and foreign funded projects in Vietnam.

Table 51. Restrictions in EU and Vietnamese FTAs in Tax Advisory Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Taxation Advisory Services							
Mode 1	◔	◔	◔	◔	○	○	○
Mode 2	○	○	○	○	○	○	○
Mode 3	◔	◔	◔	◔	○	○	◑
Mode 4	◔	◔	◔	◔	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1 in EU agreements, four Member States are unbound to the rules (BG, MT, RO and SI). In the case of Austria, nationality condition is required for representation before competent authorities. In Cyprus, tax agents must be duly authorised by the Minister of Finance. In the Vietnam agreements, there are no applied restrictions.

In Mode 2 in EU agreements, there are no restrictions applied in any Member State of the EU. In the Vietnam agreements, there are no applied restrictions.

In Mode 3 in EU agreements, restrictions are applied in only 2 EU Member States. In Austria, Foreign tax advisors' equity participation and shares in the operating results of any Austrian legal entity may not exceed 25 per cent; this applies only to non-members of the Austrian Professional Body. In Cyprus, access is subject to economic needs test. Main criteria: the employment situation in the sub-sector. In the Vietnam agreements (except for the agreement with China described above), there are no applied restrictions.

In Mode 4 in EU agreements, restrictions are applied in only four Member States (AT, BG, SI, HU). In these Member States access is only authorized under nationality condition or residency. In the Vietnam agreements, there are unbound commitments.

III.4.5.3.4. Architectural Services

Table 52 presents the overview of the analysis of different trade agreements. The level of liberalization negotiated in all four agreements (CARIFORUM, Colombia/Peru, Korea and Singapore) is the same and the restrictions are applied in the same manner in the 4 modes. The central product classifications used are the following:

- CPC 8671 - Architectural services
- CPC 8674 - Urban planning and landscape architectural services

In the case of the Free Trade Agreement with Singapore, the European Union has included restrictions in Croatia. In Mode 1, natural and legal persons may supply architectural services upon approval of the Croatian Chamber of Architects. An authorized natural or legal person in Croatia must validate projects elaborated abroad. For Modes 3 and 4, restrictions are also applied in France, for instance in Mode 4, the use of the professional title by professionals qualified in third countries is not possible except within the framework of mutual recognition agreements. In all three agreements undertaken by the Vietnamese Government, the level of liberalization is very similar. The central product classification code used for this sector is CPC 8671.

Table 52. Restrictions in EU and Vietnamese FTAs in Architectural Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Architectural Services							
Mode 1	◑	◑	◑	◑	○	○	○
Mode 2	○	○	○	○	○	○	○
Mode 3	◔	◔	◔	◔	○	○	◕
Mode 4	◔	◔	◔	◔	●	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1 in EU agreements, no commitments were undertaken in 9 Member States (BE, BG, CY, EL, IT, MT, PL, PT, SI). In Austria, the commitments excluded planning services and in the case of Hungary and Romania, excluded landscape architectural services. In Germany, there is an application of the national rules on fees and emoluments for all services that are performed from abroad. Vietnam has negotiated to eliminate all restrictions in this mode for all FTAs under review.

In Mode 2 in EU agreements, there are no restrictions applied in any Member State. Vietnam has negotiated to eliminate all restrictions in this mode for all FTAs under review.

In Mode 3 in EU agreements, restrictions are only applied in 2 Member States. In Bulgaria, projects of national or regional significance, foreign investors have to act in partnership with or as subcontractors of local investors. In Latvia in order to receive a license to practice architectural services, a 3 years practice in the field of projecting and university degree is required. Vietnam has negotiated to eliminate all restrictions in this mode for all FTAs under review with the exception of China. In the case of China, for Mode 3 there are no restrictions except that for the period of 2 years from the date of entry into force of the agreement, 100 per cent foreign-invested enterprises may only provide services to foreign-invested enterprises in Vietnam. Foreign enterprises must also be juridical persons of a party.

In Mode 4 in EU agreements, three Member States apply residence restrictions (EL, HU, SK). In Estonia at least one responsible person (project manager or consultant) must be resident in the country. Bulgaria requests that foreign specialists must have experience in the field of construction of at least two years and in the field of urban planning and landscape architectural services nationality condition is applied. There are unbound restrictions in mode 4 contained in all Vietnamese agreements.

III.4.5.3.5. Engineering Services

Table 53 presents the overview of the analysis of different trade agreements. The four EU agreements have the same level of liberation, but in the case of the Singapore FTA, for Modes 1 and 4, there are restrictions applied to Croatia. The Central Product Classifications used are:

- CPC 8672 - Engineering services
- CPC 8673 - Integrated engineering services

There is a similar level of liberalization in all three Vietnamese agreements with just a few minor differences, which will be highlighted below. The central product classification codes used for this sector are:

- CPC 8672 - Engineering services
- CPC 8673 - Integrated engineering services
- CPC 8674 - Urban planning and urban landscape architectural services

Table 53. Restrictions in EU and Vietnamese FTAs in Engineering Services

Modes	EU Negotiated FTAs				Vietnam Negotiated FTAs		
	EU-KR	EU-SG	EU-CO	EU-CARIFORUM	VN-ASEAN	VN-JP	VN-CN
Engineering Services							
Mode 1	◑	◑	◑	◑	○	○	○
Mode 2	○	○	○	○	○	○	○
Mode 3	◔	◔	◔	◔	○	○	◕
Mode 4	◔	◔	◔	◔	◕	●	●

Note: ○Open ◔Mostly open with minor restrictions ◑ Major restrictions ◕ Virtually closed ● Fully closed

Source: Authors

In Mode 1 in EU agreements, there are no commitments undertaken by 6 Member States (BG, CY, EL, IT, MT, PT) and in the case of Austria and Slovenia, this sector is unbound expect for pure planning services. In the case of the FTA Agreement between the EU and Singapore, Croatia, engineering services must be supplied by a natural and legal person approved by the Croatian Chamber of Engineers, in addition, projects designed abroad must be validated by a person in compliance with Croatian Law. In Vietnamese agreements, no restrictions are applied under this mode.

In Mode 2 in EU agreements, there are no applied restrictions. In Vietnamese agreements, no restrictions are applied under this mode.

In Mode 3 in EU agreements, the only restrictions applied is by Bulgaria, where projects of national or regional relevance must be conducted in partnership with or, as subcontractors of, local investors. In Vietnamese agreements, no restrictions are applied under this mode, except for the agreement with China. According to the negotiated text, for the period of 2 years from the date of entry into force of the agreement, 100 per cent foreign-invested enterprises may only provide services to foreign-invested enterprises in Vietnam. Foreign enterprises must also be juridical persons of a party.

In Mode 4 in EU agreements, restrictions are applied in only three EU Member States: residence is required in 3 Member States (EE, HR, SK). In the case of Greece and Hungary, residency is required only to Graduate Trainees. In Bulgaria, foreign specialists must have experience of at least two years in the field of construction. In the Vietnamese agreements, the restrictions are unbound, except for the agreement with AEEAN, where foreign engineering services suppliers are allowed to bring into Vietnam only management, technical personnel that Vietnam cannot provide.

III.4.5.4. Consideration for Professional Services in the EU-Vietnam FTA

The commitments taken by Vietnam in the WTO have already liberalized substantially professional services, and this market access is more favourable than currently granted by the EU in its WTO commitments. However, the main constraints for the development of professional services in Vietnam include limited quantity of service providers and lower quality services than those proposed by international firms. Moreover, low foreign language capacity, complicated regulations & licensing procedures, uncompetitive in high quality services are also constraining the sector's competitiveness problems. EU firms are already popular in professional services market in Vietnam, but still have room to grow if Vietnam would open further its market access conditions and ease regulations.

The TPP could however lead to stronger competition from US firms and reduce the opportunities for EU firms. Stakeholders expressed the view that once the EU-Vietnam FTA is concluded, there would be opportunities for exports to increase, and that investment would create jobs for Vietnamese nationals. However, Vietnam's ability to take advantage of increased market access is limited due to its weak ability to compete globally. Therefore it is expected that at this level of development, it will take Vietnam some time to export its professional services on a significant scale, especially in mode 3 (commercial presence) while mode 1 (cross-border supply) could see faster growth by targeting services to foreign investors.

Professional services are among the fastest growing business services sectors in Vietnam and play a crucial role in the functioning of a modern Vietnamese economy. Professional services include legal services, consulting, accounting & auditing, tax, etc. The share of professional services in GDP remains relatively small and has been declining, from 1.41 per cent to 1.29 per cent of GDP in 2012. Professional services are highly skilled-labour intensive (heavy reliance on well-educated personnel), high end, value added and can be provided through different modes of supply. The Sector can be affected by several factors such as nationality and citizenship, residency, restrictions on forms of establishment, recognition of qualifications, regulations affecting fees charged for services.[98] Vietnam made a series of commitments to effectively open the professional services sector as part of WTO accession, by removing numerous restrictions on scope of services, form of presence, foreign ownership, etc. With some exceptions, Vietnam fully committed to allow cross-border supply (mode 1) and consumption abroad (mode 2). However, the establishment of a commercial presence (mode 3) of service suppliers in Vietnam remained under restrictions, including restrictions on the scope of activities, the forms of commercial presence, limited capital contribution of foreign parties, opening schedule and other restrictions. The level of restrictiveness by both parties remains significant and is unlikely to tackle with great depth in the agreement. The nature of the sector, as well as entrenched interest of incumbents in the sector and the regulatory nature of such services, makes it likely that at best some progress could be made under mode 3.

[98] Paul, V. (2010) Trends in Professional Services Trade: Issues & Strategies For The Caribbean, November.

III.5. Other Trade Related Areas: Government Procurement

III.5.1. Introduction

Public procurement is the process that regulates the purchasing by public bodies of goods, services or work by third parties. It is an important sector that accounts for a substantial share of total government expenditure, which is estimated to represent 10-15 per cent per cent of gross domestic product (GDP) in most countries[99]. As we saw above (see II.3.2.4. Government procurement), the Vietnamese government's procurement from abroad is relatively low in comparison to other countries in the region.

The main international agreement related to public procurement is the WTO's Agreement on Public Procurement (GPA), which establishes a legal framework of rights and obligations agreed by its signatories with regard to their national law, regulations, procedures and practices in the area of government procurement[100]. The GPA is a plurilateral agreement, which means that it applies only to those WTO members that have agreed to be bound by it.[101] A paper assessing the impacts of WTO GPA on goods and services, suggests that overall GPA has a positive impact on trade for its members. However, the GPA membership is more effective in promoting bilateral trade in services than for goods, possibly because service suppliers, which account for a significant majority in the government procurement markets of most GPA signatories, benefit of more prospective business opportunities in this sector compared to manufacturing suppliers. The study also confirms that the enforcement of non-discriminatory and transparency regulations established by the GPA is essential for the enhanced market access and level of competition in this sector[102].

After almost two years, the Protocol amending the Agreement was adopted and the revised WTO Agreement on Government Procurement entered into force on 6 April 2014[103]. The final text establishes an updated set of tender rules and additional market access commitments which are expected to bring extra business opportunities worth around €80 billion to its signatories [104]. The European Union, which has been actively involved in negotiating the agreement, has through its Internal Market and Services Commissioner Michel Barnier welcomed the entry into force of the revised GPA: "… *the revised GPA will give businesses in the countries that are party to the agreement significant additional opportunities on each other's public procurement markets. It will also make public procurement rules in the GPA jurisdictions more transparent and predictable, in line with the spirit of the recently adopted reforms of EU public procurement rules [...]*[105]"

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[99] See http://www.wto.org/english/tratop_e/gproc_e/gpa_overview_e.htm

[100] Ibid

[101] The treaty has 15 signatory parties: Armenia, Canada, the European Union, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, the Netherlands with respect to Aruba, Norway, Singapore, Switzerland, Chinese Taipei and United States.

[102] Chen, H., Whalley, J., (August 2011). The WTO Government Procurement Agreement and its Impacts on Trade. Working Paper 17365.

[103] The first ten parties to have accepted the Protocol of Amendment are: Liechtenstein, Norway, Canada, Chinese Taipei, the United States, Hong Kong (China), the European Union, Iceland, Singapore and Israel.

[104] See WTO: Revised WTO Agreement on Government Procurement enters into force: http://www.wto.org/english/news_e/news14_e/gpro_07apr14_e.htm

[105] Press Release: Commission welcomes the revised World Trade Organisation's Agreement on Government Procurement, European Commission - IP/14/381 04/04/2014, http://europa.eu/rapid/press-release_IP-14-381_en.htm?locale=en

The new package of rules on Public Procurement and Concession Contracts voted by the European Parliament on 15 January 2014 and adopted by the Council on 11 February 2014, which aimed to simplify the procurement process in the Union[106], is another piece of important legislation that emphasis the European Union's approach for transparent, fair and competitive procurement not only with its trading partners but also across Member States. However, in this area of Public Procurement, European Union companies, world leaders in areas such as transport equipment, public works and utilities, haven't fully exploited and still face discriminatory practices in the markets of almost all its trading partners, which consequently hinder their exporting opportunities. It is still a sector considered sensitive in multilateral trade negotiations[107].

III.5.2. Overview on how the EU has negotiated Public Procurement in its recent FTAs

In recent years, the EU has successfully concluded a number of trade agreements with important trading partners around the world, which included a chapter on public procurement. A series of comparative studies on trade areas was prepared under MUTRAP, which included Government Procurement provisions, contained in Free Trade Agreements concluded by the EU with four different trade partners, namely CARIFORUM (2008)[108], Colombia/Peru (2011)[109], Central America (2012)[110] and Korea (2013)[111]. One of the studies presented the similarities and differences with regards to GP provisions included in these agreements and it also analysed the legal and business implications of such provisions. It also contains an analysis of the legislative framework on government procurement and the possible implications, assuming an FTA will be concluded between the EU and Vietnam in the future.

The analysis carried out indicates that FTA provisions on coverage (entities, construction services and other services, thresholds), transparency (laws, rules and tenders) and contract award procedures (open, selective and limited), selection criteria (lowest cost or the economically most advantageous bid) as well as compliance mechanism (bid challenge) are largely similar. The analysis of the four agreements also suggests that there is a measure of consistency across the FTAs and shows that there is a widespread use of the WTO Government Procurement Agreement (GPA) and the revised GPA text.

The detailed analysis on the similarities and differences are summarized below[112]:

- ***Chapter on Government Procurement***: All recent FTAs analysed include a separate and detailed GP chapter that lists definitions. This procedure is in line with the Revised GPA text.
- ***Coverage***: Following the same structure of the GPA, the coverage of goods, services and construction services is indicated as an Annex to the different FTAs. The coverage notified by the EU to the WTO applies. The commitments on covered procurements in all

[106] Council of the European Union: Council adopts directives for the reform of public procurement, 6337/14, Brussels 11 February 2014, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/140975.pdf
[107] EC (2006) Competing in the World Economy: a Contribution to the EU's growth and jobs strategy. COM 2006 (567).
[108] The agreement was implemented on December 29, 2008.
[109] The agreement became operational on July 1, 2011.
[110] The agreement was signed on June 29, 2012.
[111] This free trade agreement entered into application on 1 August 2013.
[112] Khorana, S.; Thanh, V. T.; Thang, D. C. (2011) New Areas of Trade: Government Procurement Liberalization under the Proposed Vietnam FTA; Hanoi, Vietnam; MUTRAP; FTA-7C.

FTAs include central, sub-central government and other entities. However, there are exceptions applied to the EU-CARIFORUM Agreement, which covers only central government entities. In the EUCPTA and EUCAAA, the commitments are closely aligned with the revised GPA text but the threshold values are lower for individual Annexes and there is a restrictive coverage of entities. In the EUKFTA, both members of the agreement are GPA signatories; there is an additional coverage by Korea in those areas not covered by the GPA, such as build-operate-transfer (BOT).

- ***Tendering modalities and procedures under FTAs***: The conditions and tendering procedures are similar to the Revised GPA text and include detailed guidelines for supplies qualification, which aims to provide no discrimination between domestic and foreign suppliers. There are also guidelines for the publication of tender notices (i.e., planned and intended procurements) and procedures. Main procurement methods employed are: open, selective and limited tendering.
- ***Legal remedies***: All the FTAs analysed have imported from the GPA and the revised GPA text the rules on domestic review procedures and dispute settlement. In addition, the agreements also provide for comprehensive and non-discriminatory bid challenge and review procedures, which enable the suppliers to challenge tender award, if any breach of rules take place. However, the coverage varies between the different legal texts. All FTAs provide for establishing an impartial administrative authority and include dispute settlement provisions as separate chapters.
- ***Transparency provisions:*** Following the revised GPA text, there are transparency provisions under all the FTA agreements.
- ***E-procurement:*** All agreements, except the EU-CARIFORUM agreement, have specific commitments on e-procurement and electronic auctions.
- ***Institutional arrangements:*** All agreements include institutional arrangements to review the FTAs activities.

II.5.3. Considerations for an EU-Vietnam FTA

The legal, economic and business implications of a potential free trade agreement between the European Union and Vietnam would permeate throughout the public and private sectors. The introduction of a set of rules on procurement procedures is expected to be positive to Vietnam because they will enhance transparency and lead to improved governance and competition. The State of Vietnam would obtain the best available goods and services through a competitive bidding process. A natural question which arises is how Vietnamese firms would be able to compete in such an environment. Moreover, there would be significant challenges for Vietnam in adopting these rules. There are crucial issues in Vietnam such as liberalizing procurement at the regional government level, restructuring of the SOEs, determining thresholds, listing entities and coverage of goods, services and construction services that must be tackled. However, the report also highlights that the success of the proposed FTA will depend on mechanisms for capacity building and technical assistance to Vietnam and recommends close cooperation between Vietnam, the European Union and stakeholders[113].

[113] Khorana, S.; Thanh, V. T.; Thang, D. C.; 2011; New Areas of Trade: Government Procurement Liberalization under the Proposed Vietnam FTA, page 7; Hanoi, Vietnam; MUTRAP; FTA-7C.

Box 2 presents some of the domestic regulations pertaining to government procurement which are likely to be the subject of negotiations between the EU and Vietnam. As can be observed, the WTO GPA or the EU provisions on procurement differ quite substantially from the current legal framework in Vietnam. However, Vietnam has embarked on a legal reform of its procurement policies, trough the enactment of a new law on public procurement, which was passed by the National Assembly in Vietnam in November 2013 and it will enter into force in July 2014. The new law is expected to help improving the procedures and management of bidding activities. According to the Ministry of Planning and Investment's Department of Public Procurement, Director Le Van Tang, the new legislation on public procurement will simplify administrative procedures in procurement activities and it will prioritize domestic human resource development, creating opportunities for local contractors and jobs for domestic workers. The new legislation also establishes modes for choosing investors, clarifies powers in procurement and strengthens supervision in procurement activities and contracts[114].

Box 2. Vietnam public procurement legislation

The Legislative framework on government procurements in Vietnam includes multiple legislations. Below a summary of the existing legislation on procurement in Vietnam*:

- **The primary legislation on Law and Procurement in Vietnam was passed in 2005 and came into force in 2006**. The law is complemented by other decrees and circulars issued by different ministries in the country.
- **The law on Public Procurement covers all goods, construction and consulting services.**
- **Procurement rules covers all central government, central level agencies, provincial agencies, SOEs and any other government entities at any level**. Only BOT and concession contract projects for which less than 30 per cent of the total cost is funded by State funds are not covered.
- **All procurements by the government at any level are covered** (no specific thresholds).
- **Procurement procedures establish that procuring entities should provide procurement information** to supplies and guidelines on time schedules for the submission of bids.
- **The regulation provides seven tendering methods and allows negotiations with bidders.** The award criterion is based on lowest cost, a combination of technical and financial offer for goods and services as well as merit point method for consulting services.
- **The procurement system in place allows preferences to those bidders that are established and operational in Vietnam**. However, it also includes bid challenge and dispute settlement mechanism.
- A pilot project on **e-procurement** has been put in place in Vietnam.

*Source: Khorana, S.; Thanh, V. T.; Thang, D. C.; 2011; New Areas of Trade: Government Procurement Liberalization under the Proposed Vietnam FTA, page 3; Hanoi, Vietnam; MUTRAP; FTA-7C.

[114] See article: *2013 Law on public procurement promises breakthroughs,* retrieved on 5 May 2014 at http://www.moital.gov.il/NR/exeres/13C2FE3E-A471-4321-8034-6D128C52AC5F.htm

III.6 Other Trade Related Areas: Competition Policy

III.6.1 Introduction

Competition policy applies a number of instruments and principals, such as transparency and non-discrimination, to ensure and maintain fair market competition for companies. The purpose of a Competition Chapter in an FTA is that the parties agree on a set of principles relating to their respective competition laws, authorities and enforcement practices. Competition disciplines do not generate market access as such but their purpose is to ensure appropriate conditions to allow firms to compete in the same market. However, developed countries, in particularly the EU, United States and Japan, who are active supporters of implementing and enforcing competition law in domestic and international markets, were not successful in advancing competition rules in the WTO framework of negotiations under the Work Programme set out in the Doha Ministerial Declaration.

During negotiations at the WTO level, developing countries could not be convinced by developed countries of the need of including multilateral competition disciplines in the WTO framework, because they believed that competition regulations could prevent them from pursuing specific development policies[115].

At the EU Level, competition policy has been an important element that was established in the Treaty of Rome in 1957 in order to avoid distortions in the internal market and provide consumers with the benefits of a free market system[116]. The European Commission has the power to investigate and impose any penalty or sanctions in cases of proven anticompetitive behaviour. The lack of an international binding regulatory framework in the area of competition and following the publication of the "Europe Global Strategy" in 2006, the European Union was motivated to pursue the inclusion of provisions on competition when negotiating FTAs with important trading partners such as Colombia, Peru, Korea and recently Singapore.

The Association of Southeast Asian Nations (ASEAN) has also showed support in implementing and promoting competition provisions to ensure a healthy competitive environment to its members, as agreed in the ASEAN Economic Community (AEC) Blueprint, which also aims to introduce a nation-wide Competition Policy and Law in the region by 2015. The document released in 2010, based on regional and international experiences, serve as a general framework guide, to raise awareness among ASEAN Member States (AMS) on competition issues as well as to stimulate the development of best practices and enhance cooperation between AMS[117].

III.6.2 Overview on how the EU has negotiated competition in its recent FTAs

Under the new generation of FTAs signed after the launch of the "Europe Global Policy" in 2006, the European Union concluded two FTAs which contained provisions on competition, one with the Republic of Korea, which entered into force in July 2011, and one with Colombia and Peru, which

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[115] Bellis J. F.; Dzung L. T.; Thu N. A.; (2011); Analysis of the Impact on Vietnam of the Inclusion of Provision on Competition in the FTA Agreements concluded by the EU; page 5; Hanoi, Vietnam; MUTRAP; FTA-7C.

[116] The European Union Explained: Competition – Making Markets work better, (2013), page 3, European Commission; Directorate-General for Communication Publications;

[117] ASEAN Regional Guidelines on Competition Policy, (August 2010); Jakarta: ASEAN Secretariat.

entered into force in 2012. Recently, the EU has also negotiated a FTA with Singapore, which included regulation on competition; however, the EU Council and Parliament have not yet ratified the text. In **Error! Reference source not found.**, is a summary of the main similarities and differences in the scope of coverage of the provisions on competition agreed by the European Union with Colombia, Peru and the Republic of Korea.

Box 3. Comparison of competition provisions in the EUCAAA and EUKFTA

Below are similarities and Differences in the provisions on competition included in the FTAs with Colombia/Peru and the Republic of Korea:

1. **Antitrust:** Both texts acknowledge that anti-competitive agreements, abuses of a dominant position and concentrations of companies, which significantly hinders competition, are incompatible with the agreement.
2. **Public enterprises and enterprises entrusted with special rights:** The two agreements include language to highlight that enterprises must follow competition laws, so far as, these regulations do not hinder the overall performance, in law or in fact, of the given assignment. The legal texts of both agreements also include language on the issue that nothing in the adopted legal text shall be formulated to prevent neither party from establishing or maintaining public or private monopolies.
3. **Subsidies:** The main difference in the competition provisions of both agreement is that following two WTO disputes on subsidies between the EU and Korea, the agreement between these two parties, include a particular section on prohibiting subsidies covering debts or liabilities of an enterprise and subsidies to ailing enterprises, without a credible restructuring plan for recovering, which are considered to be distortive. The section includes transparency provisions requiring the parties, inter alia, to report annually the total amount, types and the sectorial distribution of subsidies.
4. **Enforcement:** Both legal texts state that each party shall maintain competition authorities, which will be responsible for the enforcement of internal competition regulations. The agreements also highlight that competition provisions must be applied with transparency, rapidly and in a non-discriminatory manner, allowing the rights of defense and following principles of due process.
5. **Consultation and Cooperation:** The FTAs with Colombia-Peru and South Africa include procedures for consultations and cooperation between both parties. The agreement with Korea establishes that cooperation shall be based on a document signed by both parties on 23 May 2009, titled Agreement between the European Community and the Government of the Republic of Korea concerning cooperation on anti-competitive activities, which establishes the objectives and instruments of technical cooperation between the responsible competitive bodies in the EU and Korea.
6. **Technical Assistance:** The agreement with Colombia and Peru includes provision on technical assistance. The support, which is not found under the agreement with Korea, shall concentrate among other things, on enforcing and strengthening local competition legislation, training human resources and exchanging experiences.

