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## The EU's New-Generation Trade Agreement with Vietnam – Opportunities and Challenges for Mutual Trade in Goods<sup>1</sup>

### *Abstract*

**RESEARCH OBJECTIVE:** This work aims to discuss key provisions and the importance of the agreement with Vietnam (EVFTA) from the point of view of mutual trade. To show the effects of the liberalisation of trade in goods, including its opportunities and challenges, the article describes the volume and structure of bilateral trade in recent years.

**THE RESEARCH PROBLEM AND METHODS:** Empirical research centred around an agreement signed between the EU and Vietnam, which is the third new-generation trade agreement entered into by the EU with an Asian country. To achieve the research objective, empirical methods (indirect observation and description) and general methods, including deduction and induction, were used.

**THE PROCESS OF ARGUMENTATION:** The first part presents the preferential agreements concluded by the EU, in particular the new generation of trade agreements. Next, the most important provisions of the agreement with Vietnam are put forward. The last part discusses the trade in goods between the EU and Vietnam in the context of the EVFTA.

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**RESEARCH RESULTS:** The agreement concluded with Vietnam offers many opportunities for both parties. For the European Union the EVFTA facilitates access to a promising Asian country. In the case of Vietnam, the elimination of barriers will benefit key export industries, including the manufacture of smartphones and electronic products, textiles, footwear and certain agricultural products.

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**CONCLUSIONS, INNOVATIONS, AND RECOMMENDATIONS:** Relatively too short a period of time has elapsed since the entry into force of the agreement, therefore it is not possible to comprehensively assess its importance to bilateral trade relations. Such research should be continued in the future. In particular, this concerns research into the effects of liberalisation of mutual trade after the end of transition periods applicable to the elimination of barriers to trade – 7 years for the EU and 10 years for Vietnam respectively.

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**KEYWORDS:**

Free Trade Agreements (FTAs), second- (new-)generation free trade agreements, EVFTA, customs duties, non-tariff barriers

## INTRODUCTION

The European Union (EU) is a signatory of a variety of multilateral, bilateral and regional agreements, serving the role of a key player in the international trade system. The European Union has made a number of preferential trade agreements that provide for reciprocal preferences. They can be categorised into four types:

- First-generation free trade agreements;
- Second- (new-)generation free trade agreements;
- Deep and Comprehensive Free Trade Agreements (DCFTAs);
- Economic partnership agreements.

First-generation free trade agreements had been entered into by the EU before the communication “Global Dimension of Europe” was published in 2006. These agreements covered only trade in goods; mainly industrial products, agricultural articles were usually subject to partial and selective liberalisation.

Second- (new-)generation free trade agreements are comprehensive free trade agreements negotiated after 2006 with selected third countries, which go beyond mere trade in goods. As regards their contents, new free trade agreements have a comprehensive scope and mean the greatest possible liberalisation of trade, including well

advanced liberalisation of services and investments, as well as the elimination of non-tariff barriers, quantitative restrictions.

Deep and Comprehensive Free Trade Areas (DCFTAs), concentrate on the tightening of economic links between the EU and its neighbours by bringing their regulatory framework closer to EU law, notably in trade-related areas.

Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific regions are centred around development needs and support the gradual liberalisation of trade with partner countries.

In the EU's trade policy strategy, ASEAN countries have been identified as priority partners of the EU in the context of the new generation of free trade agreements. After two years of negotiations commenced in 2007 with the ASEAN as a whole, a decision was made not to continue any multilateral talks and to further negotiate in a bilateral format with individual countries. Vietnam stands out among other Asian countries with which the EU has negotiated free trade agreements.

The negotiations of the EU–Vietnam Free Trade Agreement (EVFTA) started in December 2012 and were completed in 2018. The EVFTA was signed on 30 June 2019 and entered into force on 1 August 2020 (Free Trade Agreement between the European Union and the Socialist Republic of Viet Nam, 2019; WTO, 2020). It sets out rules for the liberalisation of trade between the EU and Vietnam. The EVFTA is the most comprehensive and ambitious trade and investment agreement which the EU has ever concluded with a developing Asian country. It is the second, following the agreement with Singapore, free trade agreement entered into with an ASEAN country (WTO, 2021a).

