

Impact of EVFTA on Attracting Investment into Vietnam

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Abstract: EVFTA (European-Vietnam Free Trade Agreement) is a free trade agreement between the European Union and Vietnam. The EVFTA Agreement is a free trade agreement between Vietnam and 27 EU member countries. Not only does it eliminate more than 99% of customs duties on goods, but the agreement also opens Vietnam's services market to EU companies and enhances the protection of EU investments in Vietnam. This study shows that the EVFTA Agreement has a huge impact on Vietnam's economy, specifically: Impact on economic growth, trade (import and export); impact on the state's budget; impact on foreign direct investment; impact on changes in laws and institutions, improving the business environment. Based on an analysis of the current situation, this study proposes solutions further to enhance the advantages of the EVFTA Agreement for Vietnam.

Keywords: EVFTA Agreement, impact, investment, EU, Vietnam.

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INTRODUCTION

Integration is an inevitable trend, no country can be left out of this trend. With the motto of deep international integration, Vietnam is increasingly actively participating in bilateral and multilateral cooperation to access foreign markets to serve the goal of building and developing the country. Since officially taking effect on August 1, 2021, the Vietnam - European Union Free Trade Agreement (EVFTA) has strongly promoted Vietnam's economic, trade, and political activities (VTRA, 2020). After more than a year of implementing the Agreement, import-export trade turnover between Vietnam and the EU has increased by 18.0%. Vietnam's trade surplus with the EU is more than 11 billion USD, including many strong products such as textiles, footwear, agricultural and aquatic products, etc. Vietnam has taken advantage of its advantages in both import and export (Quang, 2022).

However, besides the well-utilized advantages, Vietnam also faces some difficulties in

the process of implementing the Agreement, such as regulations related to origin, law enforcement, intellectual property, and environmental standards, etc., these issues will bring certain challenges to Vietnam's economic and social development (Quang, 2022).

Vietnam is an important trading partner in the EU, therefore researching and evaluating the achievements and difficulties in the implementation of EVFTA is important for Vietnam's economic development in the context of a pandemic. COVID-19 is still extremely complicated, and the US-China trade competition has no end. In addition, the world economy has been strongly affected by the Russia-Ukraine conflict, affecting all sectors, disrupting important production value chains, causing a decline in consumer industries, affecting import-export trade turnover, causing domestic businesses to fall into a difficult situation due to reduced trade demand (Government 2022).

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Participating in signing the CPTPP and EVFTA Agreements, Vietnam always perseveres in the direction of sustainable development, building and promoting circular economic development, and building a green, environmentally friendly economy (Han, 2023). Compared to early-stage FTAs, the CPTPP and EVFTA Agreements are FTAs with more extensive and detailed environmental commitments (VCCI, 2020 & 2023).

Within the scope of this article, the author will practice answering the following questions:

- What is the impact of EVFTA on economic growth?
- How does EVFTA impact trade (import and export)?
- What impact does EVFTA have on the state budget?
- How does EVFTA impact foreign direct investment?
- Why does EVFTA have an impact on changing laws, and institutions, and improving the business environment?

Based on answering the above questions, point out the actual impact of the EVFTA Agreement on Vietnam's economy; specify a number of issues that need to be discussed and propose solutions further to enhance the advantages of the EVFTA Agreement for Vietnam.

LITERATURE REVIEW

EVFTA (abbreviation of the English word: European-Vietnam Free Trade Agreement) is the European Union-Vietnam Free Trade Agreement.

The EVFTA Agreement is a free trade agreement between Vietnam and 27 EU member countries.

Not only does it eliminate more than 99% of customs duties on goods, but the agreement also opens Vietnam's services market to EU companies and enhances the protection of EU investments in Vietnam.

According to data from the European Commission, this Free Trade Agreement (FTA) can boost Vietnam's booming economy by up to 15.0% of GDP, helping the proportion of Vietnam's exports to Europe increase by more than one-third. For the EU, this agreement is an important stepping stone to a larger trade agreement with ASEAN countries.