Source: Bellis J. F., Dzung L. T. & Thu N. A. (2011) Analysis of the Impact on Vietnam of the Inclusion of Provision on Competition in the FTA Agreements concluded by the EU, Hanoi: Vietnam, MUTRAP, Activity Code FTA-7C

III.6.3 Competition policy in Vietnam

The Vietnam Law on Competition, entered into force on 1 July 2005. The text includes provisions on restraint of competition, abuses of dominant or monopoly position and economic concentrations. The main enforcement agencies are the Ministry of Industry and Trade (MOIT), responsible for elaborating policy, the Vietnam Competition Council (VCC), which assisted by the Secretary Board within MOIT, rules on cases related to the competition area; and the Vietnam Competition Authority Department (VCAD), which is responsible for competition investigations[118].

[118] Bellis J. F.; Dzung L. T.; Thu N. A.; (2011); Analysis of the Impact on Vietnam of the Inclusion of Provision on Competition in the FTA Agreements concluded by the EU; page 9,10; Hanoi, Vietnam; MUTRAP; FTA-7C.

In the last five years, the Vietnam Competition Authority (VCA) has conducted investigations in four cases of anti-competitive business practice. Two cases were related to abuse of dominance position, one on abuse of monopoly position and the last one on anti-competitive agreement. The case on abuse of dominance in aviation fuel supply (2008 – 2009) was submitted to the Vietnam Competition Council for decision-making, after ruling that there was infringement. The other case took place in the beer market (2007 – 2010) and was terminated due to lack of evidence. The case of price fixing in non-life insurance markets (2008 – 2010) also revealed infringement. Lastly, there is an investigation in a case on distribution of imported movies, which has been closed.[119]

Despite the successes in investigating and closing important cases in the field of competition, in 2010, the VCA has released a report[120], which identified a number of issues negatively influencing the efficacy of the enforcement of competition legislation. Among them, VCA pointed out that sanctions for procedural law infringements are not strict enough and companies often do not respond or take too long to provide requested information. The Government Body also highlighted that the Vietnamese Business Community is poorly aware of the internal competition regulatory framework and in contrast to international firms which have their own staff advising them on this matters, Vietnamese enterprises do not have such resources in their organization. Another issue is related to the limitation of specialized staff conducting investigations at the VCA, which makes the enforcement of competition legislation more difficult. The priorities set out in the report included amending the Competition Law, based on the review of the five years of enforcement; completing pending investigations; promoting cooperation among relevant agencies and sectorial regulators; providing pre-litigation consultation to help local companies preparing for complaints as well as meeting legal requirements; as well as initiating pre-litigation investigations in sectors that have high level of concentration and possible competition issues in order to create database for investigations[121].

III.6.4 Considerations for a EU-Vietnam FTA

Competition is part of the scope of areas negotiated in the FTA between the EU and Vietnam. However, some Vietnamese officials have expressed scepticism with regards to the benefits that Vietnam could reap in including a competition chapter in the negotiations. Some Vietnamese officials have indicated that competition policies are best dealt with (and decided) at the national level, and are perhaps not fully aware of the level of independence still afforded to the authorities in elaborating and enforcing competition rules.

However, the EU, which as seen in previous section has included provisions on competition in all recent FTA because they believe that competition policy is a necessary build competitiveness and reduce anti-competitive behaviour and firm dominance.

[119] Fukunaga Y.; Lee C.; (April 2013); ERIA Discussion Paper Series: ASEAN Regional Cooperation on Competition Policy; page 21; ERIA-DP-2013-03

[120] VCA (2010) 2010 Annual Report, November

[121] Bellis J. F.; Dzung L. T.; Thu N. A.; (2011); Analysis of the Impact on Vietnam of the Inclusion of Provision on Competition in the FTA Agreements concluded by the EU; page 12; Hanoi, Vietnam; MUTRAP; FTA-7C.

III.7. Other Trade Related Areas: IPRs

III.7.1. Introduction

Intellectual Property, as defined by the World Intellectual Property Organization (WIPO), is the creations of the mind, such as:

- Inventions;
- Literary and artistic works;
- Designs; and
- Symbols, names and images used in commerce.

Implementing and protecting intellectual property rights (IPR) provides incentive for innovation, research and development. Protection of IPR is mostly through the form of patents, copyrights or trademarks. Intellectual property rights allow the creator or owner to fully enjoy the financial and non-financial benefits from the exploitation of its intellectual asset.[122] The legal basis of IPR protection aids in deterring unwarranted utilization from third parties, by rendering it illegal and punishable by law.

On top of the obvious moral, ethical and cultural impacts, economic benefits that are engendered from enforcing IPR laws provide a strong case for safeguarding IPRs. One of the major economic benefits is the promotion of research and development (R&D) and hence, investment, enterprise development, employment and so on. Under the Endogenous Economic Growth Theory, R&D is shown through theory and empirical evidence, to be an important driver of economic growth[123]. A strong correlation is also found between the strength of IPR protection level and inflows of Foreign Direct Investment, which is also a major economic growth factor, especially for Vietnam, where FDI enterprises represent the majority of export led output in proportional terms.

A report by the OECD showed that R&D increases by 0.6 per cent while FDI increase by 2.8 per cent as a response to a strengthening of the IPR structure by 1 per cent.[124] More empirical evidence is provided by a working paper[125], conducted on a panel of 92 countries for a 40-years period from 1960-2000, which discovered that an increase in the annual number of patents granted was linked to a rise of 3.8 per cent in output[126]. Given that a strong knowledge and human capital based economy characterizes advanced countries, and reaching or maintaining an advanced country status is the primary aim of all modern-day economies, safeguarding of IPR is seen as a major channel to sustaining economic growth.

The international framework for IPR is based on several treaties and conventions that cover the different aspects of intellectual property protection; a total of 26 treaties are administered by the

[122] See http://www.wipo.int/about-ip/en/

[123] See, for example, Scully, G. W. (1988*)* The Institutional Framework and Economic Development in *Journal of Political Economy*, June 1988

[124] See Cavazos, R. et al. (2010) Policy Complements to the Strengthening of IPRs in Developing Countries in *OECD Trade Policy Working Papers*, No. 104, OECD Publishing

[125] Chen and Dahlman (2004) Knowledge and Development: a cross –section approach, World Bank Policy Research Working Paper 3366, August 2004

[126] Cited in See Pham, N.D., Pelzman, J.,Badlam, J., Sarda, A. (2013) The Economic Benefits Of Intellectual Property Rights In The Trans-Pacific Partnership, NDP Consulting

WIPO,[127] covering both the industrial rights and the artistic rights. Several cross-border systems are also in place to facilitate international protection of IPR; such includes the International Patent System, International Trademark System, International Design System, Lisbon system for the appellations of origin and the Article 6ter which protects names, abbreviations, flags and other emblems of governmental and intergovernmental organizations. Additionally, fast, flexible and cost-effective arbitration, mediation and expert determination services for dispute settlement are provided to WIPO Member States.[128]

III.7.2. Overview on how the EU has negotiated IPRs in recent FTAs

The EU has been strongly advocating for the protection of IPRs, and holds the latter as one of the focal points of its long-term growth strategy, in accord with the bloc's view of being the leading knowledge-based economy in the world. On top of the obvious economic considerations, the EU puts forward additional rationales for strong defense of IPR. These mainly concern the health and safety hazard of products that violate IPR and that traffic of such counterfeits are usually a source of funding for criminal and terrorist organization.[129] The EU looks further than the financial or economic benefits of protecting intellectual property rights, acknowledging its social benefits.

The EU's promotion of IPRs goes beyond its borders and extends to its trading partners. Better protection of these rights in the EU's partner countries, especially emerging ones, provide new markets with high potential for the IP-intensive industries (IPR intensive industries are estimated to contribute to more than a quarter of employment and more than a third of economic activity in the EU).[130] It will also benefit the European exporting sector as a whole as it deters piracy related to trademarks, industrial design and geographic indicators & appellation of origins. Such piracy is common in emerging countries and takes advantage of the perception of higher quality associated with European products and brands.

However, such a scenario will not only suit the purpose of the EU It is a win-win situation with the partner countries also benefitting, mainly in terms of knowledge spill-over from the research and innovation activities undertaken by the E.U, in which the latter has a comparative advantage with respect to the former. An adequate IPR protection system encourages E.U firms to work more with the developing partner countries while also enabling the latter to take better advantage of the innovations and know-how.

The EU has defined its objective for IPR chapters in bilateral negotiations as attaining a level of protection akin to the levels in place in the EU, without overlooking the level of development of the countries.[131] The latter is an important factor because, as pointed out by academic research, a protection level that ignores the economic status of the country can have *counterproductive effects that include monopolization of markets by foreign firms, higher prices of IPR-related products, public*

[127] See http://www.wipo.int/treaties/en/

[128] See http://www.wipo.int/services/en/

[129] Martinez, A.L., (2012) Report on Implications of an IPR Chapter in a Hypothetical Free Trade Agreement between Vietnam and the European Union. EU-Vietnam MUTRAP III

[130] European Patent Office and the Office for Harmonization in the Internal Market (2013) Intellectual property rights intensive industries: Contribution to economic performance and employment in the European Union, *Industry-Level Analysis Report,* European Commission.

[131] See http://ec.europa.eu/trade/policy/accessing-markets/intellectual-property/index_en.htm

health, access to knowledge, food security, environment, labour rights, technology transfer monopolization of markets by foreign firms.[132]

Furthermore, the EU aims for an adequate regulatory framework to fight IPR infringements and a framework based on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The TRIPS defines the minimum standards of protection and regulation for the various aspects and kinds of intellectual property that all its member countries should set. Additionally, other WIPO-administered treatises are also considered.

The EU has taken into account the level of economic development of the partner country while defining objectives other than the implementation of the appropriate IPR protection level. For developed countries, the EU aims at also propping up the creation and two-way trade of innovative products. For developing countries, encouraging bi-lateral technology transfer is defined as an objective. The EU has even gone one step further in its agreement with Central American countries (EU-CAAA), by providing for an additional objective that encourages financial and technical cooperation relating to IPR.

The FTAs are binding to the parties so that they must implement all of their defined IPR requirements in line with their commitments in TRIPS and other international treaties. Previous negotiated agreements have been consistent with the same spirit but the current EU-Vietnam negotiations may allow for some flexibility for both parties to take into account their domestic conditions and constraints. The EU has shown some flexibility with regard to developing countries, as illustrated by the EU-CARIFORUM Economic Partnership Agreement and the EU-Colombia-Peru Trade Agreement (EUCPTA).

The recent IPR negotiations with Korea may offer an approximation of what can be expected from the EU in terms of negotiation. The basic objectives of the negotiations were to (1) facilitate the production and commercialization of innovative and creative products in the Parties; and (2) achieve an adequate and effective level of protection and enforcement of intellectual property rights.[133] Korea is an advanced (OECD) country and thus has a differing context from Vietnam. Vietnam could expect the negotiations to be based on promotion of transfer of technology between the two economies. However, because of the size and growth of the Vietnamese markets and the sophisticated environment of counterfeit goods and abuse of IPRs, the EU will seek to secure some commitments with regard to the regulatory environment and dispute settlement.

Both parties are negotiating Copyrights, Trademarks, Geographical Indications, Designs and Patents in depth. Protection of plant varieties, Genetic resources and traditional knowledge should also be considered. Other aspects concerning the application for protection of rights, protection of data and the broader administrative, legal and related issues will also be touched upon. Moreover, the areas of liability of online service providers, codes of conduct (including data protection) and cooperation between the parties were also provided for.

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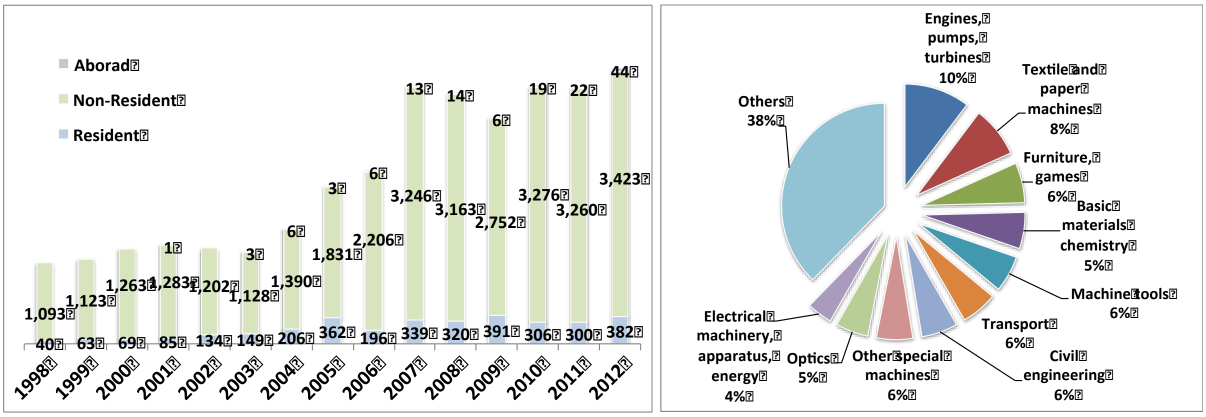
[132] Martinez, A.L. (2012) *ibid*

[133] See: http://trade.ec.europa.eu/doclib/docs/2009/october/tradoc_145180.pdf

III.7.3 Vietnam and IPRs[134]

Like the EU, Vietnam is a supporter of IPR protection. The country is aspiring to become a knowledge-based, market-driven economy. It recognizes that stringent defence of IPR is a crucial condition to achieve this objective. The economic benefits of having a strong IPR protection framework, and its contribution to the developmental ambitions of Vietnam, are acknowledged by the State. The *Vietnam Strategy for socio-economic development 2001 -2010* and *Vietnam Strategy for socio-economic development 2011 -2020* recognized that IPR protection generates expansion of the scientific and technological markets, which are crucial for industrial innovation. The number of patent applications to WIPO has dramatically increased in the last decade, although the great majority remain from non-resident entities (see Figure 100). The sectors which have most benefited from patent applications are the mechanical engineering and machinery sector, followed by furniture and transport equipment.

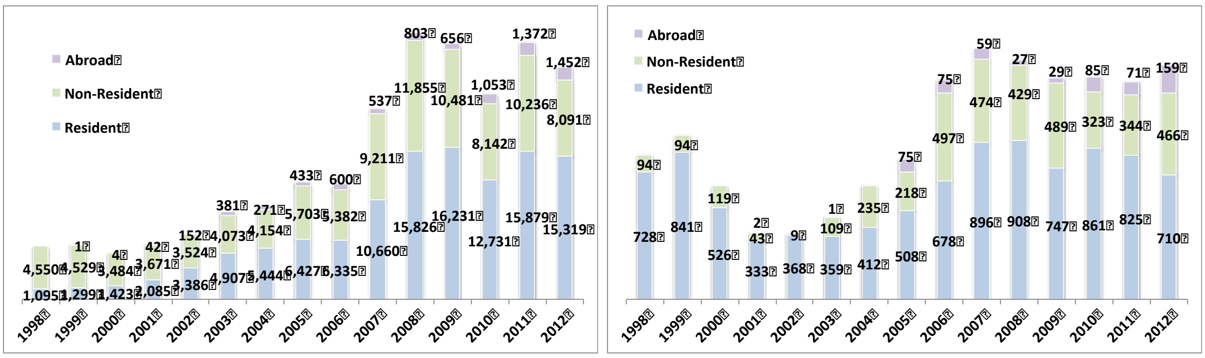
Figure 100. Vietnam patent applications by type and sector (1998-2012)



Source: WIPO IP Stats

Despite all the good intentions, Vietnam is still at the 116th position (out of 151) in 2013, in the World Economic Forum's Intellectual Property Index[135], although this represents an improvement from its 127th (out of 142) position in 2011. It can be concluded that even though the progress might be slow, Vietnam is moving in the right direction.

Figure 101. Vietnam Trade mark registrations



Source: WIPO IP Stats

[134] This section is heavily based on Martinez, A.L. (2012) *ibid*

[135] See http://www.weforum.org/issues/competitiveness-0/gci2012-data-platform/

III.7.4. Considerations for an EU-Vietnam FTA on IPR

Strong IPR protection not only fosters more domestic research and innovation to support industrial development promoting investment, it also encourages EU firms and entities to import their more advanced technology and knowledge to Vietnam. This import of technology is mostly via the FDI and Networking channels.

The most shallow agreement on IPRs to be contained in the FTA would only require that the parties respect the provisions of the TRIPS Agreement and any other multilateral agreement relating to IPRs to which both are parties. The authors would recommend that a more comprehensive language be reached in the FTA.

Nevertheless, Vietnam should consider carefully any restrictions in IPRs on the grounds for compulsory licences, extended protection periods for patents and copyright, expansion of patents on life forms, or restrictions on the rights.

The general case for IPR protection has already been strongly made, and it is most likely that Vietnam will be reaping the same benefits. However, the IPR protection is no miracle, stand-alone policy. It requires an adequate level of social, economic and institutional development to be most effective. Cooperation between the EU and Vietnam in building the right institutional framework and advice on the legal framework through capacity building support is strongly recommended.

III.8. Other Trade Related Areas: Trade Facilitation

III.8.1. Introduction

Trade facilitation, as the name implies, refers to easing cross-border transactions across countries. A very simplistic definition of the term can be the *removal of obstacles to the movement of goods across borders.*[136] The European Union offers a slightly more elaborate definition of the term. It defines trade facilitation as *the simplification and harmonisation of international trade procedures including import and export procedures.*[137]

Given the above definitions, one can gauge the importance of customs procedures in the trade facilitation process. A country's Customs is what allows it to control and protect its borders, and this includes protection against unwanted and illicit goods such as explosives or drugs. Moreover, it provides the governing authority with a very potent tool for policy purposes while also representing a consequent source of revenue for many countries with an undeveloped tax base. However, customs can present a barrier to trade, with the length and procedures generating a significant cost for businesses. If procedures also lack transparency and predictability (through advance rulings for example) then the costs are even higher. The issue is, thus, about how to minimise the drawbacks of Customs control on the movement of goods across countries given while balancing the need for ensuring the goods are correctly declared. Such constrained optimisation will allow striking the right balance between these two crucial issues instead of just trading one off for the other.

Zaki (2011)[138] quantified the effect of trade facilitation on different countries and group of countries, using Ad-Valorem Equivalents (AVEs), which captures qualitative aspects of TF and red tape. Overall, he found that welfare[139] was boosted by 1.79 per cent, on average, by introducing trade facilitation measures and the developing countries benefited most. He also concluded that Asian countries enjoyed 5.19 per cent more welfare from trade facilitation while exports were boosted by 16.2 per cent. Cutting red-tape expenses boosted Asian intra-regional trade by 19.5 per cent. These figures empirically confirm the benefits of trade facilitation.

Cooperation among countries and among their custom authorities is a measure promoted for the enhancement in the flows of international trade. Cooperation goes hand in hand with harmonisation of procedures and standards across the parties. There are also improvements in informational efficiency thanks to data sharing that is brought about by cooperation among the different authorities. More information helps in not only improving cross-border flows of goods but also in better controlling and safeguarding the borders.

International harmonisation is made through the World Customs Organisation (WCO), which institutes the standards and procedures, and also provides adequate capacity-building services to suit the purpose.[140] It makes use of several instruments that include The International Convention on

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[136] See http://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm
[137] See http://ec.europa.eu/taxation_*Customs/Customs*/policy_issues/trade_falicitation/index_en.htm
[138] Zaki, C. (2011). *Assessing the Global Effect of Trade Facilitation: Evidence from the MIRAGE model*. Working Paper Series, Working Paper 659. Economic Research Forum.
139 Welfare is measured as the change in income of the agents under an equivalent variation framework.
[140] See http://tfig.unece.org/contents/custom-cooperation.htm

the Harmonized Commodity Description and Coding System (HS) and The International Convention on the Simplification and Harmonization of Customs procedures (RKC).[141]

III.8.2. Overview of Trade Facilitation provisions in recent EU FTAs

Being an active member of the WCO, the EU negotiates trade facilitation and customs issues within the framework of the agreements made in the WCO and WTO. The EU has considered several provisions in previously negotiated agreements. These include:[142]

- *simplification of requirements and formalities in respect of the release and clearance of goods, including, to the extent possible, collaboration on the development of procedures enabling the submission of import or export data to a single agency,*
- *improved working methods and ensuring transparency and efficiency of customs operations,*
- *reduction, simplification and standardisation of data in the documentation required by customs,*
- *application of modern customs techniques, including risk assessment, simplified procedures for entry and release of goods, post release controls, and company audit methods,*
- *provisions that facilitate the importation of goods through the use of simplified or pre-arrival customs procedures and processes.*

The EU bases its Trade Facilitation programme on the DG TAXUD's 'Customs Blueprints'; this covers practical guidelines that encompasses 13 key areas in details. With these programmes, the EU expects to mainly to reduce the time and cost of procedures, improve transparency, efficiency, ethics and governance and allow for better control and revenue collection.[143]

The chapter on customs and trade facilitation in the FTA between the EU and Singapore offers some insights into how the EU negotiates its agreements in this area. The objective was to reinforce cooperation in customs and trade facilitation and to have a modern, effective Customs administration coupled with non-discriminatory legislation without being in conflict with public policies or effective control of the country's borders.

To promote customs cooperation, the parties are required to exchange information about each other's customs procedures and legislation, and how they were implemented, work together and developing joint initiatives in enhance effectiveness, security and risk management, amongst others. Additional provisions covered the essential areas like transit and transhipments, advanced rulings[144], simplified customs procedure, release of goods, fees and charges, risk management, appeal procedures, and transparency. Ancillary issues that were dealt with included Customs broker, Pre-shipment inspections, customs valuations and single window systems. Furthermore, it was required that the needs of the business community were considered and that it was consulted during the procedures. They were also to be made aware of all relevant information and changes in a timely

[141] See http://tfig.unece.org/contents/org-wco.htm

[142] See http://ec.europa.eu/taxation_customs/customs/policy_issues/trade_falicitation/index_en.htm

[143] See http://ec.europa.eu/taxation_customs/resources/documents/trade_facilitation-interest_for_developing_countries.pdf

[144] Defined by the OECD as *prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements*, http://www.oecd.org/tad/facilitation

manner and be allowed an adjustment period between the publication of new or changed rules, charges or legislation and their implementation. Provisions were also made for a Committee on Customs.[145]

III.8.3. Vietnam's performance in Trade Facilitation indicators

The OECD indicators from 2013 show that Vietnam has performed above average in several areas of trade facilitation when compared to its peers in Asia or lower middle income countries. It performed very well in the involvement of trade community and appeal procedures fields, and also had laudable scores for the indicators of 'Governance and Impartiality' and in the 'Formalities – Documents'. Information availability is reasonable but still requires some further efforts. However, Vietnam has performed very feebly in the rest of the areas considered. The country has been very poor in internal border agency cooperation, procedures, automation, and advance rulings. The latter registered the weakest performance of the lot, with a score of less than 25 per cent of its maximum potential.[146]

Table 54, sourced from World Economic Forum's Global Enabling Trade Report 2014[147], offers an overview of the efficiency and transparency of Vietnam's administration of its borders.

Table 54. Indicators of Border Administration

Indicator	Score	Rank (out of 138)	Comparative advantage
Efficiency and transparency of border administration (1-7)	4.0	86	N
Customs services index (0–1)	0.40	94	N
Efficiency of the clearance process (1–5)	2.8	60	N
No. of days to import	21	83	N
No. of documents to import	8	82	N
Cost to import (US$ per container)	600	5	Y
No. of days to export	21	90	N
No. of documents to export	5	40	Y
Cost to export (US$ per container)	610	9	Y
Irregular payments in exports and imports.	2.3	123	N
Time predictability of import procedures	3.5	97	N
Customs transparency index (0–1)	0.60	9.2	N

Source: World Economic Forum (2014), *The Global Enabling Trade Report.* Insight Report.

In general, the performance of Vietnam is not particularly strong, except for costs to import and export and the number of documents to export. The WEF considers Vietnam to have a comparative advantage (see third column). Comparative advantage is defined as an indicator in which it is ranked better than its overall position. It should be noted that the degree of service and the predictability of import procedures is particularly poorly ranked. These reveal the poor application of procedures and rules, despite the adoption (or ratification) of agreements. The level of informal taxes is also very significant Vietnam, placing it at a similar level to Angola.

[145] See http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151741.pdf
[146] See http://www.oecd.org/tad/facilitation/Vietnam_OECD-Trade-Facilitation-Indicators.pdf
[147] World Economic Forum (2014) *The Global Enabling Trade Report.* Insight Report.

III.8.4. Considerations for an EU-Vietnam FTA

The economic benefits of trade facilitation and customs cooperation for Vietnam will be enjoyed by both the private sector in terms of the improvement brought to the trade environment and to the Government in terms of improved control that acts as a fraud deterrent and makes revenue collection more efficient. It will also help the country in correcting the problem areas pointed out by the OECD indicators.

According to how the EU negotiates trade facilitations with its partners, the issues that Vietnam has with internal border agency cooperation, procedures, automation and advance rulings will be addressed. Remediation of advanced rulings problems, in particular, will be welcoming, given the low performance of Vietnam. Improvement in this area will make potential traders more knowledgeable about and prepared to comply with Vietnamese Customs requirements.

Facilitation of trade, however, will definitely be costly to Vietnam, especially due to activities like modernisation of Customs procedures and infrastructures. Nevertheless, such costs might be easily recouped once the benefits are reaped. The Government can increase its revenue directly from the increased efficiency in collecting that revenue or, by more taxes, as the economy has grown as a result of the trade facilitation process.