The literature comprises studies on the potential effects of an agreement with Vietnam conducted even before the actual EVFTA was signed (DEUV, 2016; Duong, 2016; European Commission, 2018; Grumiller et al., 2018; Khoát & Cismas, 2019; Kikuchi et al., 2018; Nga et al., 2020; Tröster et al., 2019). There are also publications devoted to selected issues covered by the provisions of the agreement: benefits to the Vietnamese economy (Kikuchi et al., 2018); intellectual property or the labour market (Ha et al., 2021; Huu, 2021; Nguyen & Do, 2020). The authors agree that the agreement between Vietnam and the European Union provided many opportunities and posed

challenges, particularly for the Vietnamese economy. One of the recent studies (Boguszewski, 2022) pertaining to free trade agreements (conducted after the agreement with Vietnam was concluded) concentrates on their impact on the institutional environment of a country, and through this channel, on results and economic growth. Vietnam served as a case study in the aforesaid research. On the other hand, other scholars (Hoang & Garcia, 2022) focused on the reasons behind the decision to enter into the agreement with Vietnam, that is to say, mainly, geo-economic aspects and broad objectives of foreign policy. In the context of these circumstances, the authors put emphasis on the form and contents of the negotiated agreement. Kuźnar & Menkes (2022) point to the significance of new-generation trade agreements made with Asian countries, specifically with Vietnam, for the promotion of European ‘non-commercial’ values (such as human rights and workers’ rights, sustainability). However, in order to perceive opportunities and challenges for EU and Vietnamese companies, one has to adopt many different perspectives. Hence, while conducting research, attention must be given to a variety of aspects.

The article aims to present the main provisions of the new-generation trade agreement concluded with Vietnam of importance to mutual trade in goods and to indicate the main opportunities and challenges for EU and Vietnamese entities. The specific objective is to show the changes that have occurred in mutual trade in goods, in particular after the entry into force of the EVFTA. Due to the relatively short period since the entry into force of this agreement, as well as to the ongoing transitional periods in the implementation of its provisions, it is not possible to fully assess its impacts on bilateral trade relations, especially in the long term. Such research should continue in the future.

## THE MAIN PROVISIONS OF THE NEW-GENERATION FREE TRADE AGREEMENT WITH VIETNAM ON MUTUAL TRADE IN GOODS

The EVFTA establishes a free trade area between the Union and Vietnam, taking into account high levels of environmental protection and compliance with labour law as well as relevant internationally

recognised standards, agreements, practices and guidelines. The specific objectives of the agreement with Vietnam are primarily as follows (based on the EU–Vietnam Free Trade Agreement):

- Elimination of customs barriers to mutual trade for industrial and agricultural goods as shown below (Chart 1 and Chart 2). For almost all import duties, this will happen within 7 and 10 years in the EU and in Vietnam respectively, starting from the entry into force of the EVFTA;
- Reduction of non-tariff barriers to trade in goods. It concerns the removal or reduction of technical and regulatory barriers mainly applicable in the following sectors:
  - motor vehicles;
  - pharmaceutical products.
- Protection of geographical indications. 169 European and 39 Vietnamese geographical indications. The EVFTA recognises and protects geographical indications for wines, spirits, agricultural products and foodstuffs produced in the EU or Vietnam (as listed in Part A of Annex 12-A to the Agreement). All those geographical indications must not be treated as generic product names or used by any entity other than EU or Vietnam producers of authentic goods;
- Sanitary and phytosanitary barriers (SPS). Vietnam and the EU agreed to use the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). The parties also agreed to adopt standards developed by the relevant international organisations. In this respect, the parties also agreed to adopt the international health status developed by the World Organisation for Animal Health – OIE health status (European Commission, 2018, p. 21).

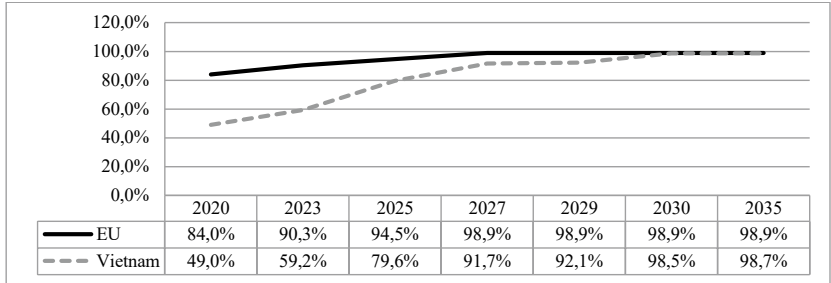
### THE REDUCTION OF CUSTOMS DUTIES AS KEY DETERMINANT OF MUTUAL TRADE IN GOODS

Vietnam benefited from the EU's standard GSP (until the end of 2022), thus enjoying preferential access to the EU market. The average MFN applied tariff in Vietnam (2022) for all goods was 11.7%, double the average MFN tariff in the EU (5.1%); the respective tariffs

were 18.8% for agricultural goods (12.2% in the EU) and 10.5% for non-agricultural products (4.1% in the EU). From the point of view of major goods exported by the EU to Vietnam, relatively high customs duties in Vietnam were noted for transport equipment (the average MFN applied rate – 18.8%), electrical machinery (7.7%), pharmaceuticals (8%). At the same time, the main goods exported to the EU from Vietnam, subject to relatively high customs duties in the EU, were animals and products thereof (the average MFN applied tariff – 17%), coffee, tea (5.9%), cereals and preparations (13.7%), clothing (11.5%), textiles (6.5%) (WTO, 2024, pp. 89, 94).