On December 1, 2015, EVFTA Agreements officially ended negotiations and on February 1, 2016, the agreement text was announced. On June 26, 2018, EVFTA was split into two Agreements, one the Trade Agreement (EVFTA), and the other the

Investment Protection Agreement (EVIPA); at the same time, officially ending the legal review process for the EVFTA Agreement. In August 2018, the legal review process for EVIPA was also completed.

The two Agreements were signed on June 30, 2019. On January 21, 2020, the International Trade Committee of the European Parliament (INTA) approved the Agreement, and on February 12, 2020, the European Parliament officially approved both agreements.

The EVFTA Agreement officially takes effect on August 1, 2020, opening up great opportunities and prospects. This is also a particularly important moment for the Vietnam-EU comprehensive cooperative partnership.

Besides the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the EVFTA Agreement is an important new-generation free trade agreement that Vietnam participates in. The conclusion of negotiations, signing, and ratification of the Agreement is a long way with Vietnam's efforts, efforts, and determination the goal of improving the bilateral trade relationship between Vietnam and the European Union. Europe reaches a new level. In particular, the Agreement signed by both sides and ratified by the European Parliament plays a huge role for the Vietnamese National Assembly in promulgating legal documents as well as conducting necessary diplomatic activities and promptly handling issues of concern to the EU.

Theoretical Framework and Basis of the Research

Implementing the Prime Minister's instructions, the Ministry of Planning and Investment has researched to assess the impact of the EVFTA Agreement on Vietnam. The research results are as follows:

Two-way trade and investment from the EU into Vietnam after the EVFTA Agreement takes effect is forecast to grow at a fairly high level, positively contributing to economic growth and creating jobs for workers. Particularly, state budget revenue will likely improve and increase in the medium and long term.

In addition to the general impacts on different aspects of the economy (macroeconomic indicators), the Agreement has different impacts on industries due to the level of openness, competitive advantage, capacity, and productivity. The strengths of each industry are different. In addition, the indirect impact through institutional reform pressure is EVFTA (European-Vietnam Free Trade Agreement), the European Union - Vietnam Free Trade

Agreement, officially effective from August 1, 2020; From there, opening up new opportunities and prospects in the comprehensive cooperative partnership between Vietnam and the European Union (EU). "The objectives of this Agreement are to liberalize and facilitate trade and investment between the Parties by the provisions of this Agreement" (Article 1.2 Chapter 1).

Along with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the EVFTA Agreement is the two FTAs with the widest scope of commitments and the highest level of commitment of Vietnam ever.

The CPTPP and EVFTA Agreements are agreements with a deep and broad level of commitment, related to many issues besides economic benefits; which affirms the commitment and consensus of the parties in ensuring the implementation of environmental commitments and ensuring sustainable development. This will also bring positive impacts to the economy.

RESEARCH RESULTS

Impact of EVFTA on Economic Growth

Research by the Ministry of Planning and Investment (2022) shows that if commitments on tariff and non-tariff reductions are thoroughly implemented, combined with some factors from the trade war, the possibility of the UK leaving will increase. From the EU (Brexit), and policy changes of other countries, etc, Vietnam's economic growth will improve in both the short, medium, and long term. Calculation results show that the EVFTA Agreement is expected to contribute to an average increase in GDP from 2.18% to 3.25% (for the first 5 years of implementation), 4.57% to 5.30 % (for the next 5-year period) and 7.07% to 7.72% (for the next 5-year period).

Impact of EVFTA on Trade (Import and Export)

Regarding exports, the EVFTA Agreement is expected to help Vietnam's export turnover to the EU increase by about 42.7% by 2025 and 44.37% by 2030 compared to without the Agreement.

In terms of Vietnam's total export turnover to the world, it is expected that our turnover will increase by an average of 5.21% to 8.17% (for the first 5 years of implementation), 11.12% to 15.27% % (for the next 5-year period) and 17.98% to 21.95% (for the next 5-year period).

The export growth rate of some industries to the EU is as follows:

Agricultural product group: rice (increase by 65.0% by 2025), sugar (8%), pork (4.0%), forest

products (3%), meat, livestock, and poultry (4.0%); beverages, and medicine leaves (5.0%).

Manufacturing and processing industries increased: textile (67.0%), garment (81%), and footwear (99%).

