



| TRADE DEVELOPMENT AUTHORITY OF PAKISTAN |

| MINISTRY OF COMMERCE |

A photograph of two hands shaking over a globe. The hand on the left is wearing a sleeve with the Pakistani flag (green, white, and red with a black crescent and star). The hand on the right is wearing a sleeve with the European Union flag (blue with yellow stars).

POLICY BRIEF  
ON THE  
IMPACTS  
OF

EU-VIETNAM

FREE TRADE AGREEMENT

ON

PAKISTAN

The bottom of the page features a decorative border with the European Union flag (blue with yellow stars) on the left and the Pakistani flag (green, white, and red with a black crescent and star) on the right.

## DISCLAIMER

The analyses, interpretations, and conclusions expressed in this study do not necessarily reflect the view of the Board of Directors, Chief Executive, and Secretary of the Trade Development Authority of Pakistan.

Any conclusion, interpretation, and analyses of the EU-Vietnam Free Trade Agreement is the responsibility of the author and do not necessarily reflect the opinion of the Ministry of Commerce (MOC) and Trade Development Authority of Pakistan (TDAP). Although every effort has been made to analyze the original draft of the agreement available on European commission portal online.

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## ACYRONYMS

**FTA:** Free Trade Agreement

**EU:** European Union

**MEPs:** Members of European Parliaments

**EUVFTA:** European Union Vietnam Free Trade Agreement

**ASEAN:** Association of Southeast Asia Nations

**TRQs:** Tariff Rate Quotas

**GSP:** Generalized System of Preference

**IPA:** Investment Protection Agreement

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## 1.INTRODUCTION

In 2015 the EU and Vietnam agreed in principle on a comprehensive and ambitious trade and investment agreement. However, later in February 2020, the EU Parliament was first to ratify a free trade agreement (FTA) with Vietnam, therein, members of the European Parliament (MEPs) voted in favor of the agreements in Strasbourg, and subsequently on 8<sup>th</sup> June 2020, Vietnam’s National Assembly by unanimous consent also ratified European Union and Vietnams Free Trade Agreement (the "EUVFTA"). And in due course the EUVFTA entered into force with effect from 1<sup>st</sup> August 2020.

The EUVFTA is marks as the second comprehensive trade agreement between an ASEAN Member State and the EU, the first in this regard was between EU and Singapore. However, this development may well be a used as a building block for EU to decide either to pursue free trade agreements (“FTAs”) with additional individual ASEAN countries or with ASEAN as a regional bloc in the future.

At the core of the EUVFTA is a near complete removal of tariffs between the EU and Vietnam, including the elimination of more than 99% of customs duties within 10 years. Immediately upon entry into force, 65% of EU exports (by product type) to Vietnam and 71% of Vietnamese exports to the EU will be duty free. Duties on other EU goods will be gradually liberalized over 10 years, and those on certain Vietnamese goods will be reduced over 7 years.

The EUVFTA also provides for the application of Tariff Rate Quotas (TRQs) for some remaining agricultural items where import duties are not phased-out, but the EU has offered access to Vietnamese exports via tariff rate quotas (TRQs) on rice, sweet corn,