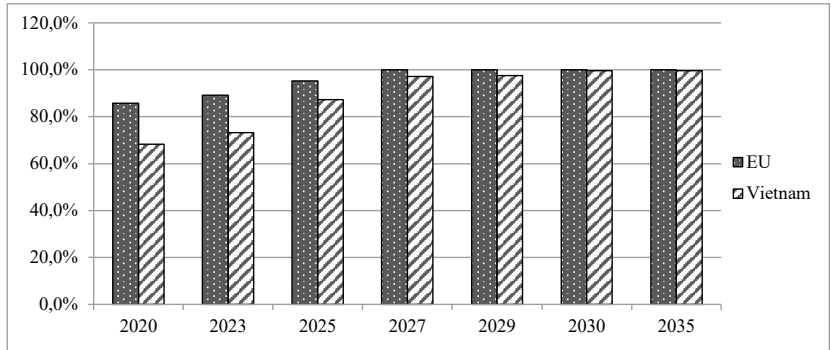
In 2020, the share of MFN duty-free tariff lines in the EU's customs tariff was 26.6%, which corresponded to 65% of imports from Vietnam between 2017 and 2019. In addition, the EU granted preferential duty-free access to goods from Vietnam for 30.5% of tariff lines under the Generalised Scheme of Preferences (GSP), with Vietnam as a beneficiary country (until the end of 2022). After the entry into force of the EVFTA, customs duties were abolished on another 26.9% of the tariff lines of imports from Vietnam. By 2023, duties on additional 598 items were lifted, resulting in the total percentage of duty-free tariff lines at 90.3%, corresponding to more than 89% of imports from Vietnam in 2017–2019. Finally, 106 tariff lines (1.1% of the overall number) would continue to be subject to tariff quotas or specific duties resulting from the entry price system after the implementation period of the reduced duties. With regard to Vietnam, in 2020, 31.1% of all tariff lines had zero MFN tariffs, corresponding to 60% of Vietnamese imports from the EU between 2017 and 2019. Additional tariff reductions (zero duties) on imports from the EU were introduced on 17.9% of tariff lines in 2020. By 2030, after ten years of the implementation of the EVFTA, liberalisation will have covered another 4,124 tariff items, resulting in the total percentage of duty-free tariff items at 92.1%, corresponding to over 97% of imports from the EU in 2017–2019. Finally, 627 tariff items (2.1% of imports) will be duty-free by 2035, whereas 117 tariff items will be subject to customs duties (1.2% of all tariff lines) after the end of the transitional period (Chart 1, Chart 2).

Chart 1. Timeline for the elimination of tariffs on the EU’s selected agri-food products exported to Vietnam



Source: prepared by the author based on: (WTO, 2021b, pp. 12-14).

Chart 2. Timeline for the reduction of tariffs specified in the EU–Vietnam Free Trade Agreement (in consideration of import volumes in 2017-2019)



Source: as in Chart 1.

In particular, the EVFTA eliminates customs duties on a number of key industrial products exported from the EU to Vietnam (European Commission, 2019, p. 26).

- Most items of machinery and equipment will not be subject to import duties in Vietnam (up to 35%); the rest will be duty-free by August 2025;
- By August 2027, Vietnam’s import duties of 75% will be gradually abolished on motorcycles of a cylinder capacity exceeding 150 cc; for smaller motorcycles, imports will be duty-free after 10 years;
- Imports of most cars will be duty-free after 10 years (August 2030); Vietnamese import duty of 78%; motor cars with a large

engine (of a cylinder capacity exceeding 3,000 cc for petrol and exceeding 2,500 cc for diesel) – after 9 years;

- Tariffs on car parts will be phased out (up to 32%) by August 2027;
- Around half of EU pharmaceutical products were exempted from import duties of up to 8% at the time of the entry into force of the EVFTA, whereas the remaining items will no longer be subject to import duties of 12% by August 2027;
- Nearly 70% of EU chemical exports will no longer be subject to Vietnam's customs duties of up to 5%, whereas other items will be exempted from import duties of up to 25% after 3, 5 or 7 years.