Service industry groups increased: water transport (100%), air transport (141%), finance and insurance (21.0%), and other business services (80.0%).

Regarding imports, Vietnam's imports from the EU increase by about 33.06% in 2025 and 36.7% in 2030.

In terms of Vietnam's total import turnover from the world, our turnover is expected to increase by an average of 4.36-7.27% (for the first 5 years of implementation), 10.63-15.4%. (for the next 5-year period) and 16.41% to 21.66% (for the next 5-year period).

The product groups that are forecast to increase imports the most from the EU are vehicles and transport equipment, accounting for about 12% of the total added import value, machinery and equipment groups (10%), textiles, garments, and telephones. electronic components (6.0% to 7.0%), agriculture, forestry, and fisheries (5.0%).

Overall, EVFTA will contribute to diversifying our market so that we are not too dependent on one market, thereby helping to ensure Vietnam's economic security.

Impact of EVFTA on Foreign Direct Investment

Research has not calculated the exact number of increased FDI because it depends on many factors. However, the expectation of institutional innovation and an improved investment environment due to the implementation of the Agreement will create great attraction for investors.

The Agreement's broad and deep investment commitments will help Vietnam continue to innovate its economic structure and improve institutions and the business environment in Vietnam, creating favorable conditions for EU investors to do business in Vietnam. Vietnam.

Commitments on investment facilitation along with the increased level of liberalization of Vietnam's service sectors for EU service providers, especially business services, environmental services, and postal services, banking, insurance, shipping. This will promote FDI capital flows from the EU to Vietnam to increase shortly.

Regarding investment quality, with the EVFTA Agreement, investment from partners originating from developed countries will increase because Vietnam increases the opening of its goods and services market to EU businesses. This will create new motivations for FDI capital flows into Vietnam.

The structure of investment sectors may also change as Vietnam attracts new investment partners and areas that attract investment are expanded. With EVFTA, the structure of FDI capital flows into investment fields with large room for investment in Vietnam and the EU can also be strong such as clean energy and renewable energy.

Survey results show that the most common adverse impacts that businesses suffer from EVFTA are the additional costs that businesses must prepare or implement to be ready for high standards of environmental protection, ensure sustainable development according to the Agreement or according to the requirements of the EU market to be able to take advantage of opportunities from this Agreement (59.1%), followed by businesses' products having to compete more fiercely with imported goods enjoying incentives from EVFTA (31.8%) and concerns that measures to protect domestic production must be removed as committed (36.5%).

For CPTPP, about 4.0% of businesses face losses due to competitive pressure; The most common is damage caused by businesses' products having to compete more fiercely with imported goods that enjoy preferential treatment from CPTPP, as well as compliance costs (increased costs to get ready for standard commitments). Environmental standards in CPTPP.

In the current context, Vietnamese businesses have been maintaining production and business activities according to the "brown economy" - a traditional economy with a high level of natural resource consumption and emissions into the environment, leading to the need to transition to a "green" and environmentally friendly economy, which is a requirement that cannot happen quickly in a short period.

Impact of EVFTA on the State's Budget

Tariff reduction under the EVFTA Agreement will have a two-way impact on state budget revenue (state budget). One is a reduction in state budget revenue due to reduced import and export taxes. Second, increase state budget revenue due to additional revenue from domestic revenue under the positive impact of trade, investment, and economic growth.

Accordingly, the total expected reduction in state budget revenue from reducing export and import taxes according to the roadmap of the EVFTA Agreement is 2,537.3 billion VND. On the other hand, state budget revenue increased due to domestic revenue from the growth impact of EVFTA of VND 7,000 billion in the period 2020-2030. The increase will gradually increase according to the level of impact of the Agreement on growth. Thus, the benefits of the EVFTA Agreement on budget revenue may be better promoted in the medium and long term (VNTR, 2022).

Impact on Legal and Institutional Changes, Improving the Business Environment

The EVFTA Agreement is an opportunity for Vietnam to continue to reform its institutions and laws in the direction of approaching international standards, perfecting the business environment in a more open, transparent, and predictable direction, thereby promoting economic growth. Promote both domestic and foreign investment as well as other business activities, including cross-border transactions and types of services provided across borders.