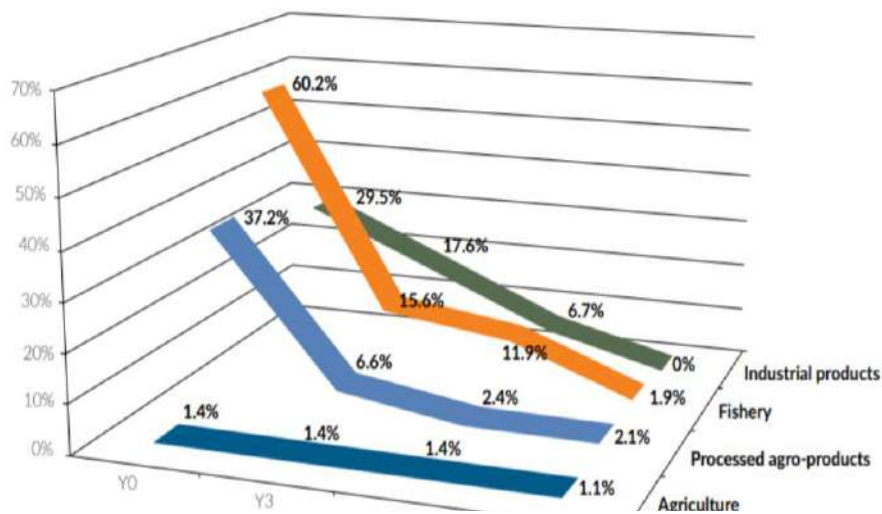


Figure 1 Tariff eliminated by the EU for Vietnam's products

garlic, mushrooms, sugar and high-sugar-containing products, manioc starch, surimi, and canned tuna.

## 1.2 JUXTAPOSITION OF OPPORTUNITIES AT BOTH SIDE

<p><b>Removing Tariffs</b></p>	<p><b>The agreement will eliminate 99% of all tariffs on both sides</b></p> <table border="1" data-bbox="594 617 1424 961"> <thead> <tr> <th></th> <th><b>Current duty in Vietnam</b></th> <th><b>Duty once agreement fully in force</b></th> </tr> </thead> <tbody> <tr> <td>Machinery and appliances</td> <td>Up to 35%</td> <td rowspan="6" style="text-align: center;"><b>0</b></td> </tr> <tr> <td>Pharmaceuticals</td> <td>Up to 8%</td> </tr> <tr> <td>Cars</td> <td>Up to 78%</td> </tr> <tr> <td>Dairy</td> <td>Up to 20%</td> </tr> <tr> <td>Wine</td> <td>50%</td> </tr> <tr> <td>Chocolates</td> <td>30%</td> </tr> </tbody> </table>		<b>Current duty in Vietnam</b>	<b>Duty once agreement fully in force</b>	Machinery and appliances	Up to 35%	<b>0</b>	Pharmaceuticals	Up to 8%	Cars	Up to 78%	Dairy	Up to 20%	Wine	50%	Chocolates	30%
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<p><b>Reducing regulatory Barriers and over lapping Red-Tapism</b></p>	<ul style="list-style-type: none"> <li>➤ Increased use by Vietnam of international standards in its regulations</li> <li>➤ Agreed rules on animal and plant health</li> <li>➤ Recognition of EU certificates of conformity for Cars</li> <li>➤ Recognition of Made in EU origin marking for most non-agricultural products</li> </ul>																
<p><b>Protection of Geographical Indication</b></p>	<ul style="list-style-type: none"> <li>➤ Traditional European food and drinks products from a specific geographical origin will be protected against imitation on the Vietnamese market.</li> <li>➤ Distinctive Vietnamese products, such as Mộc Châu tea or Buon Ma Thuot coffee, will also be protected in the EU</li> </ul>																
<p><b>Making rules effective and enforceable</b></p>	<ul style="list-style-type: none"> <li>➤ The agreement sets out a formal state-to-state dispute resolution mechanism that is faster and more efficient than the WTO framework.</li> </ul>																
<p><b>Vietnam to retain GSP Benefits</b></p>	<ul style="list-style-type: none"> <li>➤ Vietnamese exporters are also allowed to continue using the Generalized Scheme Preferential (GSP) duties if these are more favorable for up to two years following the entry into force of the EVFTA (i.e., until 1 August 2022).</li> </ul>																

Table 1 Comparison of EU-VIETNAM FTA benefits

## 1.3 RULES OF ORIGIN

In order to benefit from the preferential customs duties under the EUVFTA, traders must comply with the agreement's general origin rules or product specific origin rules and complete a government issued certificate of origin (EUR.1 Form) or origin declaration made out by a certified exporter (i.e., self-certification of origin).

The EUVFTA allows for the bilateral cumulation of origin, whereby products made in one party and incorporating materials from the other party may receive preferential treatment. It also allows for limited cumulation of South Korean fabrics used in the production of textiles, another FTA partner of the EU and the possibility of cumulation of fisheries materials from other ASEAN Member States.