In turn, the EU will eliminate customs duties on the following:

- Textiles – within 7 years;
- Footwear – within 7 years (for footwear, Vietnam agreed to adopt an ex-out definition solution, allowing the liberalisation of athletic/sports footwear at the time of the entry into force of the EVFTA or after 3 years; the rest of footwear products will be liberalised within 7 years);
- Fishery and aquaculture products – within 7 years (except for canned tuna – subject to a tariff quota);
- Vegetables, handbags, suitcases, products from plastic materials – the elimination of customs duties at the time of the entry into force of the EVFTA.

Table 1. Timeline for the elimination of tariffs on the EU's selected agri-food products exported to Vietnam

	Import duty under Vietnam's customs tariff	Elimination of customs duty
Beef and lamb	20%	August 2023
Frozen pork	15%	August 2027
Fresh pork, meat offal and hams	Up to 25%	August 2029
Poultry and offal	Up to 40%	August 2030
Dairy products	Up to 15%	August 2025
Most cheeses with a geographical indication	Up to 15%	August 2023
Wines and spirits	50% and 48% respectively	August 2027
Beer	35%	August 2030
Food preparations	Up to 40%	August 2027
Bakery and pastries	Up to 40%	August 2025
Pasta	20–38%	August 2027

Source: prepared by the author based on: European Commission, Access2Markets and the relevant Appendix contained in the Free Trade Agreement with Vietnam.



European agri-food producers and exporters will benefit from Vietnam's growing market and phasing-out of tariffs. The majority of EU exports to Vietnam will be fully liberalised, usually within a period not exceeding 7 years (except for poultry, beer) (Table 1). As for poultry, the subject of discussion due to the price sensitivity of such goods, of which the EU is the leading exporter to Vietnam, customs duties will be eliminated within 10 years.

These reductions in customs duties in the agri-food group, both in tariffs and under zero-duty tariff quotas, offer great opportunities to increase exports to the EU. In this context, one should mention those seafood items (including shrimps and prawns) on which duties were already eliminated at the time of the entry into force of the EVFTA. This is a factor strengthening Vietnam's seafood competitiveness compared to that of Thailand or India. The same is true for Vietnamese rice, with high duties ranging from EUR 65 to EUR 211 per tonne, depending on the type (Report from the Commission to the Council on the operation of the agreements concluded in the framework of the GATT, 2009).

## THE RULES OF ORIGIN OF GOODS AND THEIR IMPORTANCE IN THE CONTEXT OF OPPORTUNITIES AND CHALLENGES FOR BILATERAL TRADE IN GOODS

The rules of origin (RoO) constitute an important element in determining the scope of economic benefits resulting from preferential origin and the application of preferential customs duties. The origin of the relevant goods is determined on the basis of the principle that they originate in the country in which they were wholly obtained (WO), the criterion used for most agricultural products; alternatively, the working or processing carried out involves wholly obtained materials; it also concerns non-originating goods which have undergone working or processing sufficient to confer origin in accordance with the rules of origin laid down for the product or sector concerned. The relaxation of the rules of origin is the cumulation of origin.

Many Vietnamese products benefited (until 31 December 2022) from the trade preferences granted unilaterally by the EU under the GSP.

The rules of origin negotiated under the EVFTA share common features with the GSP rules (European Commission, 2018, p. 23). The EVFTA provides for several types of cumulation, but only bilateral cumulation and extended cumulation are applicable in practice. Under bilateral cumulation, materials originating in the EU which have been further worked or processed in a beneficiary country, in this case Vietnam, are considered to be originating in the beneficiary country concerned. However, the working or processing carried out there must be sufficient to confer origin. Under the EVFTA, extended cumulation of origin may also apply, including countries that have concluded a free trade agreement with the EU. At present, the EVFTA allows for the cumulation of origin for textiles with South Korea only<sup>2</sup>. Fabrics originating in the Republic of Korea may be considered as originating in Vietnam after further processing or incorporation into one of the products listed in Annex V and obtained in Vietnam on certain conditions. This cumulation has been applicable since 23 December 2020. Therefore, it also implies possible strengthening of trade links with South Korea in the textile sector, especially as South Korea is the second largest textile supplier to Vietnam after China. In the T&A (textile and apparel) sector, the principle of double transformation ('double processing') will continue to apply, meaning that fabrics must be produced in Vietnam for clothing products to qualify for duty-free and quota-free access to the EU. The EU refused to accept a 'one-step processing' solution because it would allow the use of low-cost Chinese fabrics for the manufacture of clothing in Vietnam, whereby such wearing apparel would enjoy preferential (duty-free) access to the EU as goods originating in Vietnam. In the case of clothing, requiring only the first processing to be carried out in the beneficiary country, in the manufacture from fabrics, i.e. the performance of CMT (*cut, make & trim*) processes, would mean that there would be no requirement for the fabric to originate in Vietnam, and it would allow selection of the most competitive fabric suppliers. That, in turn, would affect the price level and contribute to improving the