Adjustments and amendments to legal regulations to comply with the EVFTA Agreement in some areas such as intellectual property will also contribute to helping businesses enjoy higher protection for their investment results. creative. This is the motivation for businesses to continue to invest more in creative activities to innovate technology and create a good environment for attracting foreign technology transfer to improve the quality of Vietnamese products.

Impact of EVFTA on Industries

Fishery industry: The EVFTA Agreement will bring great market potential for Vietnam's seafood exports. However, there are many short- and long-term difficulties (actively sourcing raw materials and breeds, combating illegal fishing, solving the problem of antibiotic chemicals in aquatic products) and non-tariff barriers. Quite high from the EU are huge challenges. It is expected that exports of this product to the EU will increase at an average rate of 2.0%/year in the period 2020-2030, while imports from the EU may increase higher (in the range of 2.8%-5.0%).

Textile and garment industry: It is forecast that textile and garment export turnover to the EU market will increase rapidly at about 67.0% by 2025 compared to the scenario without the Agreement. Regarding output, in general, the EVFTA Agreement has a positive impact on output with an increase rate of 6.0% (for the textile industry) and 14.0% (for the garment industry) by 2030.

Footwear industry: When the Agreement comes into effect, it will contribute to a significant increase in leather shoe exports to the EU. The growth rate of exports to the EU is forecast to double by 2025, and total leather shoe exports will also increase by about 34%, with the industry's output increasing by 31.8%.

Electronics and computer industry: According to the EU's current tax schedule, import taxes on electronic computers (computers) and electronic products (final consumer goods) are mostly equal to 0.0%, or a tax rate below 10.0%, so when the EVFTA Agreement takes effect, it will have a negligible impact on exports from Vietnam. However, the EVFTA Agreement is also a driving force to attract FDI from the EU and other countries to Vietnam in the context that domestic supporting industries are not yet developed and Vietnam's FDI attraction strategy focuses on industry development.

High-tech industry:

Machinery and spare parts industry: Vietnam is a large importer of machinery and equipment, while the EU is a country with strengths in machinery and equipment and is Vietnam's fourth largest import market. Male for this item. Therefore, Vietnam's removal of import taxes on machinery and equipment from the EU will promote increased imports and may decrease in other markets due to the impact of trade diversion. Because EU machinery and equipment have higher technology than some other traditional markets, this may create an opportunity for Vietnam to improve domestic production technology.

Pharmaceutical industry: The EVFTA Agreement's commitment to tariffs on pharmaceuticals may not create any major changes shortly for the export and import of pharmaceuticals between Vietnam and the EU. However, commitments related to pharmaceuticals in other aspects will have a significant impact on the Vietnamese pharmaceutical market and businesses when the EVFTA Agreement takes effect, in the direction of: (i) pharmaceuticals from the EU will Entering Vietnam is more convenient, easier and more direct; (ii) the level of intellectual property protection for pharmaceuticals will be enhanced, causing some pharmaceutical products to be slower to reduce prices; (iii) fiercer competition in drug supply packages for Vietnamese hospitals (in the group that has committed to opening up to EU contractors). This impact is more obvious with brand-name drugs and specialized drugs (a group of drugs with exclusive protection that cannot be produced in Vietnam). For common medicinal products and generic drugs that Vietnam has produced, the impacts are not too great.

Financial services, banking, and insurance industry: The EVFTA Agreement opens up opportunities to promote the liberalization of Vietnam's financial services, banking, and insurance industry. The impact of opening services on this industry group is positive in terms of demand for services and opportunities for cooperation with businesses from the EU. By 2025, Vietnam's exports of financial and insurance services will increase by about 21%, imports will increase by 9.65%. However, competitive pressure is huge, and at the same time, macroeconomic stability pressure is also greater due to opening up this service, making Vietnam more sensitive to external shocks.

Logistics industry: The EVFTA Agreement can affect the development prospects of the logistics industry from two angles: (i) Vietnam and the EU's commitment to open markets in the field of transportation and transportation services; (ii) commitments in areas that affect the logistics service market capacity in terms of scale, service quality, capacity expansion needs, and service implementation.