III.9. Investment

III.9.1. Introduction

Domestic investment remains an important source of investment in Vietnam, although it has a savings-investment gap, which is bridged by Foreign Direct Investment (FDI)[148]. Empirical evidence has proven that capital mobility has aided emerging countries in boosting their economic performance.[149] The effect of capital mobility and FDI on these economies can be both quantitative and qualitative. Quantitative refers to the higher production, employment, exports and economic activity in general that foreign investors bring about when they carry out their businesses in the host economy. Foreign investment is often driven by Multinational Companies (MNCs)[150] that invest in a large scale which can have enormous impact. The qualitative effect, on the other hand, takes the form of knowledge spill-overs that these foreign investors induce. The use of updated production methods and technologies, Research and Development activities and training of the human capital are the usual channels for knowledge transmission from the MNCs to the host countries. The transmission is further enhanced when the MNCs cooperate, procure and integrate with local firms. Such knowledge spill-over significantly enhances the Total Factor Productivity, which has positive effects on output and the economy.[151]

Capital mobility may not always benefit a country. High capital inflows may artificially increase assets prices that may either affect the assets market in general or a particular industry. Such occurrences fuel an unsustainable economic growth which can cause an economy to crash as the bubble bursts. A dependency on shorter-term capital inflows also makes a country more vulnerable to external shocks and crises, especially if the country is a developing one and lacks the flexibility in its economic structure. Such rigidities can be in the form of a lack of development in its financial system that leads to unproductive allocation of the imported resources or an inefficient Central Bank, which mismanages its reserves. The biggest danger is the risk of capital flight[152], which is an unexpected, swift and significant fall in capital inflows in an FDI-dependent economy. Another risk is that of "fire-sale" where foreign investment is attracted by undervalued assets (such as in a time of crisis) in order to then re-sell these assets after the crisis at higher prices[153]. Evidence points towards large inflows of FDI having been used in this manner in Asian economies sine the liberalisation of FDI capital inflows.[154]

Free Trade Agreements offer domestic firms access to new markets or enables them to exploit existing foreign markets more effectively. Thus, it encourages exports and consequently domestic

[148] Lautier, M. And Moreaub, F. (2012), *Domestic Investment and FDI in Developing Countries: The Missing Link.* Journal of Economic Development, Volume 31, Number 3. Retrieved from: http://www.jed.or.kr/full-text/37-3/1.pdf

[149],Edwards, S. (2001). *Capital Mobility and Economic Performance: Are Emerging Economies Different?* NBER Working Paper No. 8076, National Bureau of Economic Research

[150] Mallampally, P. and Sauvant, K. (1999). *Foreign Direct Investment in Developing Countries.* Finance and Development Magazine, Volume 36, No. 1, International Monetary Fund. Retrieved from: http://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm

[151] See the Solow Growth Model and the closely related, Endogenous Growth Model.

[152] A term usually attributed to Rudiger Dornbusch et al., authors of 'Currency Crises and Collapses'. See http://www.investopedia.com/terms/s/sudden-stop.asp

[153] Krugman, P. (2000) *Fire-Sale FDI*, in Edwards, S. (eds) Capital Flows and the Emerging Economies: Theory, Evidence, and Controversies," NBER Books, National Bureau of Economic Research

[154] Acharya, V. H. S. Shin & T. Yorulmazer (2011) *Fire sale FDI*, in Korean Economic Review, 27 (2)

investment. While FDI does target the industrial sector, FDI in services is very significant, particularly through mode 3 – the right of establishment. According to UNCTAD[155], the services sector grew at about 9 per cent on average annually from 2008 to 2013 in Developing Asian economies.

III.9.2. Overview of investment provisions in recent EU FTAs

The EU has an investment policy that aims to provide its investors with access to markets, legal certainty and a business environment which is steady, predictable, just and properly regulated. The negotiations that the EU undertakes with third parties are based on the major international agreements on investment such the General Agreement on Trade in Services (GATS) and the agreement on Trade Related Investment Measures (TRIMS).

After the Treaty of Lisbon, investment became part of the EU Common Commercial Policy, which is an exclusive competence of the EU. Since then, the European Commission has the power to legislate on investment components of trade agreements on behalf of Member States.

According to the EPA between the EU and the CARIFORUM[156], the term investment is used to refer exclusively to Foreign Direct Investment. The EU has defined FDI as commercial presence via either acquisition of existing business or creation of a new branch or representative office, which generates real economic activity. The objective of the investment provisions in the Agreement is the facilitation and promotion of investment, in the CARIFORUM region in particular, by ensuring fair access of both parties' investors to each other's market. The chapter on investment is considered together with services because it views the investment to take place through commercial presence.

Further provisions are made to ensure that the agreement does not invalidate any parties' sovereign rights to police their domestic economic activities, including that of foreign investors, and competition. The CARIFORUM countries also maintain their right to subsidise their local economic operators. It was also made clear that no concessions should be made in the domestic environmental, labour or health and safety conditions in order to attract FDI. Requirements to regulate the behaviour of investors were also provided for, so as to prevent corruption and minimise social and environmental externalities. This feature, however, was unique to the EU-CARIFORUM EPA. Given the desirability of the provisions under the EPA agreement, such a set of provisions should be considered under the EU-Vietnam FTA.

Another Agreement negotiated by the EU which includes investment provisions is EU-Korea FTA [157]. The agreement, on one hand, opened up the services market in Korea for EU suppliers and investors and offered the legal assurance that the latter will not be discriminated against in favour of local entities (a national treatment provision). The targeted sectors included transport, construction, telecommunications, financial, postal and express delivery, shipping and a range of professional services. Additional provisions covered free capital movements and the option for both parties to implement measures that will safeguard their financial system. Inferring from the past experiences,

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155 http://unctad.org/en/pages/Statistics.aspx
156 http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_140979.pdf
157 http://trade.ec.europa.eu/doclib/docs/2011/october/tradoc_148303.pdf

Vietnam can expect the FTA to include measures that will boost European FDI inflows with special considerations to the services sector.

The European Union has recently approved a new set of rules[158], which aims to regulate disputes under the EU's investment agreements with its trading partners. The new regulation, coming into force on 17th September, will only be applied on actual investor – to - state disputes (ISDS) under EU agreements with an ISDS mechanism. It establishes that Member States and the European Union will continue to work in close cooperation in any challenge under the ISDS and the Energy Charter Treaty. However, Member States will defend any challenges to their own measures and the EU will defend measures taken at EU level. The new rules also include the principles for allocating any eventual costs or compensation.

The latest EU agreement to include investment provisions is the EU-Canada Free Trade Agreement. For the first time, the agreement contains detailed language on what constitutes indirect expropriation[159], such as "clarifying that indirect expropriation can only occur where there is substantial deprivation of the attributes of property; Providing for a detailed step-by-step analysis to determine whether an indirect expropriation has taken place and clarifying that the sole fact that a measure increases costs for investors does not give rise in itself to a finding of expropriation; Providing that legitimate public policy measures taken to protect health, safety or the environment do not constitute indirect expropriation, except in the rare cases where they are manifestly excessive in light of their objective; The issuance of compulsory licences in accordance with WTO provisions guaranteeing access to medicines cannot be considered an expropriation; The agreement also makes clear that obligation to provide 'full protection and security' does not cover protection against changes of laws and regulations; shell companies are not protected. To be qualified as an " investor" , it is necessary to have substantive business operations in the territory of one of the Parties; as in other EU Free Trade Agreements, the agreement permits the adoption and enforcement of prudential measures".

In June 2013, the 28 EU Member States provided the European Commission with a mandate for negotiating the Transatlantic Trade and Investment Partnership Agreement (TTIP), stating that it should include investment protection and investor-to-State dispute settlement (ISDS). Twelve key issues are being consulted on in the EU for the TTIP[160]:

- Scope of the substantive investment protection provisions
- Non-discriminatory treatment for investors
- Fair and equitable treatment
- Expropriation
- Ensuring the right to regulate and investment protection
- Transparency in ISDS, multiple claims and relationship to domestic court
- Arbitrators' ethics

[158] Regulation (EU) No 912/2014 of the European Parliament and of the Council of 23 July 2014 establishing a framework for managing financial responsibility linked to investor-to-state dispute settlement tribunals established by international agreements to which the European Union is party, 2014, L 257/121.
[159] EC (2013) Investment Provisions in the EU-Canada Free Trade Agreement (CETA), 3 December, http://trade.ec.europa.eu/doclib/docs/2013/november/tradoc_151918.pdf
[160] http://trade.ec.europa.eu/doclib/docs/2014/july/tradoc_152693.pdf

- Conduct and qualifications
- Reducing the risk of frivolous and unfounded cases
- Allowing claims to proceed (filter)
- Guidance by the parties on the interpretation of the agreement
- Appellate mechanism and consistency of rulings

Though the TTIP is being negotiated between advanced partners, some elements of the ISDS, particularly with regard to expropriation, are expected to be negotiated between the EU and Vietnam.

The Investment Law of 2005 and the Enterprise Law of 2005 provide the legal structure for investment and business activities in Vietnam, and it applies to both domestic and foreign investors alike. Decree No. 102/2010/ND-CP of 1 October 2010 clarifies that an enterprise with up to 49 per cent foreign ownership is subject to the same conditions as a Vietnamese-owned company, whereas the foreign investment rules apply to enterprises with more than 49 per cent foreign ownership. However, current regulations do not specify the treatment of Vietnamese-owned businesses acquired by foreign-owned (49 per cent or more) enterprises making the acquisition of licenses and certificates unpredictable[161]. Foreign financed projects are exclusively subject to additional provisions on issues such as when investment is conditional on the issuance of investment certificates by the authority. Vietnam allows for direct investment through the establishment of a purely foreign owned economic organisation. Such organisations can be in the form of shareholding companies, limited liability companies with one or several members, private companies, cooperative companies or joint economic cooperation. Additional forms of direct investment identified are Business Cooperation, Build-Operate-Transfer or Build-Transfer contracts; business development; contribution to capital that allows for participation in management; merger and acquisitions; other forms of Direct Investment.[162] Under its WTO commitments, Vietnam committed to eliminating programmes linking incentives to local content prior to accession, and the phasing out between 2007 and 2012 of investment for existing beneficiaries of incentives linked to export performance (Trade-Related Investment Measures (TRIMs)).

The Vietnamese Government actively promotes FDI by opening up its economy, in accordance with its Economic Development Plan 2011 – 2015, as a catalyst for reforming the economy, developing the agricultural and services sectors, building capacity of its industrial sector and making it more modern and competitive, evening the promoting regional economic and social harmony and fostering innovation.[163] Around 72 per cent of all FDI in 2012 was targeted to the manufacturing sector, and 5 per cent to wholesale and retail sales[164]. FDI has been constantly progressing in Vietnam during the past two decades, marked only by a slowdown during 1997-2000, which can be explained by the Asian Financial Crisis. The second half of the 2000's saw a meteoric rise in the registered capital under FDI to US$ 132.6 billion from only US$ 20.7 billion during the period 2001-2005. The opening up of the Vietnamese economy and the country's accession to the WTO in 2007 and the induced revamping in its market conditions and legal environment have definitely

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[161] WTO (2013) *Trade Policy Review Vietnam*, WT/TPR/S/287, WTO: Geneva
[162] http://www.investinvietnam.vn/lng/2/detail/388/Form-of-Investment.aspx
[163] http://www.investinvietnam.vn/lng/2/detail/2753/Development-Strategy.aspx
[164] GSO (2014) *FDI statistics*, as at 1 May 2014

contributed to such a situation. Furthermore, a gamut of incentives is offered to investors, mainly preferential tax rates and ability to carry forward losses.[165] Vietnam is also part to the ASEAN Comprehensive Investment Agreement (ACIA), as a replacement to provisions contained in the ASEAN Investment Agreement (AIA) and the ASEAN Investment Guarantee Agreement (IGA). The ACIA is due to be implemented in full by 2015 and covers investment liberalization; investment protection, promotion and facilitation; automatic MFN treatment; arbitration; etc.[166]

According to the US Bureau of Economic and Business Affairs, [167] Vietnam's qualities in attracting FDI include its geographical proximity to international supply-chain, plentiful of human resources and stable economic and political environment. Its major drawbacks include corruption, poor infrastructure and undesirable bureaucracy, and despite the endeavours of the Government, indicators point towards a need to correct these issues. For example, the World Bank's Ease of Doing Business indicator has ranked Vietnam at the 99th position, overall, in 2013, with very poor performances in key aspects, such as starting a business (108) or protecting investors (169).

Vietnam is working in that direction, as evidenced by the amendments by the Ministry of Planning and Investment to the Investment Law to improve the investment climate[168]. Nevertheless, the downturn risks, as well as asset price bubbles (Vietnam's recent real estate crises being one example of this), should not be ignored[169]. The World Bank[170] also cautions against the possible effects of quantitative tightening by the Fed on developing economies. FDI can act and buffer against more short-term capital instruments which are more prone to capital flight.

III.9.3. Considerations for an EU-Vietnam FTA

From a quantitative perspective, an FTA is expected to attract significant investment, as bilateral trade between the EU and Vietnam is boosted (see CGE results of the study). In order to take advantage of the agreement however, the country needs to implement measures domestically also to promote growth and address the difficulties it faces. This is because even if the possibilities for EU firms to invest in Vietnam will be increased, the impact is likely to be dampened if the economy is not intrinsically dynamic enough[171] or if there is inadequate transparency and predictability in the application of investment provisions.

Investment provisions will focus on transparency and non-discrimination and unless specifically mentioned (a negative list approach), national treatment. The EU will likely seek to integrate as far as possible investor-state dispute settlement, which could deal with conflicts of interests in dispute

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165 http://www.investinvietnam.vn/lng/2/detail/392/Investment-Incentives.aspx
166 WTO (2013) *Trade Policy Review Vietnam*, WT/TPR/S/287, WTO: Geneva
167 http://www.state.gov/e/eb/rls/othr/ics/2013/204760.htm
168 Vietnam Investment Review (2014) *Investment law undergoes revision*, 6 January, Ministry of Investment and Planning: Hanoi at http://www.vir.com.vn/news/en/hightlight/investment-law-undergoes-revision.html
169 http://www.forbes.com/sites/jessecolombo/2014/01/23/why-southeast-asias-economy-is-a-giant-bubble-waiting-to-pop/
170 World Bank (2014) *Global Economic Prospects 2014: Coping with Normalization in High Income Countries*, World Bank: Washington DC, January. Available at: http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a_chap3.pdf
171 Lautier, M. And Moreaub, F. (2012), *ibid*

resolution, for example by obliging arbitrators to sign a binding code of conduct, and introducing safeguards for parties to the agreement[172].

Consideration should also be given to adopt the IISD Model International Agreement on Investment for Sustainable Development, which includes provisions against corruption, inherent rights of states, minimum labour, environmental and human rights standards[173].

[172] Draper, P., S. Lacey & Y. Ramkolowan (2014) *Mega-Regional Trade Agreements: Implications for the African, Caribbean, and Pacific Countries*, in ECIPE Occasional Paper, 2/2014, ECIPE: Brussels
[173] http://www.iisd.org/pdf/2005/investment_model_int_handbook.pdf

III.10. Labour Standards

III.10.1. Introduction

Labour standards are multidimensional and differ across countries depending on the stage of the development, political, economic and social conditions of the country. Many institutions have tried to promulgate universal labour regulations to coordinate the improvement of labour conditions worldwide. The main institution, developing such international labour policies and norms is International Labour Organization (ILO), which has submitted 189 conventions and is systematically promoting labour standards, including abolition of child labour, elimination of discrimination or freedom of association. Countries deciding to ratify conventions adopted by the ILO are under the obligation to improve labour standards in their domestic economy. At present, international labour standards has become a sensitive issue in relation to trade between industrialized and developing countries. Many developing countries are against connecting labour standards with trade agreements, whereas developed countries are concerned about workers in developing countries who are subject to exploitative working conditions. Despite the ongoing debate, international organisations have not reached consensus on imposing any trade related sanctions[174].

III.10.2. Conditions in Vietnam

In the case of Vietnam, national labour standards, which aim to develop the labour market, improve labour skills, as well as employers' duties, are based on many policies and acts, but the main legal framework is the Labour Code, which have been adopted by the National Assembly on 23rd of June 1994. The Labour Code met few of the international agreed standards, such as those concerning conditions of work, but it did improve the labour market and increase social security nets. Working together with the ILO and UNDP, Vietnam's Government has amended the Labour Code in 2002 and has been gradually ratifying international conventions, such as Convention 182 on the Worst Forms of Child Labour (2000), Convention 138 on the Minimum Age (2003) or Convention 29 on the Forced Labour (2007)[175]. On 18th of June 2012, The National Assembly has adopted a new labour code, which took effect on 1st of May 2013[176]. The new law aimed to shift labour from unstable employment and low working conditions to higher productivity and strengthening the rights of the employees. This legal update provides many new regulations, as well as strengthens some of the previous ones.

The new legislation emphasises issues such as labour subleasing, extension of the maternity leave period, collective bargaining, labour unions in enterprises and internal labour rules. Among those new regulations, the most significant developments concerning employees include: increasing the minimum salary level during probation period and in overtime rates, extension of the number of the public holidays, reduction of the maximum daily working hours[177]. The new Labour Code guarantee

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[174] Mah, J. S. (1998) *ASEAN labour standards and international trade*, in ASEAN Economic Bulletin, vol. 14, no. 3, pp.292-302.

[175] ILO, Ratifications for Vietnam, available at:
http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:103004

[176] Lee, M. K. & A. Svanberg (2013), *Vietnam's New Labour Code: Key Changes for Employers,* in Informed Counsel, vol. 4, no. 1, pp. 1-2.

[177] Lee, M. K. & A. Svanberg (2013) *Vietnam's New Labour Code: Key Changes for Employers,* in Informed Counsel, vol. 4, no. 1, pp. 1-2.

that the normal working time may not exceed 8 hours a day and provide regulations on overtime work - in the new legislation, the employer must seek approval from the employee to work overtime. An employee's salary must be equal at least to the minimum salary announced by the Vietnamese Government[178]. Moreover, the new Labour Code ensures a periodic medical examination for employees. Under Vietnamese labour legislation, an employee is represented and protected by the trade union. New regulations state that the trade union system consists of trade unions at the provincial, district and grassroots levels. An employee has the right to join a grassroots trade union and to participate in its activities. Likewise, an employee may go on strike, provided that it is organized by the company's trade union.

Unfortunately, despite the effort of enhancing the legal frameworks, Vietnam still fails certain international standards, primarily in the application of the law. Amongst the violations of the core international labour standards, we can indicate: violation of freedom of association, forced labour, child labour, exceeding minimum wages and working hours, etc. Under current conditions, an employee has limited independence and may only join trade unions with ties to the government. Many individuals have attempted to form independent trade unions, resulting in imprisonment in each case. Similarly, according to the law, employees have the right to strike, but complex legal procedures make it impossible to organize such a strike. Therefore workers organize illegal strikes, which led to imprisonment. Vietnam also struggles with a child labour problem. Aside from the occasional employment of the underage, Vietnam meets the problem of forced labour, including child trafficking from rural territories to urban areas[179]. Around 9.6 per cent of children, between 5 and 17 are child labourers.[180] Vietnamese employees very often excess the legal maximum working hours without adequate remuneration. Minimum wages are also very often not respected[181].

III.10.3. The treatment of labour standards in trade agreements

Labour standards are and important issue in relation to trade relations, but international organisations, such as the ILO or WTO, suggest not making use of trade agreements as a channel for the enforcement of labour standards.[182] WTO rules do not specify the legal linkage between trade and labour related standards. The WTO Ministerial Declaration from Singapore in 1996 only states that: *"economic growth and development fostered by increase trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question"*[183].

The EU also draws attention to social development, economic growth and labour regulations in developing countries, however instead imposing trade sanctions based on social and labour standards, the EU provide additional tariff preferences for those countries that are fulfilling the core

[178] Dieu, D. Q. (2012) *A study on trade union strategies on minimum wage determination and setting in Vietnam,* Vietnam General Confederation of Labour: Institute for Workers and Trade Unions
[179] Edmonds, E. & C. Turk (2002) *Child labour in transition in Vietnam*, in Policy Research Working paper, No 2774, Washington DC: World Bank: Washington DC
[180] ILO News (2014) *One in ten Vietnamese youngsters aged 5-17 in child labour,* UN Vietnam
[181] Brown, D. K. & A. V. Deardorff (2011) *Labour Standards and Human Rights: Complications for International Trade and Investment*, University of California: Berkley
[182] Anuradha R.V. & N.S. Dutta (2012) *Trade and Labour under the WTO and FTAs*, Clarus Law Associates
[183] WTO (1996) *Singapore Ministerial Declaration adopted on 13 December 1996.*

international labour rights (a positive reward approach). The EU's generalised system of preferences (GSP) has been augmented by offering additional trade incentives to those developing countries which apply a series of conventions which relate to human rights, including international labour standards[184]. Although FTAs include provisions concerning labour standards, there are more statements of intent and best endeavour principles contained in preamble and in the objectives. It is mainly as a result of pressures from international NGOs, that he EU has made a reference to the ILO principal in the trade agreements[185].

For example, the EU – Korea FTA, which is EU's first trade agreement with an Asian country, contains articles concerning enforcement of labour policies and worker's rights. Besides the affirmation of the commitment to the implementation of the ILO Conventions on labour standards, Art. 13.12, the agreement preconceives an institutional mechanism, where each party of the agreement *shall establish a Domestic Advisory Group(s) on sustainable development (environment and labour)* and should *comprise(s) independent representative organisations of civil society in a balanced representation of environment, labour and business organisations as well as other relevant stakeholders*. [186] In the EPA between EU and CARIFORUM States, the issues of labour standards are specifically highlighted. Parties agree to cooperate on social and labour issues, by providing support in *the formulation of national social and labour legislation and the strengthening of existing legislation, as well as mechanisms for social dialogue, including measures aimed at promoting the Decent Work Agenda as defined by the ILO*.[187]

III.10.4. Considerations for the EU-Vietnam FTA

In recent years, Vietnam has strengthened its economic and trade relations with the EU and has significantly benefited from this cooperation. The EU has become one of the main export markets and Vietnam benefits from the GSP scheme. Notwithstanding these benefits, art. 9 of the EU Regulations applying a scheme of generalised tariff preferences states that beneficiary countries should ratify all core human and labour rights UN/ILO conventions[188]. Therefore Vietnam, by improving the implementation of the international conventions (UN/ILO), could benefit more from the tariff preferences offered by the EU under its unilateral preference programme.

An FTA would provide secure market access more predictable and could not be changed by changes in the EU legislation. The integration of labour standards in the agreement is very likely but there is unlikely to be enforceable sanctions against the violation of core labour standards. However, it is likely that the EU will request an institutional framework to monitor and investigate reports of abuse and propose a formal mechanism for dealing with complaints.

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[184] EC (2013) *Practical guide to the new GSP trade regimes for developing countries*, European Communities.
[185] EC (2004) *The European Union's Generalised System of Preferences. GSP*, European Communities.
[186] EC (2011) *Free trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part* in Official Journal of the European Union, L127.
[187] EC (2008) *Economic Partnership Agreement between the CARIFORUM States, of the one part, and the European Community and its Member States, of the other part* in Official Journal of the European Union, L289
[188] EC (2012) *Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised system of preferences and repealing Council Regulations*, in Official Journal of the European Union, L303

III.11 State Owned Enterprises

III.11.1. Introduction

A State-owned enterprise (SOE) is a business that is controlled by a Government to undertake commercial activities on the latter's behalf. The state has a majority stake in such corporations. Their existence can be justified by the fact that they ensure the provision of essential services to those who would not be able to afford such under a market mechanism or that these can address market failures, such that profit considerations alone would not justify the existence of such activities. For example, basic infrastructures and utilities like water, electricity or sanitation is usually provided by SOEs, especially in developing countries.

Over the last two decades there has been a drive to move towards market economics and gradually privatize (or equitize) state owned enterprises with private sector participation. The usual rationale provided for de-nationalisation of the public sector are the injection of capital and superior performance and higher efficiency under private ownership thanks to the profit maximisation objective, usually in the form of higher quality of products delivered, better financial discipline and allocation of resources. Moreover, the privatization separates the state from the market thereby enabling it to focus more on regulation rather than restraining competition for its own objectives.

There is an increased awareness of the importance of good corporate governance, even for SOEs, that is leading to better management and improved efficiency. According to the OECD,[189] Governments are looking to protect their investments and add value to it, and giving in to the demands of consumers who are constantly looking for better quality of services. The OECD offered guidelines[190] which are being revised in 2014 to aid the Governments in improving the management of their corporations.

A more complex issue in the current context of free trade agreements is the unfair competition that SOEs offer against privately owned firms. While traditionally, the SOEs were domestically oriented companies that mostly operated in sectors that the market viewed as unprofitable; they are now large multi-sector firms that compete for markets and resources globally. Such enterprises are negatively viewed by some due to the unfair advantage they can bring, particularly through subsidies brought about by state transfers.