## 1.4 BENEFITS FROM TARIFF ELIMINATION FOR EU EXPORTERS

Almost all EU exports of machinery and appliances will be fully liberalized at entry into force of the FTA.

- Around half of EU pharmaceutical exports will be duty free immediately and the rest after seven years
- All EU textile exports will be liberalized at entry into force.
- Car parts will be duty free after seven years.
- Motorcycles with engines larger than 150 cc will be liberalized after seven years and cars after 10 years except those with large engines (>3000cc for petrol, >2500cc for diesel) which will be liberalized one year earlier.
- Close to 70% of EU chemicals exports will be duty free at entry into force and the rest after three, five and seven years, respectively.
- Frozen pork meat will be duty free after seven years, dairy products after five years and food preparations after seven years. Chicken will be fully liberalized after 10 years.
- As for fisheries, Vietnam has accepted liberalization at entry into force for salmon, halibut, trout and rock lobster and others after three years.
- Wines and spirits will be liberalized after seven years and beer after 10 years.



- Vietnam will maintain existing WTO tariff rate quotas (albeit with reduction of the in-quota rate to zero over 10 years) for refined sugar, salt, and eggs.

## **1.5 MARKET ACCESS PREFERENCES GRANTED BY THE EU TO VIETNAM**

EU duties on textile apparel have dismantling periods stretching from five to seven years for the more sensitive items and three years and at entry into force for less sensitive goods.

Footwear also gets the longest EU staging period, of seven years, for sensitive EU items and three years or elimination at entry into force on items which are less sensitive

- The EU offered mostly duty-free tariff rate quotas for Vietnamese rice exports:

- (1) 30,000 tons of milled rice.
- (2) 20,000 tons of husked rice (in product weight, equal to 13,800 tons milled equivalent).
- (3) for broken rice: 50% tariff cut at entry into force and then linear reduction over 5 years.
- (4) 30,000 tons fragrant rice.

- Other products which received improved market access via duty-free tariff rate quotas include: Sweet corn (quota of 5,000 tons and liberalization for baby corn),
- Garlic (quota of 400 tons),
- Mushrooms (quota of 350 tons),
- Sugar and high-sugar-containing products (combined quota of 20,000 tons),
- Manioc starch (quota of 30,000 tons),
- Surimi (quota of 500 tons) and
- Canned tuna (quota of 11,500 tons and strict rules of origin; liberalization of fresh/chilled tuna).

- Non-processed shrimps will be liberalized as of entry into force.

- Pangasius (catfish) will be liberalized in three years.



## 1.6 MEASURES FOR ADDRESSING NON-TARIFF BARRIER UNDER EUVFTA

Under EUVFTA certain provisions for addressing non-tariff barriers are also incorporate in order to ensure legitimate bilateral trade and to prevent any violation.

### 1.6.1 Custom and Trade Facilitation

A provision on Customs and trade facilitation is agreed that aim at addressing non-tariff issues at the border in order to facilitate legitimate trade without compromising effective customs controls.

Moreover, A Specialized Committee on Customs is established under the EUVFTA where issues of concern can be addressed between the EU and Vietnam.

In addition, the trade agreement contains a **Protocol on Mutual Administrative Assistance** in Customs matters that will allow information exchange ensuring a correct application of customs legislation and prevent customs violations.

### 1.6.2 Technical Barrier to Trade (TBT)

This agreement contains provisions to address (TBT) requirement. which aims to ensure that technical regulations, conformity assessment and standards procedures are non-discriminatory and does not create unnecessarily obstacles for trade.

Therefore, strongly encourage that both parties to base their measures on international standards and it incorporated transparency provision that may ensure predictable environment for trade.

### 1.6.3 Sanitary and Phytosanitary measure (SPS)

This agreement also has SPS provision which stresses upon progress based on WTO SPS Agreement and other international standard bodies: such as World Organization for Animal Health (OIE), Codex Alimentarius for Food Safety and the international Plant Protection Convention (IPPC) for plant health. Further, both parties have agreed to facilitate trade and make these requirements operational on ground.