Some Issues Discussed

According to research by the Ministry of Planning and Investment, the EVFTA Agreement is expected to help increase jobs by about 146,000/year, focusing on labor-intensive industries and high export rates to the EU market. The expected increase in jobs in some industries is as follows: textiles and garments increase by 71,300 (in 2025) and 72,600 (in 2030), and corresponding increases compared to 2018 are 1.2%, 2.3%, and 2.4 %; The leather and footwear industry has a job growth rate of 4.3% and 3.8% in 2025 and 2030. Some other industries that also have a high number of jobs are air transport (1.5% in 2025), and water transport (0.9% by 2025). However, some industries will be affected by job reduction such as forestry, mining, and rice production with a decrease of 0.26 to 0.36%/year (Han, 2023).

The EVFTA Agreement not only brings benefits in terms of the number of jobs but also has the potential to increase workers' wages through more efficient market operations and spillover effects on wages from FDI enterprises. According to calculations, the salary of FDI enterprises will be about 1% higher than that of domestic enterprises.

In addition, because the economies of EU member countries are all developed at a higher level than Vietnam and are complementary to the Vietnamese economy, imports from EU countries are largely uncompetitive directly, so with a reasonable tax reduction roadmap, combined with perfecting the social security system, we can handle social problems

arising from participating in EVFTA. In particular, because the EVFTA Agreement includes commitments on environmental protection, the process of opening up, liberalizing trade, and attracting investment will be carried out in a more environmentally friendly way, helping us increase economic growth. more sustainable growth.

About Challenges and Solutions

The agreement may also bring certain challenges. First, Vietnam will also have to commit to opening its market to goods and services for the EU, creating competitive pressure for our economy, businesses, and goods and services. However, this is healthy, selective competitive pressure and follows an appropriate roadmap (Hai, 2022). More importantly, because the economic structures of the EU and Vietnam are highly complementary and not directly confrontational, it is expected that competitive pressure will not be great. In addition, Vietnam's commitment to opening up has a roadmap, especially for sensitive product groups, so EVFTA is also a reasonable opportunity and pressure for Vietnamese businesses to adjust and change their methods. business knowledge and improve their competitiveness (Han, 2023).

To support businesses, especially small and medium-sized enterprises, to take full advantage of opportunities as well as minimize challenges encountered during the implementation of the Agreement, the Government has been directing Ministries and branches to continue to promote information, propaganda, and guidance to raise awareness and understanding of businesses about the regulations and commitments of the Agreement. In addition, the Government also directs ministries and branches to proactively research and apply measures allowed to apply according to Vietnam's international commitments in general and the EVFTA Agreement in particular to support and protect the environment. protect the legitimate interests of domestic industries against competition from foreign goods.

Second, the EVFTA Agreement also includes strict regulations and rules on investment procedures, customs, trade facilitation, technical standards, animal and plant quarantine measures, and intellectual property. intelligence, government procurement, sustainable development, etc. Full implementation of these regulations requires reform of our legal system. However, this is also consistent with our policy of reforming administrative procedures, enhancing the efficiency of public procurement, and innovating our growth model. On the other hand, this work has also been implemented very proactively and urgently by the Government. Right before signing the EVFTA Agreement, the

Government directed ministries and branches to coordinate with the Ministry of Justice to urgently review current regulations in legal documents within the scope of responsibility to thereby propose solutions. propose amendments, supplements, or appropriate forms of application to ensure compliance with the requirements of the EVFTA Agreement.

CONCLUSION

After 3 years of the EVFTA agreement taking effect, the advantages that the agreement brings and the challenges to the Vietnamese economy are issues we have partly seen. The EVFTA Agreement will continue to play a leading role in the FTAs that Vietnam participates in. The agreement also plays a key role in determining economic trade recovery, especially to promote import-export trade. exports, Vietnam needs to focus on industries and products with strengths.

Vietnam is ready to participate in a large free trade playground, competing with international competitors. The Government is reviewing the law in implementing the agreement, amending and supplementing legal documents by EVFTA regulations, and building and perfecting institutions to create a transparent and favorable environment following international practices.

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