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<sup>2</sup> Textiles and clothing remain a key sector for many countries, whereas the rules of origin applicable in this sector are the criteria for assessing RoO restrictive practices (Naumann, 2011, p. 8). This sector is considered sensitive in the EU; therefore, tariff barriers are quite high, whereas preferential access to the EU market is associated with a relatively large margin of preference – resulting from the difference between preferential and non-preferential treatment.

competitiveness of exported goods. Therefore, the cumulation rules are relatively stringent and allow only bilateral and extended cumulation with selected countries in selected sectors.

In the future, after the signing of free trade agreements between the EU and those countries, textiles from certain ASEAN countries will also be accepted. As a matter of fact, Vietnam's present weaving and dyeing capacity is insufficient to meet the needs of the domestic clothing industry as (1) local authorities are concerned about environmental pollution and hesitate to allow production including dyeing; (2) the designing, printing, dyeing and finishing capacity is not very high; (3) according to the Vietnam Cotton and Spinning Association (VCOSA), manufacturing technology and wastewater treatment systems make the total investment in weaving and dyeing reach USD 200,000 per employee, much more than the USD 3,000 per employee investment in clothing. Therefore, this industry is not particularly attractive to investors owing to the long payback period for the capital invested. As a result, Vietnamese fabrics are still of low quality, forcing clothing companies to import fabrics (Ngoc, 2020).

### THE REMOVAL OF TECHNICAL BARRIERS IN THE CONTEXT OF MUTUAL TRADE IN GOODS

In addition to customs duties, there are many non-tariff barriers to trade with Vietnam, e.g. different technical standards. The free trade agreement will reduce some of those obstacles. Vietnam will comply more closely with international standards, review technical regulations to increase their convergence with relevant international standards. The provisions of the EVFTA shift the burden of adjustments to Vietnam since the EU trade regime is already relatively liberalised and the EU applies such relevant international standards. Therefore, the EVFTA introduces no principle of mutual recognition, which would be more beneficial for Vietnam's access to the EU market.

The recognition of standards in the automotive sector (UNECE Regulations) may, in combination with the liberalisation of customs duties, increase EU exports to Vietnam (European Commission, 2019, p. 30). Vietnam has also agreed to use international standards (e.g. ISO, IEC, ITU and Codex Alimentarius) as the basis for its technical

regulations. The adoption of relevant international standards can facilitate market access for both parties. In the short term, however, Vietnam, and in principle Vietnamese entities, will have to bear the costs of adapting to such international regulations.

Under the EVFTA, Vietnam also undertook to regularly review its national and regional standards not based on relevant international standards, in order to increase their convergence with such relevant international standards.

The EVFTA also contains a chapter on customs and trade facilitation, aimed to facilitate trade between the EU and Vietnam by modernising and simplifying customs legislation, requirements, formalities and procedures in Vietnam.

## ADDITIONAL OOPPORTUNITIES AND CHALLENGES FOR VIETNAM AND THE EU

As Vietnamese goods were covered by the GSP, for many goods customs duties on imports into the EU were already lower than MFN rates. Therefore, some Vietnamese products are more competitive than those exported from countries not benefiting from EU customs preferences and subject to MFN duties (e.g. Brunei or Malaysia). Countries such as Laos, Cambodia and Myanmar benefit from EBA (Everything But Arms) preferences, which means that all goods other than arms and ammunition enjoy duty-free access to the EU market. Thus, with the implementation of the tariff reduction schedule resulting from the EVFTA, the competitiveness of Vietnamese goods will significantly improve compared to the MFN and GSP beneficiary countries and the distance to the least-developed countries will decrease (Table 2).

Table 2. EU tariff preferences for goods imported from ASEAN countries

MFN	GSP	EBA	FTA
Brunei	Indonesia	Laos	Singapore*
Malaysia	Thailand	Cambodia	Vietnam**
Philippines		Myanmar	

\* the relevant agreement entered into force on 21 November 2019

\*\* the relevant agreement entered into force on 1 August 2020

Source: prepared by the author.