Additionally, under the agreement a specialized committee is set up, comprising members/experts from both parties, which will annually meet for dialogue on issues pertaining to delays and barriers on both sides to ensure effective implementation of EUVFTA.

## **2. EU-VIETNAM TRADE PICTURE**

The EU is Vietnam's second largest export market after the United States, representing 17 per cent of its exports. While Vietnamese goods account for just 2 per cent of the EU's global imports, the value of EU imports from Vietnam has increased from US \$8.63 billion to US \$42.5 billion during the 2008-2018 period.

In the other direction, Vietnam represents a smaller share approximately 0.6 per cent of the EU's exports, but the volume has steadily increased from US\$3.39 billion to US\$13.8 billion during the same 10-year period. Still, goods from the EU represent 6 per cent of Vietnam's total imports.

Trade between the EU and Vietnam has steadily increased in recent years, with Vietnam exporting greater volumes of furniture, telephones, machinery, footwear, and textile to EU Member States. Key EU exports to Vietnam include aircraft, machinery, pharmaceuticals, and electrical equipment.

## **3. EU-PAKISTAN TRADE PICTURE**

The EU is Pakistan's most important trading partner, accounting for 15.8% of Pakistan's total trade in 2019 and absorbing 27.3% of Pakistan's total exports. Pakistani exports to the EU are dominated by textiles and clothing, accounting for 76.7 per cent of Pakistan's total exports to the EU (27) in 2019.

Pakistan's imports from the EU are mainly comprised of machinery, mineral fuels, pharmaceuticals, ships and boats, Iron & steel and electrical machinery (62.1% in 2019) as well as, Plastic & articles thereof, and chemicals (6.6% in 2019).

From 2008 to 2019, EU27 imports from Pakistan have increase by 35 per cent from US \$ 4.22 billion to US \$ 6.50 billion. The growth of imports from Pakistan has been particularly fast since the award of GSP+ 2014 which recorded an increase amounting US \$ 1 billion approximately.

## 4. EXPECTED IMPACT OF EUVFTA ON PAKISTAN EXPORTS TO EU

To analyze Pakistan exports to EU (27) top 15 exports items are being employed which covers 95.5 per cent of Pakistan total exports basket to EU.

However, Pakistan exports throughout the world is predominately being reliant on textile products. And unsurprisingly, similar trend is also being noticed in its exports to EU in which textile products accounts for 76.7 per cent of total exports to EU 27 in the year 2019. In value term textile exports equates US \$3.27 billion, spreading over five major chapter of Harmonized system (HS) 02 digits such as: 61, 62, 63, 52 and 55 in the year 2019 based on Trade map data. And when compared the exports of same HS chapter with the exports of Vietnam’s to EU it is being recorded that it amounts to US \$3.78 billion which makes Vietnam as direct competitor of Pakistan textile exports to EU.