III.11.2. Situation in Vietnam

Vietnam has had a centrally planned economy for decades and hence, economic development was carried almost exclusively by SOEs. By 1961, North Vietnam had nationalised 100 per cent of industrial organisations, 99.4 per cent of commercial firms and 99 per cent of the transport services. After the unification of the country, such a trend continued, with a particular emphasis on industrial SOEs to promote economic development.[191] The 'Doi Moi' economic reforms and the market and

[189] See http://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/oecdglobalnetworkonprivatisationandcorporategovernanceofstate-ownedenterprises.htm

[190] See http://www.oecd.org/corporate/ca/corporategovernanceofstate-ownedenterprises/oecdguidelinesoncorporategovernanceofstate-ownedenterprises.htm

[191] Ngu, V.Q., 2002, *The State-Owned Enterprise in Vietnam: Process and Achievements*. Visiting Researchers Series No. 4(2002), Institute of Southeast Asian Studies.

trade liberalisation, of the mid and late 1980s, led to a gradual equitisation of many of the SOEs. The number of SOEs in Vietnam was 12,000 in 1989; these figures were halved by 1992 as a result of mergers or closures. A total of 3,309 firms were fully or partially (but with a controlling stake) owned by the Vietnamese Government in 2011[192]and the General Statistics Office recorded 3,135 SOEs in 2013. In contrast, there were around 5,800 in 2000.[193]

The SOEs still retain their importance for the Vietnamese economy and Government. Despite their receding number, their total sales, pre-tax profits and contribution to the state budget in 2012 were, respectively, 6.9 times, 9.4 times and 8.1 times bigger than figures in 2000.[194] As of April 2014, their contributions to the total of Government revenue were at 29.3 per cent, equalling VND 54 trillion.[195] More of them were set up during the recent few years, usually as groups with related commercial interests. For example, the Vietnam National Chemical Group and Vietnam Industrial Construction Group were incorporated in 2009 or the Vietnam Housing and Urban Development in 2010. Such SOEs remain a very potent tool for the Government to achieve its economic, national security and social objectives. They are also a means for the state to control strategic or sensitive sectors such as the housing or electricity industries.[196]

Nevertheless, Vietnam's commitments to move towards a more market-oriented economy are reflected through its target of equitising more than 400 SOEs. Although the success of such undertakings is not assured, as can be witnessed by the lacklustre interest from foreign investors for earlier offerings.[197]

III.11.3. The treatment of SOEs in trade agreements

A major cause of concern is the unfair competition that can result from SOEs as a result of government subsidies. Such practices are negatively viewed by the EU, since it is a strong advocate of fair competition. Moreover, SOEs can grow to rival large privately owned Multinational corporations (MNCs), much to the detriment of some EU businesses[198]. Nonetheless, some EU member states such as Germany and France as well as other members like Finland and Ireland have SOEs positioned amongst the top ten firms[199].

The EU has not considered SOEs explicitly in its previous FTAs[200]. However, the Competition chapters usually presented in FTA cover issue of natural monopolies or market dominance (which can be applied to SOEs or private enterprises).

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[192] According to the Report by the WTO's Secretariat on the Trade Policy Review of Vietnam (WT/TPR/S/287 - -2013)
[193] See http://www.gso.gov.vn/default_en.aspx?tabid=501&thangtk=12/2013
[194] See Footnote 5
[195] See http://www.gso.gov.vn/default_en.aspx?tabid=501&thangtk=04/2014
[196] See Footnote 4
[197] See http://www.bloomberg.com/news/2014-04-28/vietnam-air-sees-approval-in-june-for-stake-sale-in-ipo.html
[198] This is often the case in markets with large economies of scale, such as China; See http://www.forbes.com/pictures/mgl45fkfj/icbc-2/
[199] Kowalski P., Büge, M., Egeland M. & Sztajerowska, M. 2013. State-owned enterprises in the global economy: Reason for concern? Retrieved from http://www.voxeu.org/article/state-owned-enterprises-global-economy-reason-concern
[200] Except in the case of the EU-Korea FTA: "Each Party shall adjust state monopolies of a commercial character so as to ensure that no discriminatory measure regarding the conditions under which goods are procured and marketed exists between natural or legal persons of the Parties. Nothinginparagraph1shallbeconstruedtopreventa Party from establishing or maintaining a state monopoly" (Article 11.5) and "The Parties affirm their existing rights and obligations under Article XVII of GATT 1994, its interpretative notes and the Understanding on the Interpretation of Article XVII of GATT 1994,

III.11.4. Considerations for the EU-Vietnam FTA

Given the importance of State-owned enterprises in Vietnam, the EU wishes to include provisions for ensuring that its investors and businesses face fair competition when investing or operating in Vietnam. The inclusion of provisions outside of the competition chapter, in a manner similar to the EU-Korea FTA is likely to be negotiated by both parties.

contained in Annex 1A to the WTO Agreement which are incorporated into and made part of this Agreement, *mutatis mutandis*" (Art 2.13).

IV – Summary of main Findings

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Overall, the study estimates that the benefits of the FTA are large…

The study has presented an overview of the expected impacts arising from a negotiated FTA agreement between the EU and Vietnam using a standard Sustainability Impact Assessment Framework. The study was requested by the Government of Vietnam and used both a quantitative approach (through economic modelling and data mining) and a qualitative approach (through surveys, consultations and desk research).

Before drawing conclusions from the analysis, limitations of the modelling and the quantitative analysis should be noted. As with all modelling, poor quality data, possible misspecification and parameter estimations are a concern. We present in Box 4 some key observations regarding the outcome of the modelling work in a general and partial equilibrium framework.

Box 4. Limitations of the Modelling Results

A general comment is that the negotiated outcome of the agreement is not yet known so that the authors of the study made various scenarios based on past examples of FTAs. The final Agreement may of course differ from those negotiated in the past.

For the **General Equilibrium** outcomes, the input-output tables, showing the relationship between sectors, are from 2007 and are likely to have changed since then, especially in a fast growing economy such as Vietnam's. In addition, the services data is of unknown quality, and the service protection data has been estimated using a gravity model, which is open to misspecification. The level of aggregation limits what can be said about certain industries. While the tariff cuts are calculated at a six-digit level, i.e. for over 5,000 products, the CGE analysis divides the economy up into only 30 sectors. This biases downward our estimates of the potential gains from trade.

Endogenous changes in investment that might occur with a more liberal trade regime were not taken into account by the model. Indeed, the technological improvements that come from inward flows of foreign investment may be the major driver of economic growth. In this respect our results are biased downwards.

The model also has some inherent assumptions that are less convincing in an economy with a large role for state owned enterprises. The modelling assumes that producers and consumers respond to prices, there are constant returns to scale and no excess profits. As a result, it is likely that factors don't shift as readily as assumed and the welfare gains would not be so forthcoming.

This study has not analysed non-tariff barriers and various other non-trade concerns, such as competition, investment, rules of origin, intellectual property, government procurement, and trade facilitation. Also, the trade diversion that might occur when either partner joins other FTAs has not been taken into account.

For the **Partial Equilibrium** outcomes, the aggregation bias is to an extent overcome owing to the disaggregated nature of the analysis (6 digit level). The results are nevertheless very sensitive to the accuracy of the underlying data. The parameter estimations for elasticities of demand and Armington elasticities are made through econometric modelling and subject to the same caveats mentioned above. As mentioned previously, the results are generated in a small segment of the economy (sector in this case) with the assumption that there are no economy-wide knock on effects from policy changes. Moreover, other dynamic impacts are ignored in this framework so that labour movement, investment and productivity changes are not incorporated into the model. Thus the results in the partial equilibrium model overstate the responsiveness that exports can have to a change in market access condition, but at the same time, understates the wider economic effect that can arise from changes in total factor productivity and other variables, which are intrinsically linked to the liberalisation process.

In spite of limitations, the CGE results can be considered fairly robust. The main result to emerge from the analysis is that Vietnam appears to benefit greatly from an FTA with the EU, even under a modest liberalisation scenario. The level of ambition is not so important, although it is important that textiles, clothing and footwear be included in tariff reductions by the EU. The analysis of the CGE and partial equilibrium models indicates that the industrial sector in Vietnam will experience the largest net gains from an FTA. The textile and clothing and footwear sectors are expected to significantly benefit from the FTA. These sectors show the greatest offensive interest for the EU, given the competitiveness of the sectors vis-à-vis other countries.

The analysis show that an FTA with the EU will generate gains for Vietnam and will contribute to economic growth. Nevertheless, these gains are overshot by other factors of economic growth growth (in output and income in the economy over the implementation period), which means that Vietnam's growth trajectory is secured with or without the FTA. This growth depends on the inflow of capital and on-going productivity improvement. It is important that capital is attracted, allocated appropriately and productively employed. An FTA with the EU should contribute to this.

The FTA should tackle behind the border constraints to bilateral trade flows …

The sector level analysis identifies a number of behind the border measures which constrain the full potential of liberalisation. Tackling these issues will be as important as the easier tariff negotiations. The two parties must at a minimum ensure that they cooperate better, improve transparency and predictability in their policies and establish an effective dispute resolution framework. In terms of rules of origin, it is desirable that the rules of origin on textiles be simplified and regional cumulation should be encouraged to ensure that the efforts for regional integration at the ASEAN level are not undermined by the agreement.

The study looks briefly at a number of FTA related areas, such as the treatment of SOEs, investment provisions, competition, government procurement, trade facilitation, SPS and TBT measures, Intellectual Property Rights, rules of origin and trade and sustainable development. Many of these areas need to be well articulated in order to ensure that the agreement can truly deliver opportunities for the private sector. We caution nevertheless on the inclusion of some provisions which are best addressed by non-trade policies, such as industrial policies, competition policies, labour policies or environmental policies.

Preferences are likely to be eroded for both the EU and Vietnam in the near future …

The FTA is expected to be signed soon and would likely enter into force the following year, owing to the ratification process of the 28 Member States of the EU. From an EU perspective, any agreement with Vietnam is likely to be followed by agreements with other ASEAN FTAs, such as with Thailand, Malaysia and others. This may lead to trade diversion as Vietnam's preferential access is eroded. Equally from the perspective of Vietnam, we also noted the impact that a Trans Pacific Partnership (TPP) agreement is likely to have on the FTA with the EU, if it is concluded more or less at the same time. We expect trade to be significantly diverted away from the EU towards the US, Japan, Australia and other TPP markets, depending on the level of openness agreed in the TPP. The impact on investment from a TPP, together with the expected surge in investment from the EU in the medium term, may lead to some overheating of the economy and possibly asset price inflation, which should be dealt with carefully through macroeconomic policies.

The FTA will need to generate closer cooperation between the EU and Vietnam in monitoring the implementation of commitments and outcomes…

The institutional framework which will emerge from the negotiated agreements will strengthen bilateral cooperation in a number of fields, such as protection of IPRs, investment promotion, mutual recognition of standards and possibly qualifications, trade facilitation measures, etc. The monitoring of the implementation of commitments by both parties will be necessary to ensure that the agreement will be applied in a transparent and non-distortionary manner. A dispute resolution mechanism will be desired to resolve any conflicts which may arise in the interpretation and application of the principles and provisions of the agreement.

The environmental condition will deteriorate in Vietnam with or without an FTA …

The FTA seems to have very limited impact on the environment. This is because Vietnam's growth will inherently be detrimental to CO_2 emissions and other polluting issues. These environmental issues are best addressed with environmental policies, not trade policies. The EU could support Vietnam in its efforts to mitigate externalities generated by its rapid economic transformation, but we believe that incorporating such provisions in a trade agreement would have very limited benefits and could be used as a means to introduce protectionist measures by the EU. Experience of using trade policies to target environmental goals, such as border taxes for carbon intensive goods, are often poorly targeted and distortionary. In a bilateral case, they merely encourage trade diversion. Nevertheless, it is understood that both parties will cover sustainability areas through a chapter on Trade and Sustainable Development.

Adjustment costs are expected to be quite low owing to Vietnam's dynamic growth…

The results highlight the constraints on increasing exports even when market access improves. An increase in exports requires an increase in output (as well as inputs), and this means that labour and capital, and perhaps land, must be moved from other sectors into those sectors experiencing higher growth. Even with flexible factors of production, the degree of trade diversion from one sector to another is significant. This can be seen in both the CGE and Partial Equilibrium models.

The FTA also seems to have a limited, though positive, impact on reducing poverty levels in Vietnam. Vietnam's achievements in poverty alleviation have been extolled by the development community, and this performance is forecasted to continue with or without the FTA. The FTA does nevertheless present some additional reduction in the poverty headcount. The level of inequality will however rise as a consequence of the FTA, such that mitigating measures should be adopted to address this outcome.

Fostering Sustainable development in the FTA…

The Sustainable Development Chapter could incorporate the following elements in order to agree on principles of sustainable development and promote social equity:

- Embodiment of core labour standards and consistence with LO Declaration on Fundamental Principles and Rights of Work, 1998 and decent work
- Re-affirm common commitments to multilateral environmental conventions

- Adopt the IISD Model International Agreement on Investment for Sustainable Development, which includes provisions against corruption, inherent rights of states, minimum labour, environmental and human rights standards[201]
- Co-operation in the sphere of multilateral environmental challenges, including mitigation and adaptation strategies
- Liberalization of trade in environmental goods and services
- Support the development and diffusion of clean technologies, though IPR protection and or targeted investment promotion

Despite the positive expected outcomes from an FTA, the Agreement must be carefully drafted and safeguards need to be crafted by incorporating some flexibility…

Since the benefits from an FTA come in a narrow range of sectors for Vietnam, it is important that these not be exempt, and that tariff reductions are not replaced with non-tariff barriers. The issue for Vietnam is what to trade-off for giving up some of its defensive interests such as automotive sector and processed agriculture. The EU has demanded better access fro goods, services, investment and government procurement and tighter intellectual property rules. Vietnam should relinquish its tariff protection, and press for better access for the movement of natural persons. This would allow more Vietnamese workers to be employed on a temporary basis in Europe. This would benefit both Vietnam and the EU.

The agreement should also include safeguard measures, in line with the WTO Agreement on Safeguards and Agreement on Special safeguards in Agriculture in order to be able to protect its industries when these are adversely affected by unforeseen import surges, which and is proved to cause injury to its industries.

In terms of timing, some FTA agreements contain a phase out period for tariffs of ten years or more. This merely delays the benefits without reducing the costs of adjustment. In the case of the EU-Vietnam FTA, both parties have agreed to a seven-year phase in period, according to the agreed approach between the EU and Vietnam[202].

Finally, free trade agreements are a second best to multilateral agreements[203], as they can lead to a decrease in national income in some circumstances. As an example, this can come about because tariff revenue is forgone without a compensating reduction in consumer prices. This happens if trade is diverted from low cost suppliers to high cost members. In the absence of multilateral trade policy, a free trade agreement may be the only available option. Because the gains or losses are an empirical question, it is useful to undertake an economic analysis prior to negotiating potential agreements. The analysis undertaken here suggests that the EU-Vietnam FTA will be very beneficial for the Vietnamese economy. There are some concerns about an increased trade deficit, a loss of tariff revenue and the cost of moving resources from declining sectors, but the research findings suggest that these concerns are manageable and would be outweighed by the potential gains arising from the FTA.

[201] http://www.iisd.org/pdf/2005/investment_model_int_handbook.pdf
[202] "Agreed approach between the EU and Vietnam to a Free Trade Agreement, Final, 23 March 2012", Mimeo
[203] There is no reason to assume that fulfilling partially some of the conditions towards free trade, that Pareto optimality may be reached

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Annex 1. Tables from CGE

Table A1 Sectoral aggregation

No.	Label	Description
1	RCE	Rice
2	VFN	Vegetables, fruit, nuts
3	SUG	Sugar
4	CRPS	Other crops
5	FRS	Forestry
6	RES	Resources
7	FSH	Fishing
8	BV	Beef and veal
9	PP	Pork and poultry
10	DRY	Dairy products
11	OFD	Food products nec
12	B_T	Beverages & tobacco
13	TXT	Textiles
14	WAP	Wearing apparel
15	LEA	Leather
16	ELE	Electronics
17	P_C	Petroleum and coal products
18	MVT	Motor vehicle & transport equipment
19	LUM	Wood products
20	PPP	Paper products, publishing
21	CRP	Chemical, rubber & plastics
22	OME	Machinery and equipment nec
23	NMM	Mineral products nec
24	MAN	Manufactures
25	TSP	Transport
26	CMN	Communication
27	TRD	Retail & wholesale trade
28	FI	Finance & insurance
29	BSV	Business services
30	SVC	Other services

Table A2 Regional aggregation

No	Label	Description
1	AUS	Australia
2	NZL	New Zealand
3	JPN	Japan
4	MYS	Malaysia
5	SGP	Singapore
6	VNM	Vietnam
7	CAN	Canada
8	US	United States of America
9	MEX	Mexico
10	CHL	Chile
11	PER	Peru
12	CHINA	China
13	KOR	Korea
14	IND	India
15	XAS	Rest of ASEAN
16	LAM	Latin America
17	EU28	European Union
18	ODV	Other developed
19	AFR	Africa
20	ROW	Rest of the World

Appendix table A3 Vietnam's tariff cut exemptions

Chapter	*Product description*	*Sensitive*	*Highly sensitive*	*Exempt Modest*	*Exempt Ambitious*
1	Live animals				
2	Meat and edible meat offal			X	X
3	Fish and crustaceans, molluscs and				
4	Dairy produce; birds' eggs; …			X	X
5	Products of animal origin, nec				
6	Live trees and other plants; bulbs, …				
7	Edible vegetables and certain roots …				
8	Edible fruit and nuts; peel of citrus …			X	X
9	Coffee, tea, maté and spices	X			
10	Cereals	X			
11	Products of the milling industry; …				
12	Oil seeds and oleaginous fruits; …		X	X	
13	Lac; gums, resins and other veg …		X	X	
14	Vegetable plaiting materials; …				
15	Animal or vegetable fats and oils …				
16	Preparations of meat, of fish …	X		X	
17	Sugars and sugar confectionery	X	X	X	X
18	Cocoa and cocoa preparations				
19	Preparations of cereals, flour, starch				
20	Preparations of vegetables, fruit, nuts				
21	Miscellaneous edible preparations				
22	Beverages, spirits and vinegar	X		X	
23	Residues and waste from the food industries; …				
24	Tobacco and manuf. tobacco …		X	X	X
25	Salt; sulphur; earths and stone; …	X	X	X	
26	Ores, slag and ash				
27	Mineral fuels, mineral oils …	X	X	X	
28	Inorganic chemicals; organic …	X	X		
29	Organic chemicals		X		
30	Pharmaceutical products				
31	Fertilisers	X	X		
32	Tanning or dyeing extracts; tannins …		X		
33	Essential oils and resinoids; …				
34	Soap, organic surface-active agents, …				
35	Albuminoidal substances; modified …				
36	Explosives; pyrotechnic products; …		X	X	
37	Photographic or cinematographic …				
38	Miscellaneous chemical products	X			
39	Plastics and articles thereof	X	X		
40	Rubber and articles thereof	X	X	X	
41	Raw hides and skins …				

42	Articles of leather; saddlery and …		X		
43	Furskins and artificial fur; …		X		
44	Wood and articles of wood; …				
45	Cork and articles of cork				
46	Manufactures of straw, of esparto …				
47	Pulp of wood or of other fibrous …				
48	Paper and paperboard; articles of …	X	X		
49	Printed books, newspapers, pictures				
50	Silk				
51	Wool, fine or coarse animal hair; …			X	
52	Cotton	X	X	X	
53	Other vegetable textile fibres; …				
54	Man-made filaments; strip …	X	X	X	
55	Man-made staple fibres	X	X	X	
56	Wadding, felt and nonwovens; …	X		X	
57	Carpets and other textile floor …			X	
58	Special woven fabrics; tufted textile …	X		X	
59	Impregnated, coated, covered …	X	X	X	
60	Knitted or crocheted fabrics	X		X	
61	Articles of apparel and clothing …	X			
62	Articles of apparel and clothing …	X			
63	Other made-up textile articles; sets; …			X	
64	Footwear, gaiters and the like; …	X			
65	Headgear and parts thereof				
66	Umbrellas, sun umbrellas, walking …				
67	Prepared feathers and down and …				
68	Articles of stone, plaster, cement, …				
69	Ceramic products	X			
70	Glass and glassware	X	X	X	
71	Natural or cultured pearls, precious …		X		
72	Iron and steel	X	X	X	X
73	Articles of iron or steel	X	X		
74	Copper and articles thereof		X		
75	Nickel and articles thereof				
76	Aluminium and articles thereof	X			
78	Lead and articles thereof				
79	Zinc and articles thereof				
80	Tin and articles thereof				
81	Other base metals; cermets; …				
82	Tools, implements, cutlery, spoons …	X	X		
83	Miscellaneous articles of base metal	X	X		
84	Nuclear reactors, boilers, machinery…	X	X	X	X
85	Electrical machinery and equipment	X	X		
86	Railway or tramway locomotives, …				
87	Vehicles other than railway …	X	X	X	X
88	Aircraft, spacecraft, and parts thereof				

89	Ships, boats and floating structures		X	X
90	Optical, photographic, …			
91	Clocks and watches and parts thereof			
92	Musical instruments; …			
93	Arms and ammunition; …		X	X
94	Furniture; bedding, mattresses, …	X	X	
95	Toys, games and sports requisites; …	X		
96	Miscellaneous manufactured articles	X	X	
97	Works of art, collectors' pieces …			

Tariffs are selected at the 6 or 8 digit levels. This table indicates the chapters that contain some exemptions at the 6 digit level. Note "…" denotes the product description is incomplete. A full description can be found at WCO (2014).

Appendix table A4 Growth in output in Vietnam by sector by 2020

	Base	Modest	Ambitious
	per cent	per cent	per cent
Rice	60	59	58
Vegetables	42	42	42
Sugar	59	59	59
Other crops	7	5	5
Forestry	119	112	111
Resources	123	121	121
Fishing	82	84	83
Beef and veal	57	59	59
Pork and poultry	56	57	57
Dairy products	84	82	82
Food products nec	60	60	60
Bev. & tobacco	57	59	57
Textiles	132	144	149
Wearing apparel	160	187	206
Leather	215	251	248
Electronics	198	185	184
Petroleum	130	128	128
Motor vehicle	106	103	102
Wood products	74	65	64
Paper products	102	98	98
Chemicals	122	118	117
Machinery	92	82	81
Mineral prods	107	107	107
Manufactures	115	107	107
Transport	85	88	88
Communication	117	117	117
Retail	121	124	125
Finance	125	121	120
Business	115	112	111
Services	120	123	123

Source: GTAP simulations. Estimates are relative to 2007 base.

Appendix table A5 Growth in exports in Vietnam by sector by 2020

	Base	Modest	Ambitious
	per cent	per cent	per cent
Rice	108	103	102
Vegetables	64	61	61
Sugar	81	70	69
Other crops	6	4	4
Forestry	392	386	385
Resources	108	107	106
Fishing	76	73	73
Beef and veal	-56	-59	-60
Pork and poultry	-16	-20	-20
Dairy products	145	130	128
Food products nec	44	47	46
Bev. & tobacco	35	35	37
Textiles	111	124	127
Wearing apparel	108	132	148
Leather	156	189	187
Electronics	179	168	166
Petroleum	276	263	262
Motor vehicle	51	47	48
Wood products	46	40	39
Paper products	88	80	79
Chemicals	116	107	106
Machinery	57	49	49
Mineral prods	58	53	53
Manufactures	75	67	66
Transport	32	37	37
Communication	55	65	63
Retail	37	38	37
Finance	49	49	47
Business	49	47	46
Services	62	58	57

Source: GTAP simulations. Estimates are relative to 2007 base.

Appendix table A6 Growth in imports in Vietnam by sector by 2020

	Base	Modest	Ambitious
	per cent	per cent	per cent
Rice	152	162	163
Vegetables	118	125	126
Sugar	123	134	136
Other crops	75	78	79
Forestry	49	45	44
Resources	97	102	103
Fishing	16	20	20
Beef and veal	138	143	143
Pork and poultry	159	169	171
Dairy products	89	95	96
Food products nec	61	69	70
Bev. & tobacco	80	84	91
Textiles	141	163	172
Wearing apparel	182	208	219
Leather	152	186	185
Electronics	98	99	100
Petroleum	84	86	86
Motor vehicle	84	89	90
Wood products	82	84	85
Paper products	82	86	87
Chemicals	89	93	94
Machinery	80	83	83
Mineral prods	112	122	123
Manufactures	83	84	84
Transport	89	94	94
Communication	62	73	74
Retail	90	99	100
Finance	121	129	131
Business	91	99	100
Services	70	79	81

Source: GTAP simulations. Estimates are relative to 2007 base.