Stringent requirements on the rules of origin, dumping issues, subsidies and the application of trade remedies also pose major obstacles for Vietnamese companies to gain access to the EU market. In order to export to the EU, Vietnamese businesses must comply with strict regulations on hygiene, environmental protection, labour and technological processes. This makes it difficult for Vietnamese small and medium-sized enterprises to export their output to the EU due to their limited technical and financial capabilities. The key issue for Vietnamese exporters is compliance with the relatively high European standards in terms of sanitary, phytosanitary, technical and environmental standards as well as with other sector-specific requirements.

The benefits of the EVFTA will enable Vietnam to move away from low-tech exports of basic products to more complex, high-tech goods such as electronics, machinery, vehicles and medical devices. This can be done in two ways; firstly, through more diversified partner supply via larger distribution chains and cheaper imports of intermediate goods from trading partners, which should enhance the competitiveness of Vietnamese exports. Secondly, through partnerships with foreign companies that can transfer the know-how and technology needed to move to higher value-added production.

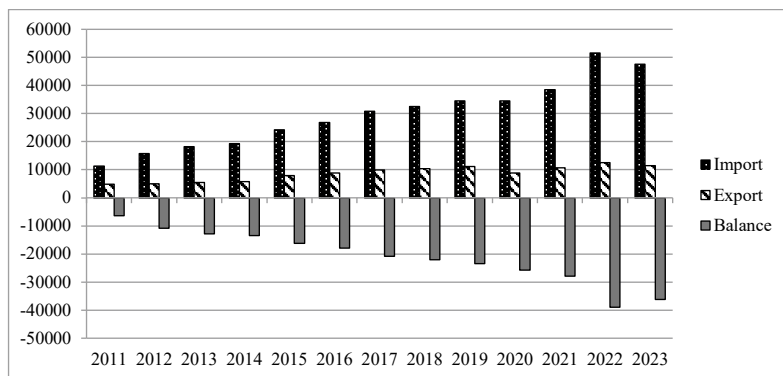
What lies at the heart of the EVFTA, as has already been indicated, is the liberalisation of both tariff and non-tariff barriers regarding key imports on both sides over a maximum period of 10 years. In the case of Vietnam, the elimination of customs duties will benefit key export industries, including the manufacture of smartphones and electronic products, textiles, footwear and agricultural products, e.g. seafood, coffee.

With the entry into force on 20 October 2022 of Circular 08/2022/TT-BYT (Circular 8), Vietnam now fully recognises the EU's Single Market in pharmaceuticals and the unity of the EU regulatory framework. This means that Vietnam will eliminate discrimination against a number of EU Member States' regulators on pharmaceuticals, whereas companies from all EU Member States will now enjoy simpler and faster registration procedures and easier participation in government procurement. This will improve access for EU suppliers to the pharmaceutical market in Vietnam, which will in turn benefit Vietnamese consumers in terms of access to medicines (European Commission, Directorate-General for Trade, 2022).

## TRADE IN GOODS BETWEEN THE EUROPEAN UNION AND VIETNAM IN THE CONTEXT OF THE EVFTA

With a population of over 97 million, Vietnam is an important EU export market in Asia. For the EU, Vietnam is the 17th largest partner in merchandise trade worldwide and the EU's largest trading partner among the ASEAN countries (in 2023) (European Commission, *EU trade relations with Vietnam*). The EU's bilateral trade with Vietnam in the 2010s was characterised by a negative trade balance, reaching a record-high level in 2022 – nearly EUR 39 billion (EUR 36.1 billion in 2023). It stemmed from a faster increase in imports than that in exports, with a jump noted in 2022 on the previous year (by 34%) and with exports increasing by 18% at the same time; in 2023, mutual trade showed a marked fall (Chart 3). The EU's main exports to Vietnam are high-tech products, including electrical machinery and equipment, aircraft, vehicles and pharmaceutical products. As regards Vietnam, its main exports to the EU include telephones, electronic products, footwear, textiles and clothing, coffee, rice, seafood and furniture (European Parliament, 2018; European Commission, *EU trade relations with Vietnam*).

Chart 3. EU–Vietnam trade in 2011–2023, in EUR million

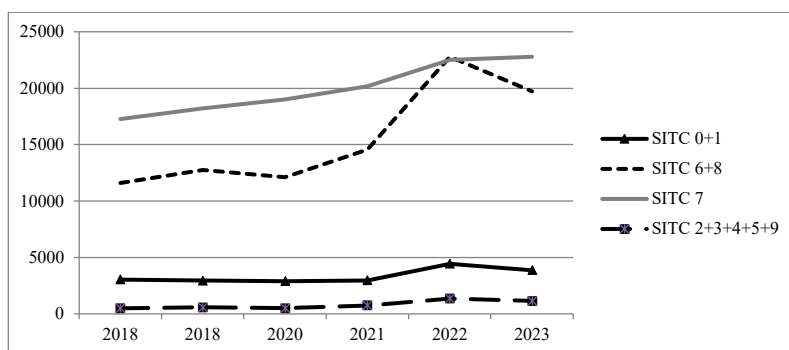


Source: prepared by the author based on Eurostat Comext – Statistical regime 4.

In terms of type of products, trade is dominated by manufactures, with the largest share of SITC Section 7 (machinery and transport equipment) – about 50% of EU imports from Vietnam and around

38% of EU exports (Chart 5 and Chart 7). SITC Sections 6+8, i.e. manufactured goods classified chiefly by material and miscellaneous manufactured articles, represent the second largest group in EU imports from Vietnam (accounting for about 40%), followed by goods from SITC Sections 0+1, i.e. food, beverages and tobacco (including live animals) (with a much smaller share – approx. 8%). It should be noted that over the last few years the proportion of goods from SITC Section 7 in imports has decreased, whereas that of SITC Sections 6+8 has gone up. For most of goods classified in the sections in question, customs duties on imports from Vietnam will not be lifted until the end of the transitional periods of several years. Therefore, one may venture to conclude that the entry into force of the EVFTA has not significantly affected the product structure of EU imports. Nevertheless, too short a period has elapsed since the entry into force of the EVFTA; neither is it possible to ignore the impacts on global trade of the pandemic, having caused changes in international trade and slowing down its growth in 2020 and 2021.

Chart 4. The EU's imports from Vietnam by SITC section



SITC – Standard International Trade Classification

Goods are classified into the following sections:

SITC 0+1 – Food and live animals (0), beverages and tobacco (1)

SITC 2+4 – Raw materials

SITC 3 – Mineral fuels, lubricants and related materials

SITC 5 – Chemicals and related products, n.e.s.

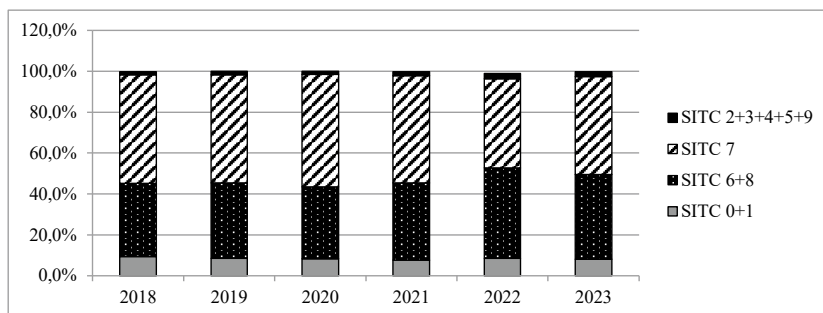
SITC 6+8 – Other manufactured goods

SITC 7 – Machinery and transport equipment

SITC 9 – Commodities and transactions not classified elsewhere in the SITC

Source: as in Chart 3.

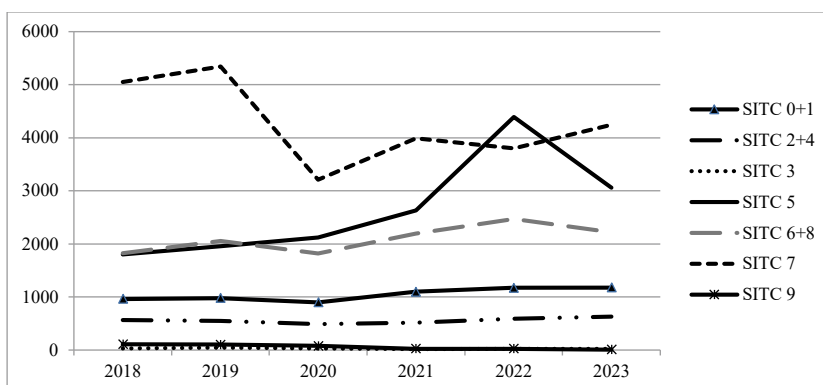
Chart 5. Product structure of the EU's imports from Vietnam



Source: as in Chart 3.