Annex 2. EU-Vietnam Trade Potential and Key Trade Indicators

(Highest 500 Exported products from Vietnam to the EU)
US$ billions or Per centages using mirror statistics

HS Codes	Product Description	Untapped Trade Potential (2012)	2012 Trade Flows			Trade Indicators						
			VN Exports to EU in 2012	VN Exports to the World	EU Imports from World	Annual growth in value between 2008-12 (per cent, p.a.)	Annual growth in quantity between 2008-12 (per cent, p.a.)	Annual growth of world imports between 2008-2012 (per cent, p.a.)	Share in world exports (per cent)	Ranking in world exports	Average distance of importing countries (km)	Concentra tion of importing countries
TOTAL	All products	183.1	26.2	124.2	5,739	19.0		6.0	0.7	35	6,784	0.08
'8517	Electric app for line telephony, incl curr line system	7.5	7.4	14.9	107	138.0		10.0	3.7	6	7,123	0.06
'8471	Automatic data processing machines; optical reader, etc.	0.8	1.1	2.0	100	92.0		9.0	0.6	22	8,153	0.06
'0901	Coffee	1.8	1.7	3.5	17	14.0	10.0	15.0	10.4	2	8,876	0.09
'6403	Footwear, upper of leather	2.5	2.1	4.6	23	5.0	-2.0	3.0	8.8	3	9,897	0.10
'6404	Footwear, upper of textile mat	1.6	1.1	2.7	8	20.0		17.0	14.4	2	10,125	0.06
'6402	Footwear nes, outer soles & uppers of rubber or plast.	1.8	1.0	2.7	9	9.0	-3.0	9.0	9.2	2	10,385	0.12
'8443	Printing machinery; machines for uses ancillary to print.	2.0	0.7	2.7	38	19.0			2.4	8	7,813	0.09
'9403	Other furniture and parts thereof	3.0	0.6	3.6	26	8.0		1.0	4.6	4	11,266	0.37
'4202	Trunks, suit-cases, camera cases, handbags etc,	1.1	0.6	1.6	17	19.0		9.0	2.9	5	9,402	0.14
'0304	Fish fillets and pieces, fresh, chilled or frozen	1.4	0.6	2.0	9	7.0	3.0	5.0	10.1	2	9,423	0.07
'6204	Women's suits, jackets, dresses skirts etc&shorts	1.6	0.4	2.0	22	9.0		1.0	3.8	9	10,682	0.29
'6203	Men's suits, jackets, trousers etc & shorts	1.3	0.4	1.7	18	16.0		3.0	4.0	7	9,096	0.18
'3923	Plastic packing goods or closures stoppers, lids, caps,	0.3	0.3	0.6	19	12.0	29.0	4.0	1.2	22	7,798	0.10
'9401	Seat (o/t dentists' & barbers' chairs, etc), &part thereof	0.9	0.4	1.3	24	8.0		6.0	2.0	9	9,841	0.18
'0801	Brazil nuts, cashew nuts & coconuts	0.9	0.3	1.2	1	12.0	4.0	18.0	15.0	2	9,476	0.14
'6202	Women's overcoats, jackets etc o/t those of hd 62.04	0.7	0.3	1.0	7	17.0	19.0	5.0	7.2	3	9,032	0.12
'0904	Pepper, peppers and capsicum	0.3	0.3	0.6	1	26.0	3.0	15.0	18.3	2	8,427	0.06
'6201	Men's overcoats, jackets etc o/t those of hd 62.03	0.7	0.3	1.0	5	18.0	14.0	8.0	8.4	2	8,250	0.13

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'0306	Crustaceans	1.2	0.2	1.4	6	5.0	-2.0	6.0	7.1	5	7,652	0.16
'4001	Natural rubber,balata,gutta-percha etc	1.7	0.2	2.0	5	40.0	22.0	21.0	5.5	5	4,017	0.17
'7318	Iron & steel screws,bolts,nuts,coach-screws, etc	0.1	0.2	0.2	13	29.0	22.0	7.0	0.7	25	8,830	0.11
'6205	Men's shirts	0.5	0.2	0.7	6	14.0	9.0	5.0	4.7	6	9,648	0.17
'3926	Article of plastic nes.	0.3	0.2	0.5	23	17.0	13.0	6.0	0.8	28	7,286	0.10
'1605	Crustaceans & molluscs, prepared/preserved	0.6	0.2	0.7	2	12.0	8.0	7.0	7.1	3	7,828	0.17
'6210	Garment made up of fabric of heading no 56.02,56.03,59.03,59.06/59.07	0.5	0.2	0.6	4	21.0	15.0	8.0	6.0	3	8,913	0.16
'6110	Jerseys, pullovers, cardigans, etc, knitted or crocheted	1.8	0.2	2.0	19	8.0	37.0	2.0	4.1	6	11,921	0.55
'8470	Calculatg mach;accountg mach,cas,ticket-issuing	0.1	0.1	0.2	1	614.0		-1.0	5.0	6	8,542	0.09
'6307	Made up articles nes, including dress patterns	0.1	0.1	0.3	4	26.0	29.0	7.0	2.5	7	8,585	0.07
'8473	Parts&acces of computers & office machines	0.5	0.1	0.7	29	4.0	17.0	-3.0	0.5	18	6,157	0.17
'6109	T-shirts, singlets and other vests, knitted or crocheted	0.8	0.2	0.9	17	21.0	24.0	4.0	2.4	11	8,613	0.19
'8501	Electric motors and generators (excl generating sets)	1.0	0.1	1.1	15	37.0		7.0	2.3	11	5,649	0.14
'6104	Women's suits,dresses,skirt etc&short, knit/croch	1.0	0.1	1.1	9	23.0		17.0	2.9	3	12,099	0.55
'6406	Part of footwear;romovable in-soles,heel cushion	0.2	0.2	0.3	3	27.0	20.0	6.0	4.1	5	7,313	0.13
'0307	Moluscs	0.3	0.1	0.5	4	9.0		10.0	4.4	6	5,456	0.17
'9503	Other toys;scale model (puzzles of all kinds, stuffed toy	0.3	0.1	0.4	14	20.0	8.0	5.0	1.2	15	9,391	0.17
'8507	Electric accumulator	0.4	0.1	0.4	9	46.0	12.0	4.0	1.3	15	7,411	0.10
'9018	Electro-medical app. (electro-cardiographs, infra-red	0.3	0.1	0.3	38	37.0	14.0	6.0	0.3	31	6,026	0.27
'8215	Spoons, forks, butter-knives and similar kitchen ware	0.1	0.1	0.1	1	7.0	2.0	3.0	5.4	2	10,340	0.15
'8452	Sewing machine (o/t hd no 84.04);	0.2	0.1	0.2	1	41.0	41.0	7.0	5.2	6	8,799	0.14
'1604	Prepared/preserved fish & caviar	0.3	0.1	0.4	7	14.0	6.0	7.0	2.2	10	7,726	0.16
'6206	Women's blouses & shirts	0.2	0.1	0.3	6	17.0	20.0	3.0	2.6	10	10,077	0.23
'8518	Microphones&stand;loudspeaker;headphone	1.0	0.1	1.1	8	31.0		8.0	3.4	6	4,680	0.24
'6211	Track suits, ski suits and swimwear; other garments	0.6	0.1	0.6	3	14.0	15.0	4.0	6.3	4	6,876	0.26
'8714	Parts and accessories of motorcycles & cycles	0.1	0.1	0.2	7	9.0	-3.0	5.0	1.0	19	5,496	0.08

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'6105	Men's shirts, knitted or crocheted	0.5	0.1	0.6	3	17.0	13.0	5.0	6.6	4	11,185	0.35
'7113	Articles of jewellery&parts thereof	0.2	0.1	0.2	12	27.0	11.0	19.0	0.2	21	7,833	0.15
'4602	Basketwork, wickerwork & other articles	0.1	0.1	0.2	1	2.0	-4.0	1.0	8.6	2	9,812	0.12
'8708	Parts & access of motor vehicles	0.5	0.1	0.6	134	24.0	26.0	8.0	0.2	37	6,556	0.22
'0303	Fish, frozen, whole	0.2	0.1	0.2	4	18.0	16.0	9.0	0.9	23	8,063	0.07
'8536	Electrical app for switchg (ex fuse,switche,etc)	0.4	0.0	0.5	28	43.0	23.0	6.0	0.5	29	4,575	0.14
'7102	Diamonds, not mounted or set	0.1	0.0	0.1	29	35.0		11.0	0.1	28	12,040	0.54
'6212	Brassieres,girdles,corsets,braces,suspenders etc&parts	0.2	0.1	0.2	4	10.0	13.0	4.0	2.0	11	6,760	0.22
'9506	Articles&equip for gymnastics, athletics, or sports	0.2	0.0	0.2	7	19.0		3.0	1.0	16	10,347	0.19
'6913	Statuettes and other ornamental ceramic articles	0.1	0.1	0.1	1	-9.0	-19.0	1.0	2.7	3	11,031	0.19
'7312	Iron & steel strandd wire,ropes,cables, etc,	0.1	0.0	0.1	2	75.0	47.0	3.0	1.7	17	8,512	0.26
'7219	Flat-rolled products of stainless steel width> 600mm	0.1	0.0	0.1	13	40.0	41.0	2.0	0.4	25	6,243	0.10
'5503	Synthetic staple fibres, not carded	0.1	0.0	0.1	2	20.0	11.0	9.0	1.5	13	8,645	0.17
'6405	Footwear, nes	0.1	0.0	0.1	1	2.0		8.0	0.9	12	7,264	0.07
'9021	Orthopaedic appliance (crutche/surgical belts & trusse)	0.2	0.0	0.2	24	25.0		7.0	0.4	21	10,409	0.25
'8711	Motorcycles, side-cars	0.1	0.0	0.1	6	53.0		-1.0	0.7	18	2,971	0.23
'7202	Ferro-alloys	0.2	0.0	0.3	11	111.0	131.0	-3.0	0.9	25	4,710	0.11
'8544	Insulated wire/cable	2.2	0.0	2.2	36	22.0	11.0	7.0	2.1	15	5,718	0.40
'1006	Rice	2.5	0.0	2.6	3	7.0	14.0	5.0	11.7	3	3,302	0.16
'4421	Articles of wood, nes	0.1	0.0	0.1	3	10.0	12.0	2.0	1.9	11	7,001	0.14
'8508	Electro-mechanical tool for working in the hand,with self-contd elec-m	0.1	0.0	0.1	3	428.0		5.0	1.7	11	7,720	0.23
'8481	Tap,cock,valve for pipe,tank for the like,incl pressure reducing valve	0.4	0.0	0.4	25	24.0	19.0	6.0	0.5	29	5,006	0.58
'1902	Pasta & couscous	0.1	0.0	0.1	3	5.0	3.0	8.0	1.2	15	7,570	0.07
'8529	Part suitable for use solely/princ with televisions, recpt app	2.2	0.0	2.2	17	78.0	7.0	1.0	3.4	7	1,517	0.71
'8414	Air, vacuum pumps; hoods incorp a fan	0.1	0.0	0.2	21	11.0		6.0	0.3	34	4,492	0.10

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'6112	Track suits, ski suits and swimwear, knitted or crocheted	0.1	0.1	0.1	2	16.0	29.0	1.0	3.4	6	10,832	0.20
'5902	Tire cord fab of high tenac yarn of nylon,or polyamide,polyester, etc	0.3	0.0	0.3	1	112.0	89.0	4.0	10.0	3	8,950	0.37
'9613	Cigarette lighters & other lighters	0.0	0.0	0.0	1		1.0	3.0	1.9	10	9,141	0.10
'6802	Workd monumental/building stone&art;mosaic cube,granules	0.0	0.0	0.1	2	9.0	7.0	1.0	0.6	19	7,619	0.16
'6108	Women's slips,panties,pyjamas, bathrobes etc, knitted/crocheted	0.3	0.0	0.4	4	10.0	12.0	1.0	3.4	6	11,345	0.46
'6914	Ceramic articles, nes	0.0	0.0	0.1	0	-8.0	-16.0	2.0	3.5	5	8,374	0.07
'6810	Articles of cement, concrete or artif. stone	0.1	0.0	0.1	2	27.0		3.0	1.5	18	9,574	0.12
'6102	Women's overcoat,cape, etc,knitted/crochetd,o/t of hd 61.04	0.2	0.0	0.3	1	9.0		5.0	10.5	2	11,482	0.39
'4203	Articles of apparel&clothing access, of leather or composition leather	0.1	0.0	0.1	4	10.0		1.0	1.0	16	10,371	0.21
'3406	Candles, tapers & the like	0.2	0.0	0.2	2	5.0	3.0	1.0	6.9	5	12,123	0.53
'2104	Soups, broths & preparations thereof	0.0	0.0	0.0	1	70.0	69.0	3.0	0.8	29	9,050	0.30
'8302	Base metal mountings, fttgs & sim art suitable for furn, doors, etc	0.0	0.0	0.1	11	41.0	23.0	4.0	0.2	33	8,902	0.09
'7323	Iron & steel tables & household articles	0.0	0.0	0.1	3	1.0	1.0	4.0	0.7	17	8,428	0.07
'6106	Women's blouses & shirts, knitted or crocheted	0.3	0.0	0.3	3	4.0	3.0	-2.0	5.3	6	10,749	0.35
'4015	Articles of apparel&clothing accessories of vulcanised rubber	0.0	0.0	0.1	2	41.0	33.0	12.0	0.8	12	8,117	0.11
'6305	Sacks and bags of a kind used for the packing of goods	0.2	0.0	0.2	1	14.0	13.0	9.0	4.9	4	6,853	0.17
'8504	Electric transformer,static converter (for example rectifiers)	0.5	0.0	0.6	23	23.0		6.0	0.6	32	4,722	0.15
'4113	Leather further prepared after tanning/crusting ""incl. parcht-dressed leather""	0.0	0.0	0.0	1	67.0	67.0	6.0	1.1	14	6,188	0.25
'4011	New pneumatic tires, of rubber	0.3	0.0	0.3	32	33.0		11.0	0.4	34	10,147	0.12

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'1905	Bread, biscuits, wafers, cakes and pastries	0.1	0.0	0.1	14	16.0	11.0	6.0	0.4	35	7,664	0.10
'8528	Television receivers (incl video monitors & video projectors)	0.2	0.0	0.2	34	40.0		-3.0	0.2	34	5,955	0.17
'4418	Builders' joinery & carpentry of wood	0.0	0.0	0.0	5	20.0	30.0	1.0	0.3	41	7,824	0.08
'6116	Gloves, mittens and mitts, knitted or crocheted	0.1	0.0	0.1	1	21.0	17.0	13.0	2.8	8	7,398	0.16
'7117	Imitation jewellery	0.0	0.0	0.0	3	57.0		7.0	0.7	21	9,901	0.18
'9001	Optical fibre, cables; sheets&plate of polarising mat	0.1	0.0	0.1	6	51.0		7.0	0.4	25	5,082	0.16
'4016	Articles of vulcanised rubber o/t hard rubber, nes	0.1	0.0	0.1	9	22.0	13.0	8.0	0.7	30	6,918	0.12
'6103	Men's suits,jackets,trousers etc&shorts, knit/croch	0.1	0.0	0.2	2	16.0		15.0	1.1	11	9,816	0.26
'4302	Tanned or dressed furskins & pieces, unassembled or assembled	0.0	0.0	0.0	1	29.0		9.0	0.9	19	9,461	0.18
'7210	Flat-rolled prod of iron or non-al/s wd>/=600mm,clad, plated or coated	0.3	0.0	0.3	19	31.0	26.0	4.0	0.7	24	2,110	0.33
'3924	Tableware, kitchenware, toiletery articles, of plastic	0.1	0.0	0.1	5	19.0	25.0	7.0	0.8	24	7,238	0.08
'6216	Gloves, mittens and mitts	0.1	0.0	0.1	0	24.0	11.0	9.0	9.3	2	11,290	0.29
'9999	Commodities not elsewhere specified	0.5	0.0	0.6	218	22.0		2.0	0.1	43		
'6306	Tents&camping goods, tarpaulins, sails for boats, etc	0.0	0.0	0.1	1	10.0	3.0	5.0	1.4	13	8,684	0.08
'2825	Hydrazine & hydroxylamine & their inorganic salts; other inorganic bas	0.0	0.0	0.0	1	158.0	37.0	7.0	0.5	27	7,988	0.48
'9404	Mattress supports; mattresses,quilts, etc	0.1	0.0	0.1	5	13.0	14.0	6.0	0.6	21	5,780	0.28
'9405	Lamps & lighting fittings nes; signs, nameplates illuminated	0.1	0.0	0.1	13	19.0		7.0	0.2	36	7,776	0.13
'8712	Bicycles & other cycles, not motorised	0.0	0.0	0.0	4	20.0	6.0	6.0	0.3	29	9,709	0.09
'6505	Hats&o headgear, knit/chroch from lace	0.2	0.0	0.2	1	7.0	-1.0	7.0	5.1	2	10,883	0.32
'6209	Babies' garments and clothing accessories	0.1	0.0	0.1	1	3.0	-2.0	2.0	3.7	7	11,427	0.36
'7326	Articles of iron or steel nes	0.1	0.0	0.2	16	24.0	12.0	4.0	0.4	35	8,886	0.18
'8503	Parts suitable for use solely/princ with machines of hd no 85.01/85.02	0.1	0.0	0.1	8	20.0	7.0	2.0	0.3	34	4,411	0.15

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'3004	Medicament mixtures (not 3002, 3005, 3006), put in dosage	0.0	0.0	0.0	158	17.0	-20.0	4.0		78	6,310	0.10
'6107	Men's underpants,pyjamas,bathrobes etc,knit/croch	0.3	0.0	0.4	2	62.0	51.0	6.0	6.7	2	10,977	0.50
'6101	Men's overcoats,capes,etc, knitted/crochetd,o/t of hd 61.03	0.1	0.0	0.2	1	11.0	6.0	7.0	8.9	2	11,344	0.37
'8543	Electrical mach&app having individual function, nes	0.1	0.0	0.2	8	87.0	29.0	12.0	0.4	27	4,329	0.49
'0810	Fruits nes, fresh	0.5	0.0	0.5	4	33.0	23.0	12.0	5.1	8	2,740	0.66
'4106	Goat/kid skin leather, other than leather of hd no 41.08/41.09	0.0	0.0	0.0	0	14.0	-8.0	11.0	1.8	12	8,268	0.28
'3824	Chemical industry products and residuals nes	0.1	0.0	0.1	13	38.0	44.0	10.0	0.3	30	4,146	0.26
'0902	Tea	0.1	0.0	0.1	1	10.0	10.0	7.0	2.1	9	5,395	0.12
'9603	Brooms/brushe (tooth, toilet, painting);squeegee	0.1	0.0	0.1	3	34.0	30.0	6.0	1.4	15	6,120	0.05
'6801	Setts, curbstones and flagstones, of natural stone	0.0	0.0	0.0	1	5.0	1.0	8.0	4.6	8	7,259	0.20
'8211	Knive with cut blades (o/t knive of hd 82.08)	0.0	0.0	0.0	1	6.0	7.0	6.0	0.8	16	9,478	0.14
'2106	Food preparations, nes	0.0	0.0	0.1	11	37.0	30.0	6.0	0.2	51	4,374	0.09
'7411	Copper tubes and pipes	0.1	0.0	0.1	3	583.0		1.0	1.2	17	10,605	0.31
'2804	Hydrogen, rare gases & other non-metals	0.1	0.0	0.2	3	36.0	42.0		1.3	13	4,124	0.21
'9002	Lenses, prisms, mirrors & other optical elements,of any material,mount	0.1	0.0	0.1	3	12.0	-28.0	12.0	0.8	13	4,386	0.18
'6303	Curtains, drapes & interior blinds	0.0	0.0	0.0	2	31.0	35.0	4.0	1.0	17	5,832	0.29
'3920	Other plates, sheets, film, foil, tape, strip of plastics etc.	0.2	0.0	0.2	19	41.0	41.0	8.0	0.3	41	4,259	0.11
'8804	Parachutes and parts and accessories thereof	0.0	0.0	0.0	0	12.0	9.0	16.0	5.2	5	9,665	0.16
'8482	Ball or roller bearings	0.1	0.0	0.1	13	49.0	10.0	6.0	0.2	35	5,369	0.23
'6304	Furnishing articles nes, excluding 94.04	0.1	0.0	0.1	1	5.0	10.0	3.0	1.8	7	7,493	0.12
'4201	Saddlery and harness for any animal, of any material	0.0	0.0	0.0	1	-2.0	-1.0	4.0	2.2	10	9,640	0.11
'7321	Iron & steel stoves,ranges,barbecues &sim non-elec dom app.	0.0	0.0	0.0	3	11.0	3.0	3.0	0.4	35	5,483	0.28
'6004	Knitted or crocheted fabrics, width > 30 cm, cont by	0.1	0.0	0.1	1	30.0	23.0	8.0	1.3	12	3,148	0.22

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	weight >= 5 per cent of elastomer											
'5004	Silk yarn (other than yarn spun from silk waste)	0.0	0.0	0.0	0	12.0	-2.0	4.0	11.6	3	5,375	0.31
'4819	Packing containers, of paper, paperboard, cellulose wadding, webs	0.1	0.0	0.1	10	31.0	14.0	4.0	0.5	30	5,746	0.09
'6506	Headgear, nes	0.0	0.0	0.0	1	20.0	-2.0	4.0	1.2	15	10,094	0.15
'4103	Raw hides&skins nes	0.0	0.0	0.0	0	-5.0	8.0	5.0	2.1	11	8,535	0.26
'8525	Television camera, transmissn app for radio-telephony	1.8	0.0	1.9	15	27.0		3.0	3.5	9	2,678	0.88
'7308	Structures (rods,angle, plates) of iron & steel nes	0.2	0.1	0.3	13	6.0	6.0	1.0	0.7	32	8,359	0.11
'8512	Electrical lighting/signalling equip,windscreen wipers,defrosters,etc	0.1	0.0	0.1	9	38.0		10.0	0.3	31	6,734	0.21
'4420	Wood marquetry & inlaid wood; caskets & cases or cutlery of wood	0.0	0.0	0.0	1		-8.0		2.9	7	9,690	0.19
'8537	Board & panels, equipped with two/more switches, fuses	0.1	0.0	0.1	12	35.0	4.0	11.0	0.2	43	8,260	0.26
'2009	Fruit & vegetable juices, unfermented	0.0	0.0	0.0	9	-4.0	-21.0	3.0	0.1	56	7,309	0.16
'4419	Tableware and kitchenware of wood	0.0	0.0	0.0	0	-2.0	-13.0	3.0	5.3	2	7,112	0.13
'3921	Plates, sheets, film, foil and strip, of plastics, nes	0.1	0.0	0.1	9	22.0	27.0	6.0	0.3	40	5,553	0.07
'6908	Glazed ceram flags&paving,hearth/wall tiles; mosaic cube	0.1	0.0	0.1	3	44.0	43.0	2.0	0.7	18	2,627	0.18
'5402	Synthetic filam yarn, not put up	0.4	0.0	0.4	5	44.0	32.0	7.0	2.5	14	4,645	0.17
'5205	Cotton yarn (not sewing thread) 85 per cent or more cotton, not retail	0.7	0.0	0.7	2	50.0	32.0	10.0	5.1	6	2,635	0.67
'8409	Part for use solely/principally with the motor engines	0.1	0.0	0.1	29	39.0	33.0	6.0	0.2	36	3,115	0.21
'6111	Babies' garments, knitted or crocheted	0.1	0.0	0.1	3	11.0	8.0	3.0	1.7	10	11,539	0.50
'7307	Tube or pipe fittings, of iron or steel	0.1	0.0	0.1	6	17.0	8.0	3.0	0.4	33	7,369	0.26
'6215	Ties, bow ties and cravats	0.0	0.0	0.0	0	-10.0	-5.0	-3.0	1.0	11	9,517	0.63
'4811	Paper, paperboard, cellulose wadding & webs of cellulose fibers, coate	0.1	0.0	0.1	7	28.0	20.0	3.0	0.3	36	4,105	0.22
'2008	Preserved fruits nes	0.1	0.0	0.1	5	1.0	-4.0	7.0	0.6	24	8,661	0.13

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'6912	Ceramic tableware,kitchenware, othar than porcelain/china	0.0	0.0	0.0	1	-3.0	5.0	3.0	1.3	20	9,453	0.11
'8538	Part suitable for use solely/princ with boards, panels, fuses, switche	0.1	0.0	0.1	11	22.0	13.0	6.0	0.4	29	3,479	0.19
'0908	Nutmeg, mace and cardamons	0.0	0.0	0.0	0	29.0	5.0	16.0	1.1	11	9,648	0.19
'8480	Moulding boxe for met foundry;mould base; etc	0.0	0.0	0.0	4	29.0	32.0	5.0	0.2	33	3,705	0.14
'6907	Unglazed ceram flags&paving,hearth/wall tiles; mosaic cube	0.1	0.0	0.1	1	16.0	10.0	7.0	1.5	7	2,774	0.27
'2101	Extracts essences & concentrates of coffee and tea	0.1	0.0	0.1	3	69.0	57.0	9.0	0.9	26	4,542	0.09
'8306	Bells/gongs, ornaments; picture frames, mirrors of base metal	0.0	0.0	0.0	1	-7.0	-6.0	2.0	0.7	14	9,979	0.12
'6302	Bed, table, toilet and kitchen linens	0.2	0.0	0.2	6	13.0		4.0	1.0	14	4,500	0.49
'6207	Men's singlets, briefs, pyjamas, bathrobes etc	0.0	0.0	0.1	0	14.0	1.0	2.0	3.9	6	11,361	0.43
'0811	Frozen fruits & nuts	0.0	0.0	0.0	2	13.0	10.0	8.0	0.6	32	6,839	0.13
'8541	Diodes/transistors&sim semiconductor devices; etc	0.2	0.0	0.2	27	67.0		10.0	0.2	27	4,416	0.28
'5407	Woven fabrics of synth. filam yarn (incl. hd no 54.04)	0.2	0.0	0.2	4	11.0	10.0	6.0	0.8	17	5,330	0.13
'9606	Buttons, press&snap fasteners, button moulds	0.0	0.0	0.0	0	-1.0	-1.0	1.0	0.7	20	6,496	0.23
'8431	Machinery part (hd 84.25 to 84.30)	0.1	0.0	0.1	21	21.0		3.0	0.1	45	4,022	0.27
'6114	Garments, knitted or crocheted, nes	0.2	0.0	0.2	2	9.0	12.0	5.0	5.4	6	11,324	0.48
'8483	Transmission shafts&cranks, bearing housing; gearing; etc	0.1	0.0	0.1	19	28.0	21.0	6.0	0.2	39	4,364	0.21
'8419	Machinery,plant/lab,involving a change of temp ex heating,cooking,etc	0.0	0.0	0.0	9	20.0		1.0	0.1	50	8,536	0.23
'7112	Waste & scrap of precious metal	0.0	0.0	0.0	10	11.0		14.0		62	6,382	0.31
'0710	Frozen vegetables	0.0	0.0	0.0	3	13.0	6.0	3.0	0.4	28	5,731	0.20
'8448	Auxiliary machinery (dobbie/jacquard parts), etc	0.0	0.0	0.0	1	44.0		6.0	0.4	23	2,532	0.24
'5509	Yarn of synth staple fibre,not put for retail sale	0.4	0.0	0.4	1	32.0	17.0	7.0	6.4	5	5,916	0.21
'8901	Cruise ship, cargo ship, barges	0.1	0.0	0.1	14	7.0		-1.0	0.1	33	8,619	0.44

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'9507	Fishing rods,fish-hooks; fishing nets; decoy birds	0.1	0.0	0.1	1	19.0	10.0	3.0	2.0	10	5,673	0.32
'8542	Electronic integrated circuits and microassemblies	4.4	0.0	4.4	38	189.0		8.0	1.0	13	2,265	0.57
'8212	Razors and razor blades	0.0	0.0	0.0	2	92.0		9.0	0.4	26	6,077	0.12
'9612	Typewriter & similar ribbons; ink pads	0.0	0.0	0.0	1	19.0	27.0	1.0	1.1	17	5,443	0.13
'0511	Animal products nes;	0.0	0.0	0.0	1	20.0	16.0	7.0	0.4	35	7,599	0.17
'2303	Beet-pulp, bagasse and brewing or distilling dregs and waste	0.0	0.0	0.0	1	30.0	16.0	15.0	0.3	20	5,400	0.15
'8110	Antimony and articles thereof, including waste and scrap	0.0	0.0	0.0	0	-1.0	-20.0	26.0	9.5	3	5,040	0.24
'5608	Knottd nettg of twine,cordage/rope made up fishg nets	0.1	0.0	0.1	0	16.0	8.0	7.0	6.1	3	5,979	0.36
'8701	Tractors (other than tractors of heading no 87.09)	0.0	0.0	0.0	18	5.0	4.0	5.0		50	8,026	0.16
'9505	Festive,carnival / other entertainment articles, incl conjuring tricks	0.0	0.0	0.0	2	4.0		2.0	0.3	21	11,254	0.14
'2849	Carbides, whether or not chemically defined	0.0	0.0	0.0	1	50.0		11.0	0.2	31	9,963	0.29
'0711	Vegetables, provisionally preserved (unfit for immediate consumption)	0.0	0.0	0.0	0		-11.0	3.0	1.3	13	7,170	0.31
'2308	Other vegetable material, waste, residues, byproducts used for animal	0.0	0.0	0.0	1	102.0	39.0	6.0	3.7	8	3,710	0.30
'4013	Inner tubes of rubber	0.0	0.0	0.0	0	20.0	20.0	5.0	2.8	7	10,490	0.07
'8534	Printed circuits	0.3	0.0	0.3	7	7.0	5.0	8.0	0.6	15	2,921	0.22
'1209	Seeds, fruit and spores, for sowing	0.0	0.0	0.0	3	34.0	38.0	8.0	0.2	39	10,590	0.14
'9026	Instruments for measuring/checking the flow/level/pressure of liq/gase	0.0	0.0	0.1	6	36.0		8.0	0.3	32	2,794	0.20
'9402	Med, surg, dental furniture (e.g. dentists' & barbers' chairs)	0.0	0.0	0.0	1	10.0	-7.0	6.0	0.2	37	10,108	0.23
'6115	Panty hose, tights, stockings & other hosiery, knitted or crocheted	0.0	0.0	0.0	5	13.0	11.0	6.0	0.3	32	7,026	0.25
'4107	Leather of other animals, o/t leather of hd no 41.08/41.09	0.1	0.0	0.2	4	41.0	31.0	4.0	1.2	19	2,545	0.28

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'8413	Pumps for liquids; liquid elevators	0.0	0.0	0.0	20	23.0	6.0	7.0	0.1	49	6,493	0.21
'0106	Live animals, nes	0.0	0.0	0.0	0	-16.0		3.0	1.2	22	8,832	0.19
'8803	Aircraft parts	0.1	0.0	0.1	29	58.0	9.0	3.0	0.1	42	10,630	0.49
'3917	Tubes, pipes & hoses & fittings therefor of plastics	0.0	0.0	0.0	8	30.0	23.0	5.0	0.2	51	4,706	0.22
'0910	Ginger,saffron,turmeric, thyme, bay leaves & curry	0.0	0.0	0.0	1	16.0	-1.0	8.0	0.6	22	7,364	0.11
'8479	Machines&mech appl having indiv functions, nes	0.1	0.0	0.1	15	25.0		5.0	0.1	41	4,558	0.18
'6113	Garment,made up of knitted/crochetd fabric of hd no 59.03,06,07	0.0	0.0	0.0	0	20.0	9.0	7.0	4.1	5	12,226	0.54
'5806	Nar woven fabrics,o/t those of hd 5807	0.0	0.0	0.0	1	29.0	20.0	4.0	0.8	26	6,974	0.08
'1704	Sugar confectionery (incl white choc), not containing cocoa	0.1	0.0	0.1	4	15.0	8.0	5.0	0.8	30	3,051	0.14
'7314	Cloth, grill, netting&fencing, of iron & steel wire	0.0	0.0	0.0	2	47.0		1.0	0.1	49	8,441	0.34
'8516	Electric instantaneous water heater,space htg; hair dryer	0.1	0.0	0.1	16	14.0	12.0	5.0	0.3	30	4,523	0.22
'8505	Electro-magnets;permanent magnets;magnetic chucks;etc	0.0	0.0	0.0	3	11.0	-7.0	17.0	0.2	33	7,256	0.19
'4601	Plaits & similar products of plaiting material mats, matting, screens	0.0	0.0	0.0	0	-2.0	-7.0	3.0	2.3	3	7,184	0.10
'0602	Plants, live, nes (incl their roots), cuttings & slips; mushroom spawn	0.0	0.0	0.0	5	29.0	96.0	2.0	0.1	35	5,830	0.21
'9607	Slide fasteners and parts thereof	0.0	0.0	0.0	0	14.0	16.0	5.0	0.6	17	4,689	0.13
'1703	Molasses resulting from the extraction or refining of sugar	0.0	0.0	0.0	1	379.0	13.0	2.0	1.1	24	8,931	0.47
'0208	Meat and edible meat offal nes	0.0	0.0	0.0	1	19.0	19.0	-3.0	1.4	19	12,237	0.36
'2836	Carbonate;peroxocarbonate, commercial ammonium carbonate	0.0	0.0	0.0	2	44.0	35.0	4.0	0.3	33	4,663	0.17
'7616	Articles of aluminum nes	0.0	0.0	0.0	6	23.0	10.0	4.0	0.3	36	4,699	0.19
'5901	Text fab ctd with gum,for book covering, etc	0.0	0.0	0.0	0	7.0	12.0	6.0	4.1	5	12,472	0.54
'4407	Wood sawn/chipped lengthwise, sliced/peeled	0.1	0.0	0.1	10	43.0	71.0	4.0	0.4	34	2,051	0.27

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'8201	Hand tools of a kind used in agriculture horticulture or forestry	0.0	0.0	0.0	1	9.0		5.0	0.9	21	9,630	0.18
'7325	Cast articles of iron or steel nes	0.0	0.0	0.0	3	6.0	5.0	1.0	0.2	52	4,566	0.16
'8207	Interchangeable tl for hand tol, or for machine-tools	0.0	0.0	0.0	7	8.0	2.0	7.0	0.1	42	4,028	0.38
'2005	Prepared or preserved vegetables nes (excl. frozen)	0.0	0.0	0.0	4	6.0	-4.0	4.0	0.2	50	6,458	0.15
'2103	Sauces mixed condiments & mixed seasonings	0.0	0.0	0.0	4	9.0	5.0	6.0	0.3	44	6,795	0.13
'8484	Gaskets & sim joints of met sheeting combined w/other material	0.0	0.0	0.0	2	49.0	48.0	6.0	0.2	38	4,732	0.20
'1806	Chocolate and other food preparations containing cocoa	0.0	0.0	0.0	12	71.0		7.0		69	6,236	0.19
'8203	Files,pliers, pincers,met cut shears,etc &sim hand tool	0.0	0.0	0.0	1	20.0	18.0	7.0	0.5	25	5,853	0.28
'4409	Wood continuously shaped along any edges	0.0	0.0	0.0	2	11.0	15.0	-1.0	0.9	24	7,445	0.22
'7408	Copper wire	0.0	0.0	0.0	8	-6.0	-14.0	4.0	0.2	40	4,395	0.21
'7907	Articles of zinc nes	0.0	0.0	0.0	1	-3.0	-4.0	4.0	0.7	28	9,062	0.12
'5603	Nonwovens, w/n impregnated, coated, covered or laminated	0.0	0.0	0.0	5	26.0	22.0	7.0	0.2	38	3,817	0.11
'6208	Women's singlets, slips, briefs, pyjamas, bathrobes etc	0.0	0.0	0.0	1	-3.0	-26.0	-3.0	1.3	13	6,729	0.27
'4303	Articles of apparel, clothing access and other articles of furskin	0.0	0.0	0.0	1	13.0	26.0	13.0	0.1	27	8,011	0.22
'8411	Turbo-jets, turbo-propellers and other gas turbines	0.0	0.0	0.0	41	-18.0		6.0		70	4,871	0.22
'8418	Refrigerator, freezer, etc	0.1	0.0	0.1	13	10.0		3.0	0.1	50	5,064	0.11
'8716	Trailers&semi-trailers;other vehicles not mechanically propelled	0.0	0.0	0.0	9	17.0		2.0	0.1	45	9,509	0.32
'9619	Sanitary towels (pads) and tampons, napkins and napkin liners for babies	0.0	0.0	0.0	5	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
'9608	Ballpoint pencil; markers & writing instr. (o/t headg no96.09)	0.0	0.0	0.0	2	13.0		3.0	0.7	20	7,776	0.16
'8007	Tin articles, nes	0.0	0.0	0.0	0	29.0		4.0	0.1	35	5,519	0.52
'1504	Fish/marine mammal,fat,oils&their fractions	0.1	0.0	0.1	1	39.0	20.0	8.0	3.9	8	2,254	0.28

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'2515	Marble, travertine, ecaussine etc,	0.0	0.0	0.0	0	12.0	12.0	11.0	0.5	19	3,860	0.37
'6504	Hats&other headgear, plaited	0.0	0.0	0.0	0	23.0	18.0	21.0	1.9	7	10,801	0.19
'9032	Automatic regulating or controlling instruments and apparatus	0.1	0.0	0.1	11	20.0	53.0	7.0	0.2	40	3,755	0.29
'9504	Articles for funfair, table/parlour games&auto bowling alley equipment	0.0	0.0	0.0	9	-5.0		-12.0		50	10,070	0.17
'8546	Electrical insulators of any material	0.0	0.0	0.0	1	32.0		3.0	0.4	35	5,311	0.14
'9601	Worked ivory & art of ivory; animal carving material (o/t ivory)	0.0	0.0	0.0	0	9.0	1.0	1.0	6.3	7	6,358	0.16
'7009	Glass mirrors	0.0	0.0	0.0	2	13.0		9.0	0.5	25	8,795	0.21
'9618	Tailors' dummies/lay figures; automata & other animated display for wi	0.0	0.0	0.0	0	-13.0	-18.0	9.0	1.0	14	9,992	0.09
'9031	Measuring or checking machines, nes	0.0	0.0	0.1	9	-6.0		10.0	0.1	39	4,423	0.24
'6911	Tableware,kitchenware, of porcelain/china	0.0	0.0	0.0	1	-11.0	-18.0	4.0	0.1	45	5,906	0.11
'2202	Non-alcoholic beverages (excl. water, fruit or vegetable juices and mi	0.0	0.0	0.0	7	12.0		6.0	0.1	56	3,779	0.14
'2401	Tobacco unmanufactured; tobacco refuse	0.0	0.0	0.0	4	21.0	43.0	6.0	0.2	42	4,437	0.16
'2841	Salts of oxometallic or peroxometallic acids	0.0	0.0	0.0	0	9.0		5.0	0.1	31	5,880	0.52
'8111	Manganese and articles thereof, including waste and scrap	0.0	0.0	0.0	0	60.0	47.0	1.0	5.9	4	3,997	0.29
'0805	Citrus fruit, fresh or dried	0.0	0.0	0.0	6	37.0	30.0	4.0	0.1	45	7,239	0.15
'2001	Cucumbers, gherkins and onions preserved by vinegar	0.0	0.0	0.0	1	-7.0	-13.0	3.0	1.5	17	6,951	0.50
'7315	Chain and parts thereof, of iron or steel	0.0	0.0	0.0	1	3.0	-1.0	8.0	0.2	35	3,458	0.25
'0906	Cinnamon and cinnamon-tree flowers	0.0	0.0	0.0	0	16.0	6.0	11.0	9.1	4	5,910	0.24
'8511	Electrical ignition/starting equip (spark plugs/starter motors)	0.0	0.0	0.0	7	53.0		7.0	0.2	34	5,064	0.16
'0909	Seeds of anise, badian,fennel,coriander, cumin, etc.	0.0	0.0	0.0	0	34.0	6.0	6.0	2.4	9	4,943	0.33
'0301	Live fish	0.0	0.0	0.0	0	28.0		3.0	0.6	25	4,179	0.23
'9209	Musical instruments parts & acces (strings,	0.0	0.0	0.0	1	8.0	6.0	4.0	0.6	19	8,161	0.20

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	metronomes, tuning forks)											
'7306	Tubes, pipes and hollow profiles of iron or steel, nes	0.3	0.0	0.3	8	58.0	62.0	3.0	1.3	19	12,647	0.67
'4205	Articles of leather or composition leather, nes	0.0	0.0	0.0	1	22.0	-22.0	9.0	0.3	37	6,587	0.34
'7013	Glassware used for table,kitchen,toilet office, etc	0.0	0.0	0.0	3	16.0	35.0	3.0	0.1	43	5,207	0.16
'2701	Coal; briquettes, ovoids & similar solid fuels manufactured from coal	1.8	0.0	1.8	29	3.0	-2.0	8.0	1.4	8	2,641	0.54
'9013	Liquid crystal devices; lasers; other optical appl & instruments nes	0.0	0.0	0.0	5	47.0		5.0		28	3,389	0.29
'2004	Prepared or preserved vegetables nes (incl. frozen)	0.0	0.0	0.0	3	41.0	28.0	8.0	0.2	23	5,148	0.58
'8703	Cars (incl. station wagon)	0.0	0.0	0.0	215	10.0		4.0		71	9,664	0.14
'8532	Electrical capacitors, fixed, variable or adjustable (pre-set)	0.0	0.0	0.0	4	7.0	-2.0	7.0		40	4,792	0.11
'7610	Aluminum structure nes&part of structures	0.0	0.0	0.0	3	-1.0	8.0	2.0	0.2	48	3,428	0.26
'9003	Frames&mountings for spectacles, goggles	0.0	0.0	0.0	2	15.0		4.0	0.1	29	5,554	0.41
'8001	Unwrought tin	0.0	0.0	0.0	1	5.0	-7.0	9.0	0.5	18	3,554	0.39
'3918	Floor, wall & ceiling coverings in rolls or tiles, of plastics, nes	0.0	0.0	0.0	2	17.0		6.0	0.3	26	8,917	0.19
'8523	Prepared unrecordd media for sound record (tapes)	0.0	0.0	0.0	19	14.0			0.1	44	8,329	0.08
'8214	Article of cutlery,nes,cleavers,pedicure sets	0.0	0.0	0.0	0	11.0	11.0	3.0	0.6	17	9,020	0.25
'9207	Keyboard instruments, etc	0.0	0.0	0.0	1	1.0	-9.0	1.0	0.3	20	9,128	0.16
'0714	Manioc, arrowroot salem (yams) etc	0.2	0.0	0.6	0	33.0	21.0	18.0	25.4	2	2,467	0.79
'9201	Pianos, incl auto pianos; harpsichords	0.0	0.0	0.0	0	40.0		1.0	0.3	16	8,270	0.15
'8903	Yachts & other vessels for pleasure or sports	0.0	0.0	0.0	4	-31.0		-4.0		56	8,420	0.12
'5206	Cotton yarn (not sewing thread) less than 85 per centcotton, not retail	0.1	0.0	0.1	0	33.0	17.0	19.0	8.5	4	2,677	0.34
'4104	Leather of bovine/equine animal, other than leather of hd 4108/4109	0.1	0.0	0.1	2	3.0	3.0	6.0	2.3	9	2,097	0.30
'9102	Wrist- or pocket-watch (other than 9101)	0.0	0.0	0.0	7	-6.0		11.0		70	2,505	0.55

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'8515	Electric,laser/photon beam/plasma arc solderg with cut capabilitie,etc	0.0	0.0	0.0	3	22.0		5.0	0.1	48	5,275	0.24
'6006	Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics	0.1	0.0	0.1	2	26.0	20.0	6.0	0.4	21	5,210	0.09
'5607	Twine,cordge &cable, with rubber/plastic	0.0	0.0	0.0	1	16.0	7.0	4.0	0.8	28	8,270	0.16
'8311	Wire/rod,etc of base metal /weld of metal carbide	0.0	0.0	0.0	1	42.0	29.0	2.0	1.0	23	3,381	0.16
'6217	Clothing accessories nes; o/t of hd 62.12	0.0	0.0	0.0	1	9.0		3.0	0.4	26	5,014	0.17
'8427	Fork-lift trucks;other works trucks fitted with lifting/handling equip	0.0	0.0	0.0	6	-8.0		4.0		70	7,102	0.28
'3301	Essential oils; resinoids; terpenic by-products etc	0.0	0.0	0.0	1	16.0	-1.0	8.0	0.1	46	12,960	0.23
'7604	Aluminum bars, rods and profiles	0.0	0.0	0.1	7	46.0	42.0	3.0	0.3	40	4,277	0.21
'9030	Oscilloscope/ spectrum analysers; instr for measuring ionising rad	0.0	0.0	0.0	4	11.0		10.0	0.1	45	4,444	0.26
'2613	Molybdenum ores and concentrates	0.0	0.0	0.0	2	48.0	52.0	-8.0	0.3	13	3,556	0.56
'6301	Blankets and travelling rugs	0.0	0.0	0.0	1	7.0	20.0	9.0	0.1	43	5,607	0.25
'4909	Postcards, printed or illustrated; printed greeting cards	0.0	0.0	0.0	0	-1.0	-6.0	-2.0	0.1	29	8,788	0.39
'3922	Baths,shower-baths,wash-basins,bidet etc of plastic	0.0	0.0	0.0	2	30.0	13.0		0.1	43	7,359	0.22
'8533	Electrical resistor (incl rheostats),o/t heatg resistor	0.0	0.0	0.0	2	28.0		5.0	0.4	30	3,666	0.22
'6005	Warp knit fabrics ""incl. those made on galloon knitting machines""	0.0	0.0	0.0	1	11.0	-7.0	7.0	0.2	32	3,866	0.19
'3902	Polymers of propylene or of other olefins, in primary forms	0.1	0.0	0.1	15	66.0	47.0	10.0	0.2	39	2,267	0.42
'2922	Oxygen-function amino-compounds	0.1	0.0	0.1	11	2.0	-4.0	10.0	0.5	19	3,329	0.37
'8527	Reception app for radio-telephony/radio-broadcastg	0.0	0.0	0.0	5	111.0		2.0	0.1	37	10,843	0.43
'9029	Revolution counters/taximeters; speed indicators/tachometers	0.0	0.0	0.0	3	104.0		12.0	0.2	35	3,383	0.42
'8205	Hand tools nes; anvils	0.0	0.0	0.0	2	20.0	-11.0	3.0	0.2	38	7,606	0.15
'6910	Ceramic sink,wash basin,bath,bidet &similar sanitary fixture	0.1	0.0	0.1	2	12.0	13.0	1.0	1.8	17	4,304	0.55

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'8521	Video recording or reproducing apparatus	0.0	0.0	0.0	3	16.0		-8.0		52	5,472	0.26
'6117	Clothing access nes,knitted/croch	0.0	0.0	0.0	1	14.0	11.0	7.0	0.4	27	8,060	0.17
'7615	Aluminum table, kitchen, household articles	0.0	0.0	0.0	1	33.0	30.0	8.0	0.5	23	7,604	0.30
'1212	Locust beans	0.0	0.0	0.0	0	20.0	-22.0	10.0	0.3	32	7,677	0.10
'2939	Vegetable alkaloids&their salts, ethers, esters & other derivatives	0.0	0.0	0.0	1	-1.0	13.0	-13.0	0.1	34	10,446	0.31
'9027	Instruments for physical/chemical analysis;inst for viscosity,heat,etc	0.0	0.0	0.0	12	14.0		8.0		51	7,511	0.14
'4823	Other paper, paperboard, cellulose wadding cut to size & adhesive pape	0.0	0.0	0.0	3	9.0	4.0	4.0	0.5	28	2,988	0.40
'1108	Starches; inulin	0.3	0.0	0.3	1	30.0	17.0	13.0	9.3	3	2,369	0.44
'9615	Comb, hair-slides; hairpin, hair-curlers (o/t hd no85.16)	0.0	0.0	0.0	0	47.0		9.0	0.3	19	8,991	0.13
'8422	Dish washing machines; machinery for aerating bottles	0.0	0.0	0.0	9	14.0	7.0	3.0		54	4,653	0.49
'8461	Machine-tool for planing/shaping,etc sawing&other mach-tool for metal	0.0	0.0	0.0	1	16.0	4.0	3.0	0.1	38	6,511	0.40
'0709	Vegetables nes, fresh or chilled	0.0	0.0	0.0	6	34.0	20.0	6.0	0.3	30	2,684	0.32
'6214	Shawls, scarves, mufflers, mantillas, etc	0.0	0.0	0.0	2	7.0	22.0	14.0	0.1	36	8,858	0.12
'1106	Flour and meal of vegetables, roots and tubers or fruits	0.0	0.0	0.0	0	5.0	-6.0	14.0	2.4	14	5,309	0.17
'2516	Granite, porphyry, basalt, sandstone & other monumental or building st	0.0	0.0	0.0	1	-25.0	-13.0	2.0	0.1	34	4,885	0.09
'7116	Articles of natural or cultured pearls, prec/semi prec stones	0.0	0.0	0.0	0	74.0		9.0	0.6	19	9,935	0.36
'7223	Wire of stainless steel	0.0	0.0	0.0	1	8.0	3.0	7.0	0.6	24	2,607	0.43
'5604	Rubber thread,cord, strip, etc	0.0	0.0	0.0	0	22.0		4.0	1.1	18	8,678	0.18
'8308	Clasp/buckle/eye,etc for apprl,handbag,etc; of base metal	0.0	0.0	0.0	1	26.0	63.0	5.0	0.1	35	5,340	0.16
'5506	Synthetic staple fibres, carded, combed	0.0	0.0	0.0	0	47.0	25.0	9.0	0.7	23	6,857	0.37
'3925	Builders' ware of plastics, nes	0.0	0.0	0.0	4	26.0		3.0	0.3	41	9,129	0.26
'3505	Dextrins & other modified starches; glues based on	0.0	0.0	0.0	2	17.0	9.0	5.0	1.5	10	3,641	0.31

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	starches											
'4901	Printed books,brochures,leaflets & similar printed matter	0.0	0.0	0.0	7	7.0	10.0	-3.0		73	8,019	0.08
'3802	Activated carbon; activated natural mineral products; animal black	0.0	0.0	0.0	1	58.0		9.0	0.8	21	7,711	0.11
'8432	Agricultural, hortic, forest machinery for soil prep/cultivation	0.0	0.0	0.0	4	31.0	26.0	4.0		61	4,175	0.13
'3806	Rosin & resin acids, and derivatives; rosin spirit & oils; run gums	0.0	0.0	0.0	1	42.0	15.0	13.0	1.4	14	3,524	0.13
'7103	Precious & semi-precious stone,not strug,	0.0	0.0	0.0	1	-11.0		13.0		51	9,065	0.20
'7606	Aluminum plates, sheets and strip, of a thickness exceeding 0.2mm	0.0	0.0	0.0	11	139.0		4.0	0.1	43	2,962	0.65
'7209	Flat-rolld prod of iron/non-alloy steel wd>/=600mm,cr,not clad	0.3	0.0	0.3	6	131.0	138.0	1.0	1.5	16	2,361	0.22
'6704	Wig,eyebrow,eyelash, etc.	0.0	0.0	0.0	0	52.0	51.0	15.0	0.7	9	6,441	0.30
'2203	Beer made from malt	0.0	0.0	0.0	4	40.0		4.0	0.3	33	2,621	0.19
'4903	Children's picture, drawing or colouring books	0.0	0.0	0.0	0	-27.0	-26.0	8.0	0.1	41	9,726	0.24
'4820	Registers,acct,note,order books etc;other stationary articles of paper	0.1	0.0	0.1	2	7.0		1.0	3.1	8	9,350	0.47
'8506	Primary cells and primary batteries	0.0	0.0	0.0	2	20.0		2.0	0.4	24	3,043	0.46
'8486	Machines and apparatus of a kind used princip. for the manufacture of semicon	0.0	0.0	0.0	5	43.0	-22.0	14.0	0.1	24	4,311	0.28
'6815	Articles of stone or of other mineral substances, nes	0.0	0.0	0.0	2	17.0	2.0	8.0	0.1	45	6,270	0.30
'2523	Cements, portland, aluminous, slag, supersulfate & similar hydraulic c	0.4	0.0	0.4	2	501.0		-2.0	3.4	7	4,028	0.13
'4412	Plywood, veneered panels and similar laminated wood	0.1	0.0	0.1	4	39.0	27.0	4.0	0.7	19	4,384	0.19
'0305	Fish,cured or smoked and fish meal fit for human consumption	0.1	0.0	0.1	3	5.0	2.0	5.0	1.0	22	6,271	0.15
'8428	Lifting/handling/loading/unloadg machinery (excl.	0.0	0.0	0.0	6	38.0		3.0	0.1	49	9,925	0.48