EU exports to Vietnam are invariably dominated by goods from SITC Section 7 (although their share of total exports dropped from almost 49% in 2018 to 37% in 2023). As the second largest group, goods from SITC Section 5 (chemicals and related products, n.e.s.) increased their share from 17% in 2018 to almost 35% in 2022 and 27% in 2023, followed by products from SITC Sections 6+8 (up from almost 18% in 2018 to nearly 20% in 2023). In absolute terms, exports of goods from SITC Sections 5, 7 and 6+8 have shown an upward trend in recent years (with the usual exception of 2023, with a fall in mutual trade) (Chart 6).

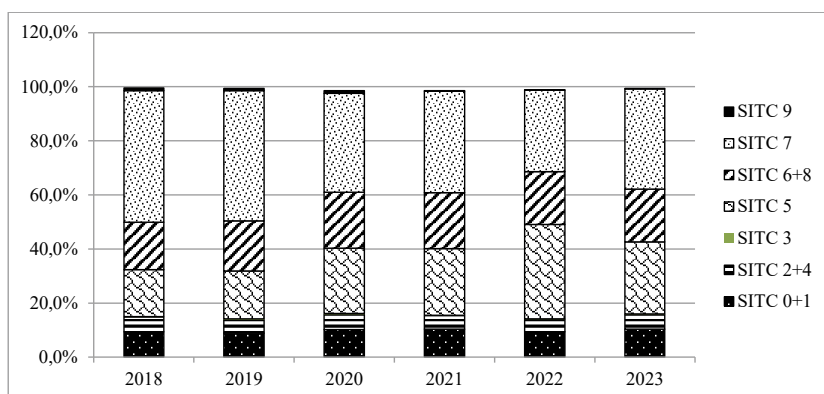
Chart 6. The EU's exports to Vietnam by SITC section, in EUR million



Source: as in Chart 3.



Chart 7. Product structure of the EU's exports to Vietnam



SITC Section 3 – below 0.5%

Source: as in Chart 3.

In terms of exports of specific product groups, the largest increases in exports to Vietnam in 2021 (after the entry into force of the EVFTA) as compared to 2020 were noted for integrated circuits (324%) and transport equipment (111%). Significant growth in imports from Vietnam occurred in the case of fuels (other than petroleum) – by 1500%, non-ferrous metals (264%), iron and steel (511%) and base metals (165%) (Eurostat data). In that case, the rise is attributable to the reduction or elimination of relatively high export duties.

## CONCLUSIONS

The EU–Vietnam Free Trade Agreement liberalised almost all mutual trade (in goods), also providing for the removal of certain non-tariff barriers. Further, Vietnam undertook to effectively apply the relevant international standards and to make efforts to ratify a number of international conventions. The Free Trade Agreement concluded with Vietnam offers many opportunities for both parties. For the European Union, as undoubtedly the stronger trading partner, the EVFTA facilitates access to a promising Asian country. Pharmaceutical companies from all EU Member States will benefit from simpler and faster registration procedures and easier participation in

government procurement. This will improve access for EU suppliers to the pharmaceutical market in Vietnam, which will benefit Vietnamese consumers in terms of access to new medicines.

The EVFTA also provides for the elimination of technical barriers in the automotive industry. This will allow EU manufacturers to export cars and other motor vehicles without having to go through Vietnamese testing, approval and certification procedures. In the case of Vietnam, the elimination of customs duties will benefit key export industries, including the manufacture of smartphones and electronic products, textiles, footwear and certain agricultural products. The EVFTA enables Vietnamese enterprises and nationals to purchase goods and services, including those produced domestically, at competitive prices, of better quality and more technologically advanced. Hence, it offers opportunities to improve the competitiveness of Vietnamese products.

As far as the challenges of the EVFTA are concerned, those are primarily on the Vietnamese side. In order to meet the quality standards for goods exported to the EU market, Vietnamese companies must make every effort to improve their products and comply with the relevant technical, sanitary or phytosanitary requirements. Moreover, Vietnamese businesses need to increase their ability to compete in a demanding European market.

The relatively short period having elapsed since the entry into force of the EVFTA and the ongoing transitional periods in the removal of customs barriers for sensitive goods do not allow a full assessment of its importance to bilateral trade relations. According to the analysis conducted, recent years have witnessed an increase in mutual trade, with the exception of 2020 and 2023, accompanied by a rise in the EU's negative trade balance with Vietnam. However, there were no significant changes in the structure of EU imports and exports in the period under examination. However, one must not forget that the volume of bilateral trade flows is determined not only by the very fact of establishing a free trade zone, but also by various material factors: trade with other major partners, domestic demand, the economic situation in the world economy, etc.

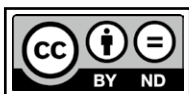
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