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	lift/escalator/conve											
'3005	Dressings packaged for medical use	0.0	0.0	0.0	4	74.0		5.0	0.1	45	2,732	0.55
'8421	Centrifuges, incl centrifugal dryers; filtering/purifying machinery	0.0	0.0	0.0	18	25.0		6.0	0.1	53	6,777	0.10
'3306	Oral & dental hygiene preparations	0.0	0.0	0.0	2	14.0	11.0	7.0	0.6	33	6,180	0.23
'9611	Devices for printing or embossing labels hand-operated	0.0	0.0	0.0	0	17.0			2.1	10	8,890	0.19
'8426	Derricks; cranes; straddle carriers,&works trucks fitted with a crane	0.0	0.0	0.0	2	109.0		-5.0	0.2	38	2,826	0.24
'4416	Casks,barrels,vats,tubs etc. of wood	0.0	0.0	0.0	0	-19.0	-20.0	-2.0	0.1	26	8,000	0.18
'9004	Spectacles, goggles and the like, corrective, protective or other	0.0	0.0	0.0	3	56.0		11.0		57	5,966	0.19
'3904	Polymers of vinyl chloride/other halogenated olefins, in primary forms	0.1	0.0	0.1	6	27.0	13.0	7.0	0.5	29	3,653	0.17
'3805	Turpentine oils; crude dipentene; pine oil etc	0.0	0.0	0.0	0	37.0	17.0	19.0	2.8	7	3,685	0.80
'5514	Woven fab of syn stapl fib (> 85 per cent of such fiber), mxd with cotton (wt	0.0	0.0	0.0	0	-5.0	-6.0	6.0	0.4	24	3,897	0.43
'8101	Tungsten (wolfram) and articles thereof, including waste and scrap	0.0	0.0	0.0	1	149.0		15.0	0.7	20	4,703	0.39
'7320	Springs and leaves for springs, of iron or steel	0.0	0.0	0.0	2	15.0	21.0	6.0	0.1	41	3,777	0.32
'3405	Polishes & creams for footwear,furn,floors,glass,metal etc	0.0	0.0	0.0	1	6.0	17.0	8.0	0.1	53	5,715	0.38
'4014	Hygienic/pharmaceutical art of vulcanised rubber	0.0	0.0	0.0	1	18.0	7.0	2.0	0.6	23	9,643	0.15
'0712	Dried vegetables	0.0	0.0	0.0	1	6.0	6.0	9.0	0.2	35	5,076	0.11
'8415	Air conditioning machines, with motor-driven elements	0.0	0.0	0.0	11	3.0		6.0	0.1	48	2,458	0.22
'0907	Cloves	0.0	0.0	0.0	0	81.0		47.0	0.4	12	7,213	0.17
'8539	Electric filament or discharge lamps	0.1	0.0	0.1	6	49.0			0.3	25	4,146	0.25
'5609	Articles of yarn, strip, twine, cordage, rope and cables, nes	0.0	0.0	0.0	0	36.0	2.0	4.0	2.0	11	4,362	0.24
'7019	Glass fibres (incl glass wool) and articles thereof	0.0	0.0	0.0	5	13.0	14.0	2.0	0.1	50	5,179	0.36

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'0409	Natural honey	0.1	0.0	0.1	1	14.0	6.0	10.0	3.2	10	13,397	0.95
'8713	Invalid carriages (wheelchairs), w/n motorised	0.0	0.0	0.0	0	57.0			0.2	27	8,881	0.31
'5807	Label,badge&sim art of tex	0.0	0.0	0.0	0	22.0	7.0	2.0	0.4	21	3,546	0.11
'8466	Machinery parts&acces (machinery of hd 84.56 to 84.65)	0.0	0.0	0.0	7	9.0	5.0	6.0	0.2	34	3,706	0.59
'9015	Surveying, hydrographic,oceanographic,meteorological instruments	0.0	0.0	0.0	2	18.0		6.0		77	5,315	0.22
'7204	Ferrous waste and scrap; remelting scrap ingots or iron or steel	0.1	0.0	0.1	18	21.0	16.0	4.0	0.1	57	2,411	0.35
'4414	Wooden frames for paintings,photographs, mirrors or similar objects	0.0	0.0	0.0	0	21.0		-4.0	1.1	17	10,866	0.44
'8430	Moving/grading/scraping/boring machinery for earth	0.0	0.0	0.0	2	-36.0		4.0		66	2,902	0.17
'6601	Umbrellas and sun umbrellas	0.0	0.0	0.0	1	18.0	18.0	5.0	0.2	16	6,168	0.30
'8472	Office machines, nes (e.g. hectograph/stencil duplicat)	0.0	0.0	0.0	1	104.0		3.0	0.1	36	6,437	0.31
'3101	Animal or vegetable fertilizers in packages weighing more than 10 kg	0.0	0.0	0.0	0	17.0	13.0	11.0	1.0	18	1,834	0.34
'1201	Soya beans, whether or not broken	0.0	0.0	0.0	8	-3.0	-5.0	9.0		72	11,637	0.50
'7220	Flat-rolled products of stainless steel, of a width of less than 600mm	0.0	0.0	0.0	2	19.0	3.0	-1.0	0.2	34	3,757	0.13
'8535	Electrical app for switching (ex fuse,switche,etc) exceeding 1000 volt	0.0	0.0	0.0	2	16.0		3.0	0.1	56	4,541	0.19
'3808	Insecticides, fungicides, herbicides packaged for retail sale	0.0	0.0	0.0	12	-1.0	-3.0	6.0	0.2	42	2,264	0.16
'8907	Floating structure,nes (raft/tank/ coffer-dam / landing stage)	0.0	0.0	0.0	0	97.0		2.0	4.1	9	2,671	0.55
'1904	Breakfast cereals & cereal bars	0.0	0.0	0.0	3	21.0	25.0	4.0		66	7,795	0.10
'8531	Electric sound/visual signallg app (e.g. bell/siren, fire alarms)	0.0	0.0	0.0	6	39.0	4.0	1.0	0.1	48	3,069	0.30
'6804	Mill/grind stones,grinding wheels,abrasives/ceramics	0.0	0.0	0.0	1	37.0		6.0	0.1	47	5,203	0.23

HS Codes	Product Description	Untapped Trade Potential (2012)	2012 Trade Flows			Trade Indicators						
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'9022	Apparatus based on the use of X-rays/of alpha, beta/gamma radiations	0.0	0.0	0.0	6	43.0		5.0		56	2,697	0.15
'8487	Machinery parts, n.e.s. in chapter 84 (excl. parts containing elec connectors	0.1	0.0	0.1	2	30.0	13.0	3.0	0.7	23	4,024	0.72
'3304	Beauty, make-up & skin-care preparations; sunscreens, manicure or pedi	0.0	0.0	0.0	11	18.0	10.0	6.0		65	3,419	0.25
'7415	Nail,tack, etc of copper or iron, with head of copper	0.0	0.0	0.0	0	114.0		6.0	1.6	13	2,776	0.68
'4821	Paper or paperboard labels of all kinds	0.0	0.0	0.0	2	44.0	38.0	3.0	0.4	35	3,886	0.26
'8303	Armoured/reinf safe/strong-box/safe deposit locker/ded box of base met	0.0	0.0	0.0	0	29.0	29.0	2.0	0.2	34	6,512	0.07
'6811	Articles of asbestos-cement, of cellulose fibre-cement	0.0	0.0	0.0	0	41.0		3.0	0.2	42	5,639	0.28
'9019	Mechano-therapy appliance (artif resp, massage app, ozon/oxygen)	0.0	0.0	0.0	3	21.0		7.0	0.1	44	10,041	0.40
'9610	Slates&boards, with writing or drawing surfaces	0.0	0.0	0.0	0	7.0	8.0	7.0	0.1	28	8,429	0.14
'1901	Malt extract; food preparations of flour, meal, starch or malt extract	0.0	0.0	0.0	4	21.0	8.0	9.0	0.1	52	5,603	0.21
'1401	Vegetable material for plaiting	0.0	0.0	0.0	0	27.0	-2.0		4.3	4	3,504	0.53
'1211	Medicinal plants	0.0	0.0	0.0	1	31.0	30.0	8.0	0.6	29	4,668	0.14
'8547	Insulating fitting for elec mach,app/equip (o/t insulator of hd no85.4	0.0	0.0	0.0	2	21.0	3.0	5.0	0.3	33	4,343	0.36
'7218	Stainless steel in ingots/other primary forms	0.0	0.0	0.0	1	30.0	63.0	-2.0		49	7,202	0.52
'3105	Mixtures of..nitrogen, phosphorous or potassium fertilizers	0.1	0.0	0.1	5	52.0	56.0	5.0	0.6	23	3,401	0.15
'3401	Soap; organic surface-active preparations for soap use	0.0	0.0	0.0	3	17.0		6.0	0.3	46	2,756	0.25
'5903	Textile fabrics impregnated, coated, covered/laminated w plastics, nes	0.0	0.0	0.0	2	13.0	-1.0	8.0	0.3	27	3,510	0.17
'5705	Carpets and other textile floor coverings, nes	0.0	0.0	0.0	0	27.0		7.0	0.1	40	5,292	0.23
'4803	Paper,household/sanitary,rolls of a width > 36 cm	0.0	0.0	0.0	2	55.0	43.0	5.0	1.0	22	5,420	0.12
'4415	Packaging materials of wood	0.0	0.0	0.0	2	2.0	9.0	1.0	0.1	58	7,678	0.29

HS Codes	Product Description	Untapped Trade Potential (2012)	2012 Trade Flows			Trade Indicators						
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'9701	Paintings, drawings, pastel, collages&sim art executd by hand	0.0	0.0	0.0	7	-9.0		5.0		44	7,818	0.08
'8455	Metal-rolling mills and rolls therefor	0.0	0.0	0.0	1	70.0		-5.0	0.1	38	8,858	0.36
'8474	Machinery for sorting/screening/washg;agglomeratg/shapg mineral produc	0.0	0.0	0.0	3	18.0				63	5,732	0.11
'4006	Rubber unvulcanised form & articles nes, excl. rods, tubes, discs & ri	0.0	0.0	0.0	0	29.0		6.0	0.2	41	5,940	0.18
'9025	Hydrometers&similar floating inst, thermometers, etc	0.0	0.0	0.0	2	59.0	-12.0	8.0	0.1	43	4,945	0.59
'7609	Aluminum tube or pipe fittings	0.0	0.0	0.0	0	10.0	11.0	5.0	0.3	35	7,258	0.16
'8906	Vessels, including warships and lifeboats	0.0	0.0	0.0	1	-24.0		5.0	0.1	38	4,095	0.41
'8301	Padlocks/lock;clasp incorp lock;key for foregoing art	0.0	0.0	0.0	4	63.0	77.0	5.0		57	3,031	0.24
'9028	Gas/ liquid/ electricity supply/production meter	0.1	0.0	0.1	2	59.0	14.0	7.0	1.0	22	7,878	0.36
'5808	Braid in the piece;orn trim,in pce,o/t knit/crochtd	0.0	0.0	0.0	0	4.0	-3.0	3.0	0.2	34	6,757	0.31
'6401	W/p foot,outer sole/upper of rbr/pla upper not fixd	0.0	0.0	0.0	1	31.0	42.0	14.0	0.7	23	5,543	0.52
'0804	Dates, figs,pineapples, mangoes, avocadoes, guavas	0.0	0.0	0.0	3	7.0		6.0		71	5,930	0.11
'7010	Carboy,bottle & other container of glass	0.0	0.0	0.0	4	1.0	-10.0	4.0	0.1	71	1,942	0.25
'6603	Parts, trimmings and acessories of art of no 66.01 or.02	0.0	0.0	0.0	0			-2.0	0.9	16	11,871	0.38
'3901	Polymers of ethylene, in primary forms	0.0	0.0	0.0	24	20.0	18.0	8.0		56	3,921	0.09
'8213	Scissors, tailors' shears and similar shears, and blades	0.0	0.0	0.0	0	56.0		6.0	0.3	19	6,496	0.16
'7317	Nails, staples & sim art, iron & steel	0.0	0.0	0.0	1	56.0	70.0		1.2	17	13,256	0.88
'7304	Tubes, pipes and hollow profiles, or iron or steel	0.0	0.0	0.1	7	103.0	57.0	-1.0	0.2	36	8,293	0.17
'3912	Cellulose & its chemical derivatives nes	0.0	0.0	0.0	2	29.0		6.0		49	1,788	0.29
'9205	Other wind musical instrument	0.0	0.0	0.0	0	15.0			0.5	15	11,289	0.22
'5005	Yarn spun from silk waste, not put up for retail sale	0.0	0.0	0.0	0	28.0	12.0	-8.0	0.6	9	6,680	0.50
'5209	Woven cotton fabrics, 85 per cent or more cotton,weight	0.0	0.0	0.0	1	34.0	50.0	2.0	0.3	29	3,773	0.28
'8425	Pulley tackle & hoists other than skip hoists;	0.0	0.0	0.0	2	83.0		4.0	0.2	40	3,637	0.41

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'6213	Handkerchiefs	0.0	0.0	0.0	0	43.0	46.0	5.0	1.3	10	5,174	0.62
'8412	Engines and motors, nes	0.0	0.0	0.0	8	82.0		11.0	0.1	42	8,439	0.22
'8208	Knives and cutting blades, for machines	0.0	0.0	0.0	1	24.0		5.0	0.8	21	12,700	0.67
'1101	Wheat or meslin flour	0.0	0.0	0.0	1	37.0	55.0	4.0	0.9	25	1,070	0.32
'0308	Aquatic invertebrates other than crustaceans	0.0	0.0	0.0	0							
'8424	Mechanical appl. for proj /spray;sand blastg mach,etc	0.0	0.0	0.0	6	2.0	-3.0	6.0	0.1	49	4,803	0.42
'7806	Articles of lead nes	0.0	0.0	0.0	0	29.0	18.0	6.0	0.2	37	11,278	0.36
'6507	Head-bands,linings,covers, etc,for headgear	0.0	0.0	0.0	0	45.0	10.0	8.0	0.8	15	5,021	0.38
'3307	Personal toilet preparations shaving preparations,	0.1	0.0	0.1	5	34.0	27.0	4.0	0.7	31	3,007	0.23
'0813	Dried fruit	0.0	0.0	0.0	1	-4.0	-5.0	5.0	0.1	40	6,826	0.11
'6702	Artificial flowers, foliage & fruit	0.0	0.0	0.0	1		8.0	1.0	0.1	19	5,554	0.27
'1801	Cocoa beans, whole or broken, raw or roasted	0.0	0.0	0.0	5	105.0	79.0	6.0		29	4,522	0.38
'3006	Pharmaceutical goods, specified sterile products	0.0	0.0	0.0	6	-18.0	19.0	4.0		59	6,044	0.19
'3818	Chemicl compd,chem elem in form of disc	0.0	0.0	0.0	1	78.0		2.0		34	7,448	0.48
'4114	Chamois leather, incl. combination chamois leather	0.0	0.0	0.0	0	4.0	-20.0	2.0	0.3	24	4,616	0.33
'2309	Animal feed preparations, nes	0.1	0.0	0.1	11	49.0	37.0	7.0	0.3	36	2,016	0.19
'7412	Copper tube or pipe fittings	0.0	0.0	0.0	2	48.0	31.0	3.0	0.3	28	9,402	0.41
'8465	Mach-tool for wrkg wood/cork/bone/hard rubber	0.0	0.0	0.0	2	14.0	48.0	-3.0		59	5,688	0.24
'1102	Cereal flours other than of wheat or meslin	0.0	0.0	0.0	0	22.0	18.0	7.0	0.2	45	10,025	0.15
'4401	Fuel wood; wood in chips ; sawdust&wood waste	1.0	0.0	1.0	3	35.0	33.0	10.0	15.0	1	2,876	0.44
'4911	Printed matter nes, including printed pictures	0.0	0.0	0.0	5	3.0	-11.0			68	7,364	0.16
'9406	Prefabricated buildings	0.1	0.0	0.1	2	51.0	215.0	2.0	0.6	30	3,069	0.21
'4012	Retreaded/used tire;solid tire,interchangeable tire	0.0	0.0	0.0	1	-13.0		10.0	0.2	37	9,856	0.27
'8310	Letter,number,sign-plates&sim art of base metal	0.0	0.0	0.0	0	20.0		4.0		58	5,279	0.36
'7404	Copper waste and scrap	0.0	0.0	0.0	12	101.0	49.0	22.0	0.1	61	2,434	0.17
'7222	Bars & rods of stainless steel nes; angles, shapes	0.0	0.0	0.0	3	41.0	10.0	4.0	0.1	36	2,433	0.17
'3919	Self-adhesive plates, sheets, film etc of plastic w/n	0.0	0.0	0.0	6	44.0	46.0	9.0	0.1	43	4,304	0.10

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'7114	Articles of goldsmith's/silversmith's wares&pts	0.0	0.0	0.0	0	-70.0		11.0		53	8,362	0.77
'6909	Ceramic ware for labour.,chemical or techinal use, etc	0.0	0.0	0.0	1	-3.0	-7.0	14.0	0.1	32	4,693	0.57
'5508	Sewing thread of man-made staple fibres	0.0	0.0	0.0	0	9.0	4.0	4.0	0.6	16	2,372	0.22
'0713	Dried vegetables, shelled	0.0	0.0	0.0	1	16.0		8.0		75	5,948	0.16
'7309	Iron&steel reservoirs,tanks,vats (cap >300l)	0.0	0.0	0.0	1	42.0			0.1	50	4,968	0.17
'9703	Original sculptures and statuary, in any material	0.0	0.0	0.0	1	-37.0		9.0		52	8,889	0.11
'8437	Machines for cleaning/sort seed,grain;machinery	0.0	0.0	0.0	0	34.0	19.0	8.0	0.8	22	4,984	0.15
'2842	Salts of inorganic acids or peroxoacids nes	0.0	0.0	0.0	0	657.0		10.0	0.1	35	9,145	0.35
'7605	Aluminum wire	0.0	0.0	0.0	1	18.0		5.0		57	4,225	0.28
'8202	Hand saw;blade for saw	0.0	0.0	0.0	1	-7.0		5.0		63	5,871	0.12
'5701	Carpets and other textile floor covering knotted	0.0	0.0	0.0	0	-21.0	-39.0	-3.0		45	8,978	0.53
'8438	Machinery, nes, for the ind preparation or mfr of food	0.0	0.0	0.0	4	57.0		5.0		65	5,623	0.15
'1202	Ground-nuts, not roasted	0.0	0.0	0.0	1	-15.0	-31.0	15.0	0.2	25	2,061	0.27
'6703	Human hair,worked;wool/animal hair&other tex	0.0	0.0	0.0	0	86.0		10.0	0.1	23	8,919	0.18
'8477	Machinery for wrkg rbr/plas/ for the mfr of prod	0.0	0.0	0.0	5	42.0		7.0	0.1	40	4,736	0.24
'5601	Wadding of tex mat&art thereof;tex fib</=5mm	0.0	0.0	0.0	1	28.0	39.0	-1.0	0.6	30	3,830	0.61
'8442	Machinery,app&equip for type-setting;printing	0.0	0.0	0.0	1	-17.0		1.0		62	2,758	0.18
'0508	Coral and similar materials, e.g. shells	0.0	0.0	0.0	0	-2.0	4.0	14.0	1.2	17	5,683	0.33
'6002	Knitted or crocheted fabrics, nes	0.0	0.0	0.0	0	14.0	13.0	-2.0	4.0	10	2,348	0.68
'1903	Tapioca and substitutes therefore prepared from starch	0.0	0.0	0.0	0	29.0	32.0	11.0	8.0	4	8,794	0.38
'9113	Watch straps, watch bands and watch bracelets	0.0	0.0	0.0	0		25.0	15.0	0.7	13	7,317	0.47
'3909	Amino-resins, pheonolic resins and polyurethanes	0.0	0.0	0.0	6	19.0	35.0	6.0	0.1	45	2,369	0.27
'7110	Platinum, unwrought or in semimanufactured forms	0.0	0.0	0.0	8	460.0				56	5,925	0.53
'1404	Vegetable products, nes	0.0	0.0	0.0	0	25.0	42.0	12.0	1.4	20	3,714	0.44
'6310	Rags,scrap twine,crodage,rope	0.0	0.0	0.0	0	188.0		13.0	3.5	7	2,303	0.79
'5911	Textile products&articles for tech uses	0.0	0.0	0.0	2	124.0	95.0	4.0	0.2	40	2,683	0.31
'7310	Iron &steel tank,cask,drum can,boxes (cap<=300l)	0.0	0.0	0.0	3	12.0	38.0	3.0		70	4,653	0.20

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'9202	Other string musical instruments (e.g. guitars, violins,	0.0	0.0	0.0	0	-12.0		7.0	0.1	28	6,187	0.12
'2711	Petroleum gases	0.0	0.0	0.0	188	26.0		11.0		76	1,308	0.29
'8408	Diesel or semi-diesel engines	0.0	0.0	0.0	19	-14.0		5.0		49	3,086	0.17
'9105	Other clocks	0.0	0.0	0.0	0	-9.0		2.0		36	4,787	0.19
'0802	Nuts nes	0.0	0.0	0.0	5	6.0	-3.0	13.0	0.1	41	4,138	0.21
'3506	Prepared glues & adhesives nes; glue packaged	0.0	0.0	0.0	3	24.0	23.0	8.0	0.2	35	3,453	0.25
'8451	Machinery nes,washing/clean/ironing/impreg tex yarn	0.0	0.0	0.0	2	4.0		3.0		62	4,828	0.13
'5310	Woven fabrics of jute or of other tex bast fibres of hd	0.0	0.0	0.0	0	-11.0	-19.0	4.0	0.4	13	5,148	0.48
'5512	Woven fab of syn staple fibre (> 85 per cent of fiber)	0.0	0.0	0.0	1	13.0	5.0	5.0	0.5	25	3,545	0.17
'7101	Pearls, nat or cult, etc	0.0	0.0	0.0	0	-6.0		-4.0	0.3	21	3,472	0.40
'0807	Melons (including watermelons) & papayas, fresh	0.0	0.0	0.0	2	21.0	14.0	1.0	1.6	14	2,397	0.98
'7324	Sanitary ware & parts thereof, of iron or steel	0.0	0.0	0.0	1	-33.0		1.0		53	5,626	0.15
'9103	Clocks with watch movements, excluding clocks of	0.0	0.0	0.0	0	35.0			0.2	29	9,355	0.44
'0803	Bananas and plantains, fresh or dried	0.0	0.0	0.0	6	11.0	-8.0	3.0		57	4,714	0.35
'5208	Woven cotton fabrics, 85 per cent or more cotton	0.0	0.0	0.0	2	11.0	15.0	2.0	0.1	43	2,607	0.41
'9609	Pencil (o/t ballpoint & pencil of hd no 96.08)	0.0	0.0	0.0	0	40.0		7.0	2.8	9	8,638	0.21
'8433	Harvesting/threshing machinery,hay mower,etc	0.0	0.0	0.0	9	11.0		4.0		59	8,115	0.14
'9017	Drawing, marking-out / mathematical calculating inst	0.0	0.0	0.0	1	53.0		10.0	0.1	37	4,103	0.34
'9705	Collection piece of zoo,botanic,history, etc.	0.0	0.0	0.0	1	7.0		12.0		35	11,654	0.30
'3903	Polymers of styrene, in primary forms	0.0	0.0	0.0	7	57.0	71.0	5.0	0.1	37	3,028	0.34
'6906	Ceramic pipes, conduits, gutterings and pipe fittings	0.0	0.0	0.0	0	10.0	10.0	-1.0	0.4	17	3,640	0.89

Source: Authors calculations based on UNSD Comtrade and ITC TradeMap Data

Annex 3 Detailed characteristics of Professional Services and Sub Sectors[204]

I. Legal services

Legal services have developed rapidly in recent years in Vietnam with a more diverse scope of activity and improving quality. Legal services are playing a supporting role to the operation of many businesses and people in Vietnam, from the establishment of enterprises to daily their daily operation. Forms and activities of legal services suppliers have also expanded.

At present, according to Vietnam Bar Federation (VBF), there are 62 bar associations in 63 provinces and cities nationwide with a total membership of 7.476 lawyers and 3.467 trainee lawyers who are working for nearly 2.817 law-practicing organizations in 2012, including 2.047 lawyers' offices and 770 law firms, around 10 specialized in foreign-involved business[205], trade and investment and 123 individual lawyers in 2012.[206] The similar numbers of 2011 are 6710 lawyers and 1148 law-practicing organisations respectively. In another report after 3 years in operation of VBF, there are 56 foreign law-practicing organisations licensed to establish in Vietnam, with more than 200 foreign lawyers practicing in Vietnam.[207]

The quality of Vietnamese lawyers, has been gradually improved, initially meeting requirements of professionalization; the numbers and diversity of cases and clients have also increased; the scope of law practice has become wider and wider with fast-growing numbers of overseas clients.[208] In 2010, the rate of businesses using legal services increased to 67.5 per cent (1.43 times that in 2008). [209]

Preliminary statistics can be found along with the supply of a large number of legal service to society, lawyers Vietnam has annually contributed to state budget hundreds of billions VND through tax obligation.[210]

Legal services were traditionally provided by individual professionals or small firms in Vietnam. Over the past decade, the sector has experienced significant increase in number of large multinational law firms with international networks such as Mayer Brown JSM, Audier & Partners, Freshfields Bruckhaus Deringer, Baker & McKenzie, Allen and Overy LLP, AAR, etc.

The Legal 500 (Asia Pacific) 2013 divides law firms in Vietnam into different sectors, i.e. banking and finance, capital markets, corporate and M&A, dispute resolution, insurance, IP, projects and energy, real estate and construction, shipping, TMT & tax. Tier 1 for banking and finance includes Allens (Australia), Frasers Law Company (EU), Freshfields Bruckhaus Derringer (UK), Gide Loyrette Nouel

[204] This section was authored by Ms Vu Le Phuong
[205] Decision No. 1072/QD-TTg approving the strategy for development of lawyers' profession through 2020 dated July 05, 2011.
[206] Report no. 01/BC-LĐLSVN on the organisation of activities in 2012 and 2013 business plans of the Vietnam Bar Federation dated January 05, 2013.
[207] Report no. 04/BC-LĐLSVN on the organisation and operation of VBF after 3 years of establishment dated July 15, 2012.
[208] Decision No. 1072/QD-TTg approving the strategy for development of lawyers' profession through 2020 dated July 05, 2011.
[209] Strategy for development of lawyers' profession through 2020: By 2015 and 2020, this rate is expected to reach 85 per cent and 90 per cent respectively.
[210] Report no. 01/BC-LĐLSVN on the organisation of activities in 2012 and 2013 business plans of the Vietnam Bar Federation dated January 05, 2013.

AARPI (EU), Mayer Brown JSM (US) & YKVN (Vietnam); tier 2 follows by Allen & Overy LLP (UK), Audier & Partners Vietnam (EU), Baker & McKenzie (US), Hogan Lovels International (US), Leadco Legal Counsel (Vietnam), Vilaf (Vietnam), Vision & Associates (Vietnam). Leading corporate and M&A is Baker & McKenzie, Duane Morris Vietnam LLC, Frasers Law Company, Freshfields Bruckhaus Deringer, Gide Loyrette Nouel AARPI, Mayer Brown JSM, VILAF, YKVN (tier 1) and Allen & Overy LLP, Allens, Audier & Partners Vietnam L.L.C., DFDL (Mekong), Hogan Lovells International LLP, LuatViet Advocates & Solicitors (Vietnam), Russin & Vecchi, LLC (US), Tilleke & Gibbins (Thailand). For other subject matters, tiers 1, 2 and 3 are also shared among those above mentioned international firms who mostly come from EU, ASEAN and US and local firms from Vietnam. In which VILAF and YKVN are the two biggest Vietnamese law firms, ranked number 1 or 2 in banking and finance, capital market and corporate and M&A who have emerged in the last decade to provide legal advice service to foreign investors together with a significant foreign investment flow into Vietnam.

<u>Limitation on Market Access</u>

<u>Scope of activity</u>

Regarding WTO commitments, Vietnam allowed legal services in different areas under CPC 861, excluding: (i) participation in legal proceedings in the capacity of defenders or representatives of their clients before the courts of Vietnam; and (ii) legal documentation and certification services of the laws of Vietnam.

Resolution No. 71/2006/QH11 of November 29, 2006 ratifying the protocol of accession of Vietnam to the agreement establishing the WTO is conformed with Vietnam's WTO commitments, which provides that branches and foreign law firms practicing in Vietnam may provide legal consultancy and other legal services, may *neither* nominate foreign lawyers and Vietnamese lawyers being their staffs to participate in legal proceedings before Vietnamese courts *nor* provide services on legal papers and notarization relevant to Vietnamese law, may nominate Vietnamese lawyers being their staffs to provide consultancy on Vietnamese law.

However, Law on lawyer No. 65/2006/QH11 dated June 29, 2006 is more open for branches and foreign law firms practicing law in Vietnam when allow them to provide legal consultancy and other legal services; and nominate Vietnamese lawyers (not foreign lawyers) in their organizations to advise on Vietnamese law or participate in legal proceedings before Vietnamese courts. [211]

Revised Law on lawyers No. 20/2012/QH13 enacted in November 20, 2012, amending and supplementing a number of articles of the Law on Lawyers, therefore, limits scope of activities of branches and foreign law firms practicing in Vietnam in accordance with Vietnam's WTO commitments and Resolution 71.[212] Accordingly, from July 01st 2013, foreign firms are forbidden to participate in legal proceedings before Vietnamese courts or provide services of legal papers and notarization relevant to Vietnam's law.[213]

This new regulation is criticized by a number of foreign law firms and branches practicing in Vietnam since they consider WTO's commitments of Vietnam as a baseline only, not the ceiling for their activities, which allows Vietnamese government to have it domestic regulations more open than its

[211] Decision No. 175/QD-TTg, Article 70 - Scope of professional practice by foreign law-practicing organizations.
[212] Article 70, Law on lawyers No. 20/2012/QH13.
[213] http://vietnamlaw.vnanet.vn/Service.asp?CATEGORY_ID=12&SUBCATEGORY_ID=4&NEWS_ID=5444

WTO's commitments. Therefore, it is recommended, in the new EU-VN FTA or other Vietnam's negotiations, create a level playing field for both foreign and domestic legal firms, especially in the scope of activity.

Form of commercial presence (mode 3)

Foreign lawyers organizations[214] are permitted to establish commercial presence in Vietnam in the following forms: (i) Branches of foreign lawyers organizations; (ii) Subsidiaries of foreign lawyers organizations; (iii) Foreign law firms[215]; (iv) Partnerships between foreign lawyers organizations and Vietnam's law partnerships. Commercial presences of foreign lawyers organizations are permitted to make consultations on Vietnamese laws if the consulting lawyers have graduated from a Vietnamese law college and satisfy requirements applied to like Vietnamese law practitioners. The revised Law on Lawyers in 2012 is consistent with Vietnamese WTO's commitments and provides in more details on the types of companies such as a 100 per cent-foreign-capitalized limited liability company, a law firm in a limited liability partnership, a law firm in a partnership between a foreign law-practicing organization and a Vietnamese law firm partnership.[216]

In order to practice in Vietnam, foreign law firms have to meet certain conditions such as having at least two foreign lawyers practicing in Vietnam at least 183 days in consecutive 12 months; and director must have at least 02 consecutive years of experience in law practicing.[217]

Moreover, a foreign lawyer may be licensed for practicing law in Vietnam if fully satisfying the following conditions:

- Having a law practice certificate which is granted by a competent foreign agency or organization and remains valid;
- Having experience of advising on foreign laws and international law;
- Committing to comply with the Constitution and law of the Socialist Republic of Vietnam and rules of professional ethics and conduct of Vietnamese lawyers;
- Being nominated by a foreign law-practicing organization to practice law in Vietnam or recruited by its Vietnam-based branch or a foreign law firm or Vietnamese law-practicing organization.[218]

Accordingly, a foreign lawyer practicing law in Vietnam may advise on foreign laws and international law, provide other legal services related to foreign laws, advise on Vietnamese law if possessing a Vietnamese bachelor's degree in law and satisfying all requirements prescribed for a Vietnamese lawyer. Most of foreign lawyers are not qualified to provide advices on Vietnam's law since they are unable to meet conditions under this provision. However, in practice, a lot of foreign lawyers are still doing these services.

Presence of natural person (mode 4)

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[214] A "foreign lawyers organization" is an organization of practicing lawyers established in any commercial corporate form in a foreign country (including firms, companies, corporations, etc.) by one or more foreign lawyers or law firms.

[215] Foreign law firm is an organization established in Vietnam by one or more foreign lawyers organizations for the purpose of practicing law in Vietnam.

[216] Article 69, Revised Law on Lawyers No. 20/2012/QH13.

[217] Article 68, Revised Law on Lawyers No. 20/2012/QH13.

[218] Articles 74 & 76, Revised Law on Lawyers No. 20/2012/QH13.

Relating to entry and temporary stay of natural persons or temporary movement of foreign lawyers into Vietnam for providing services, only services provider as defined in the horizontal section of its Schedule are allowed.

=> Current data available does not allow a direct comparison of trade by mode, but mode 3 and mode 1 seem to be the most preferred mode of supply, at least in legal and accounting sectors. Having interviewed an experienced lawyer at a well-known law firm in Vietnam, he believed that mode 1 (cross-border supply) presents for around 60 per cent and mode 3 (commercial presence) presents for 40 per cent provision of legal advice activities in international law firms whereas the per centage is different in local law firms, i.e. 20-30 per cent and 70-80 per cent in Mode 1 and Mode 3 respectively. The interviewee also added that international law firms in Vietnam often provide cross-border supply since they are sub-contracted by mother firm with a wide-ranged network of clients overseas. While local firms, i.e. YKVN, Vilaf Hong Duc, etc. are familiar with Vietnamese laws and legal environment in Vietnam often provide legal advices to foreign invested companies who already established in Vietnam.

Main constraints

First, the current lawyer-to-population ratio remains too low and the development of the contingent of lawyers still sees a significant imbalance between urban areas and rural areas, and remote areas with economic difficulties.

At present, the lawyer-to-population ratio in our country is 1/14.000[219] on average.[220] Moreover, lawyers are practicing largely in major cities, especially Hanoi (1,630 lawyers) and Ho Chi Minh City (2,880 lawyers). This is contradictory with some other localities where have too few lawyers, like Lai Chau, even has fewer than 3 lawyers to establish a bar association. According to strategy for development of lawyers' profession through 2020 of the Prime Minister, general objectives are set by 2020, to have 18.000-20.000 lawyers practicing law in specialized legal fields. Specifically, from now to 2015, objective are to develop around 12.000 lawyers, with 800-1,000 each year, striving for around 1.000 lawyers meeting international integration requirements; by 2020, to develop around 12.000-20.000 lawyers, reaching the ratio of 1 lawyer to 4.500 people.[221]

Second, the quality of lawyers is still limited, failing to meet requirements of the judicial reform, economic development and international integration. As a matter of fact, programs, curricula and methods of training law bachelors, training and practice probation of lawyers still see many constraints.

Third, the position and role of lawyers in the society and in judicial proceedings are still limited and not yet properly recognized.

Fourth, activities of lawyers and law-practicing organizations have not yet been professional while small law-practicing organizations with inadequate physical foundations and poor management still

[219] This ratio in Thailand, Singapore, Japan, France and the United States is 1/1,526, 1/1,000, 1/4,546, 1/ 1,000 and 1/250, respectively.

[220] Decision No. 1072/QD-TTg approving the strategy for development of lawyers' profession through 2020 dated *July 05, 2011.*

[221] Decision No. 1072/QD-TTg approving the strategy for development of lawyers' profession through 2020 dated *July 05, 2011.*

account for over 75 per cent. Clients of lawyers and law-practicing organizations are mostly individuals, accounting for 85 per cent.

In the process of deeper and broader economic integration, the need for use of legal consultancy services provided by Vietnamese lawyers and the number of cases are expected to increase with more diversified types of clients when more and more foreign businesses conduct investment, production or business activities in Vietnam. Therefore, it's recommended that Vietnamese government: a/ To complete institutions on lawyers and law practice toward professionalizing law practice, b/ To further improve quality of lawyer training and retraining; to diversify lawyer training & to provide intensive and transferable training for international economic integration, c/ To attach more importance to quality of lawyers' professional practice in order to meet increasing needs for legal services; and d/ lift the restriction barring foreign law firms and branches from participating in legal proceeding and legal documentation and certification services.

II. Accountancy, auditing, bookkeeping and taxation services

Over the past years, Vietnam has made significant progress in strengthening the role of the accounting profession. Small-scale firms have been popular in accounting services in Vietnam, however, the international market for these services is dominated by few large-scale firms know as the "Big Four" including PWC, Deloitte, Ernst & Young and KPMG.

According to GSO's report on enterprises 2012, there were 586 firms working in Accounting, auditing and taxation consultancy practice at level 3 of M692 of NICSV. While Vietnam Association of Certified Public Accountants (VACPA) calculates that until February 28, 2013, there are 155 registered accounting firms including 04 wholly foreign-owned firms (E&Y, PwC, KPMG, Grant Thornton), 05 foreign invested firms (E Jung, Mazars, HSK, Immanuel, S&S), 145 LLCs, and a partnership firm (CPA VN) with a total of 10070 employed workers persons, 1582 licensed accountants, 192 accountants owned Vietnamese and overseas licenses. According to VACPA's report on accounting firm in 2012, 28 accounting firms in Vietnam are networks firm, association members and correspondent firms, i.e. Big Four, A&C (Baker Tilly International), AAC (Polaris International), GTV (Grant Thornton), DTL (RSM), BDO (BDO International), NEXIA ACPA (Nexia International), IFC-ACA Group (Kreston International), UHY (UHY International), etc.[222] Operation of these firms in the market is now playing a big role in the boosting competition between other market players, which is driving force for services providers to improve their quality.

However, number of accountants is still inadequate compared with the need of Vietnam economy. Until the end of 2012, there are 10070 employees in this sector, increasing 7 per cent compared with 2011, including 8836 professionals (1582 certified accountants, 7973 non-certified). Number of foreigner accountants is still small with 32 owning both foreign and Vietnamese certificates, 2 owning Vietnamese certificate and 25 owning foreign certificate.

Circular No. No. 129/2012/TT-BTC of the Ministry of Finance dated August 09, 2012 on the exams for and issuance of the audit practitioner certificates and accounting practitioner certificate sets conditions for candidates for accounting practitioner certificates which must satisfy conditions of (i)

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[222] VACPA website: http://www.vacpa.org.vn/upload/infodoc/2013baocaotongkethoatdong2012phuonghuonghoatdong2013.pdf

having Bachelor's Degrees or above in finance, accounting, or audit; and (ii) having worked in finance, accounting, or audit for at least 60 months as from the month of graduation written on the higher education graduation decision at the time of exam registration. This is similar to the conditions for candidates for audit practitioner certificates.

Total revenue in 2012 for 147 accounting firms who submitted reports to VACPA are 3,799 billion VND, increased 25 per cent compared with 2011, in which financial statement accounting service is accounted for 60 per cent of total revenue. Regarding clients for this sector, foreign invested companies make up 35 per cent while private companies accounts for 39 per cent and SOE with 9 per cent of total revenue.[223]

Vietnam made an unlimited commitment with accounting and auditing and bookkeeping services (CPC 862) in modes 1, 2 and 3 under its WTO accession. Accordingly, foreign firms in this sector can provide services without any restrictions, except for restrictions on presence of natural person under horizontal section of its Schedule. Foreign firms can provide cross-border supply without having commercial presence in Vietnam. On mod 4, accountants and auditing persons are considered as "specialists", therefore, having to comply with horizontal commitments. In which, specialists, as defined hereunder, of a foreign enterprise which has established a commercial presence in Vietnam shall be granted entry and a stay permit for an initial period of three years which may be extended subject to the term of operation of those entities in Vietnam.[224]

Regarding taxation services, Vietnam fully committed under modes 1 (cross-border supply) and mode 2 (consumption abroad). However, commercial presence under mode 3 is restricted until 11 January 2008, which is now lifted.

For the period of 1 year from the date of accession, the licensing shall be made on the case by case basis and the number of service providers shall be decided by Ministry of Finance subject to the need and development scope of Vietnam's market[225].
For the period of 1 year from the date of accession, foreign-invested enterprises providing taxation services are only permitted to supply services to foreign-invested enterprises and foreign funded projects in Vietnam.

<u>Restraints and Recommendations:</u>
Quality of accounting and auditing firms is still low, except for some 100 per cent foreign owned firms or branches of international firms. Most of firms are not competitive enough to keep up with international standards therefore still face a lot of difficulties in an economic integration after Vietnam became a member of WTO. Second, quantity and quality of auditors and accountants are still limited while only big firms pay attention to the training activities. Thirdly, accounting services has not been widely used leading to proportion of the profits of these services are still limited. Fourth, legal system for accounting and auditing services are not yet completed, especially there is an inadequate of legal regulations to control the quality of the accounting and auditing services.

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[223] VACPA website, *ibid*
[224] WTO commitments of Vietnam in 2007, Part II - Schedule of Specific Commitments in Services, Schedule CLX of the Working party on the accession of Vietnam.
[225] The main criteria include the number and the operation of enterprises in the market and their impact on the stability of the market and the economy.

III. Architectural services, Engineering services and Integrated engineering services

Architectural services (CPC 8671), Engineering services (CPC 8672) and Integrated engineering services (CPC 8673) have grown very fast in Vietnam in the past few years, mainly due to rapid growth in the economy and a booming in real estate market while real estate sector was attracting the most foreign direct investment capital. According to GSO, Architectural practice; technical inspection and analysis (M71) accounted for a largest number of companies in 2012 with 13228 firms. However, the quality of services is still limited and quality standards are still inadequate and not updated with lacks of supervising mechanism.

Vietnam is quite open under its WTO commitments in this sector with no limitation under modes 1 (cross-border supply) and mode 2 (consumption abroad) for foreign firms. However, there are some restrictions regarding mode 3 on commercial presence when it provides that for the period of 2 years from the date of WTO accession, 100 per cent foreign-invested enterprises may only provide services to foreign-invested enterprises in Vietnam. Foreign enterprises have to be juridical persons of a WTO Member. [226] Vietnam now opens to mode 3 for WTO members' foreign enterprises.

Among constraints, professional standards of these sectors are provided by government, instead of professional associations, leading to service quality varies widely. Besides, even Vietnamese people recognize the importance of architectural, engineering services; the market is still limited to big cities like Hanoi and HCM City. Integrated engineering services are still new in Vietnam, normally provided by government authorities and ministries. Even number of firms in these sectors has been increasing enormously; the coordination between them is not yet effective and not yet attracting modern technology from foreign countries.

It is recommended that to create a good condition for this sector, the Government of Vietnam should simplify the licensing procedures and shift its management role to professional associations. The government and associations should also give a priority to professional standards.

<u>Current barriers of EU</u>

According to EU's WTO commitments, EU committed to liberalize its 12 professional services sub-sectors including: a) legal advice on home country law and public international law; b) accounting services; b) auditing services; b) bookkeeping services for A only; c) taxation advisory services; d) architectural services; e) engineering services; f) integrated engineering services; g) urban planning and landscape architectural services; h) medical, dental and midwives services; i) veterinary services; j) services provided by nurses, physiotherapists; and paramedical personnel and supply of pharmaceutical goods to the general public (pharmacists).[227] EU commitments in professional services are complicated since it includes different commitments for sub-sectors and different for each EU members.

As for *legal advice home country law and public international law*, EU does not have any limitation on Mode 2 (consumption abroad) for all its members. While France and Portugal have not undertaken any obligations in respect of drafting of legal documents (unbound for drafting of legal

[226] WTO commitments of Vietnam in 2007, Part II - Schedule of Specific Commitments in Services, Schedule CLX of the Working party on the accession of Vietnam.

[227] http://i-tip.wto.org/services/SearchResultGats.aspx

documents) under Mode 1 (cross-border supply). Limitations under Mode 3 (commercial presence) are with Germany and France. Germany limits the access of with subject to acceptance into a Bar Association according to the "Federal Lawyers Act" which requires establishment which is restricted to sole proprietorship or partnership only. France applies types of business entity for foreign firms, which allows provision through SEL (anonyme, à responsabilité limitée ou en commandite par actions) or SCP only.[228] For Mode 4, most EU members agreed “unbound” which means they have reserved the right to place restrictions on presence of natural persons in this sub-sector. Germany and UK are exception when they follow requirements indicated in the horizontal section for mode 4 and requires people working in this sector to have university degree and professional qualifications and three years' professional experience in the sector.

Regarding *accounting services*, France, Greece and Italy reserve the right to limited cross-border supply (mode 1) in this sub-sector. EU does not apply any limitations to Mode 2. Foreign companies want to set up firms in this sub-sector (mode 3) can only provide through a SEL (anonyme, à responsabilité limitée ou commanditée par actions) or SCP only in France, or through professional establishment only in Portugal or professional association (no incorporation) among natural persons in Italy; while "GmbH & CoKG" and "EWIV" is prohibited in Germany, and access is restricted to natural persons in Italy. Presence of natural persons are unbound except for Austria, Germany, Luxembourg, the Netherlands, UK and Sweden where as indicated in the horizontal section and subject to specific limitations related to university degree and professional qualifications and 3 years’ experience in the sector (Austria, Germany, the Netherlands, UK and Sweden) or examination before the Austrian professional body (Austria) or limited for activities reserved by law in the "Wirtschaftsprüfer" (Germany).

[228] http://i-tip.wto.org/services/GATS_Detail.aspx/?id=23097&sector_path=0000100013

Annex 4 Current Barriers of Vietnam in Financial Services by Mode and Types of Commitments[229]

Vietnam's WTO accession related to banking and other financial services covers 4 modes of supply and 2 major restrictions: National Treatment and Market Access. After negotiations, level of commitment is either 'unbound' or 'none'. *Unbound* means Vietnam doesn't have any commitment yet on the time and the degree of liberalization. *None* means Vietnam has entered commitments with WTO members and has to adhere what it has committed. The opening of domestic financial market to foreign participation should reach at least the commitment level and the scheduled timeline.

Among the four modes of supply, Vietnam has unbound commitment on mode 1 and mode 4, while has none commitment on mode 2 and mode 3. Since financial services traded via mode 2 and mode 4 of supply are very negligible our comments limit just on mode 1 and mode 3.

On mode 1 of supply, Vietnam removed restrictions on current account transactions on June 1, 2005. The country also commits to gradually lifted restrictions on capital transactions of foreign investors and foreign borrowing. However, under AFTA commitment to completely liberalize financial services by 2020, Vietnam shall spare favourable conditions and further liberalize capital flows for ASEAN's members by 2015. And, to achieve a closer monetary cooperation through promoting intra-regional trade and further integrating economy and financial sector in 2020, ASEAN countries agreed to set up a group responsible for the exchange rate mechanism.

On mode 3, foreign credit institutions have been permitted to establish a commercial presence in Vietnam in a number of forms including representative offices, branches of commercial banks, commercial joint-venture banks with foreign capital contribution not exceeding 50 per cent of charter capital, and banks with 100 per cent of foreign-owned capital. Similar regulations are applied to insurance companies. Restrictions on deposit-raising activities in local currency of foreign bank branches were removed on 1 January 2011.

However, the remaining restrictions are in line with the reservations in the WTO, including restrictions on the equity participation of foreign investors in commercial banks of Vietnam, and restrictions on the opening of transaction offices outside the head office of a foreign bank. Further, Vietnam still maintains its national treatment with state owned commercial banks.

Another barrier for establishing a branch of a foreign commercial bank in Vietnam is that the parent bank should have total assets of more than US$15 million at the end of the year prior to application; this threshold has been raised to VND3 trillion (about US$154 million) from VND1 trillion (about US$50 million) for a joint-venture bank. As required by SBV regulations, small banks have been raising additional charter capital to meet the increased minimum capital requirement of VND 3 trillion since the end of 2011.

Many significant regulatory changes have been conducted in the insurance sector. Foreign-invested insurance companies are accorded access to information on measures relating to or affecting the

[229] Written by To Thi Anh Duong

supply of insurance services in Vietnam on a national-treatment basis. Since January 2008, foreign-invested companies have been allowed to supply compulsory insurance services (including motor third-party liability coverage). The amended Law on Insurance Business, effective 1 July 2011, aims to align the current insurance legislation more closely with international practices and to codify some of Vietnam's GATS commitments. A December 2011 Decree, effective 15 February 2012, covers the provision of cross-border insurance services, establishment and operation of foreign insurance branches in Vietnam, and legal capital requirements. A range of regulations, circulars, and guidelines were issued to promote insurance in new sectors (e.g. compulsory fire and explosion insurance). The authorities indicated that life (or other) insurance purchased from domestically owned companies does not involve preferential personal tax treatment for contributions and benefits.

Similar to the banking sector, legal capital requirements for insurance companies are: VND 300 billion for non-life and for health insurance companies; VND 400 billion for non-life and for health re-insurance enterprises; VND 600 billion for life insurance enterprises; VND700 billion for life and for health re-insurance enterprises; and VND 1.1 trillion for enterprises operating life, non-life, and health re-insurance simultaneously.

Regarding the period business practice, Vietnam doesn’t have any commitment yet, which means ‘unbound’. So it gives Vietnam freedom to regulate the time to which foreign credit and insurance institutions could sustain their financial business in Vietnam’s territory. Pursuant to current stipulation in Vietnam, the maximum period for foreign banking and insurance services is not exceeding 99 years, and for other foreign financial services (investing and leasing) is not exceeding 50 years.

Vietnam could also adopt applicable prudential regulations to partially protect its weak and transitional financial sector. Particularly, the country could apply reserve requirements exerted on foreign commercial banks (branches, joint venture and 100 per cent foreign owned banks), capital requirements as well as technical prerequisites, human resources. In the insurance sector, insurance companies (particularly the foreign-invested ones) are requested to set up strict risk management and internal control process. The Insurance Supervisory Authority under the MOF, which ensures supervision and implementation of operational requirements of the sector, conducts an average of nine inspections each year to detect and deal with violations in the insurance industry; the main violations include appointment of unqualified personnel, capital investment, and off-the-book reserved funds.