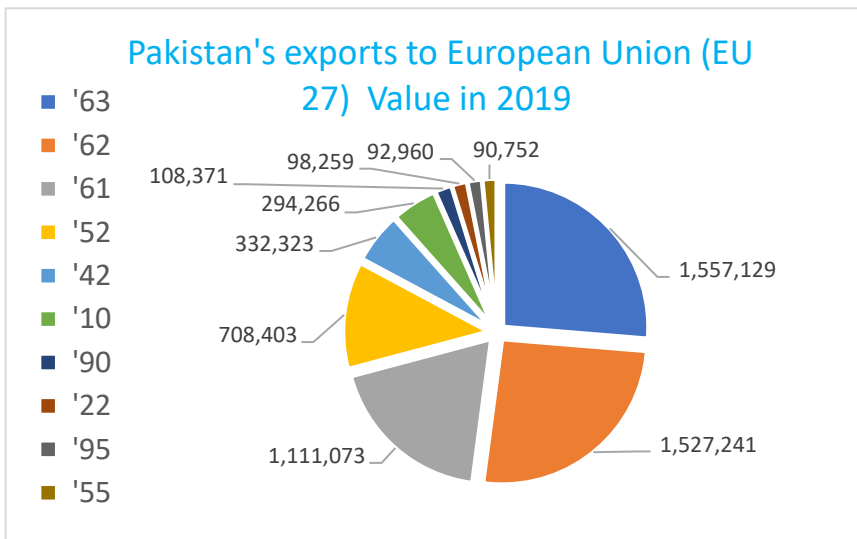


Figure 2 Top exports of Pakistan to EU (27) IN 2019

Vietnam was previously accorded Standard GSP status and Pakistan on the contract is according GSP+ Status due to which its textile products were enjoying better market access with zero tariff rate. On the contrary Vietnam before its FTA with EU was facing on average 9 per cent of advalorem tariff on the same value-added textile product in chapter 61,62, and 63, and due to this preferential tariff disparity Pakistan textile imports in EU were having comparative advantage (See table 01 for reference).

However, after EUVFTA Vietnam have secured an equal playing grounds, which means that it will now capture more market share and arguably will have some negative impact on Pakistan textile exports, thereby, some of its textile export share may be captured by Vietnam, due to its improving positioning on some of non-sensitive textile item immediately, and in the long run, in the span of 3 to 7 years all its textile exports will face no tariffs, also coupled with its improving bilateral relationship after signing FTA and Investment Protection Agreement (IPA) with EU.

Moreover, other product in which Vietnam may have comparative advantage is footwear, which gets the longest EU staging period, of seven years, for sensitive EU items and three years or elimination at entry into force on items which are less sensitive. Previously, footwear exports for Vietnam were facing 7 per cent advalorem tariff and Pakistan exports the same on zero tariff due to its GSP+ preference tariff.

Therefore, it is believed that footwear in which Vietnam have comparative advantage, internationally and in EU market, in term of its exports value amounting approximately US \$ 4.6 billion to the EU only, may have a better position to capture more share of its competitors in EU market, based on that it may have negative trade impact on Pakistan exports footwear, which is currently in the list of its top 15 items. (See table for reference).

## 4.1 ASSUMPTION OF THE STUDY

One basic assumption of this analysis is that Vietnam already has the enabling factors that it requires to increase its exports to the EU without catering for the supply chain challenges that Vietnam may face.

## 4.2 INPUT FROM TRADE MISSION IN VIETNAM

As per meetings with various businesses across the spectrum of products categories, Vietnam businesses are looking for alternate markets to source their raw materials and semi processed products to capitalize upon the new market access they may have after the EUVFTA.

## 4.3 PRE EUVFTA-SCENARIO BILATERAL EXPORTS & TARIFF RATES COMPARISON IN EU (27)

Product code	Product label	Pakistan's exports to European Union (EU 27) 2019	Viet Nam's exports to European Union (EU 27) 2019	Equivalent ad valorem tariff faced by Pakistan	Equivalent ad valorem tariff faced by Viet Nam
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	1,557,129	228,443	0	8
'62	Articles of apparel and clothing accessories, not knitted or crocheted	1,527,241	2,220,552	0	9
'61	Articles of apparel and clothing accessories, knitted or crocheted	1,111,073	1,282,373	0	9
'52	Cotton	708,403	23,974	0	3
'42	Articles of leather; saddlery and harness; travel goods, handbags, and similar containers; articles ...	332,323	875,708	0	1
'10	Cereals	294,266	30,150	12	12
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	108,371	454,848	0	0
'22	Beverages, spirits, and vinegar	98,259	14,443	2	4
'95	Toys, games, and sports requisites; parts and accessories thereof	92,960	250,739	0	0
'55	Man-made staple fibers	90,752	30,284	0	4
'64	Footwear, gaiters, and the like; parts of such articles	82,612	4,600,699	0	7
'39	Plastics and articles thereof	71,507	636,321	0	1
'41	Raw hides and skins (other than furskins) and leather	70,373	6,259	0	1
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	40,779	2,601,485	0	0

'25	Salt; sulphur; earths and stone; plastering materials, lime, and cement	30,731	26,963	1	0
ALL	Total	6,216,779	13,283,241		

*Table 2 Tariff comparison of Pakistan & Vietnam in EU (27) before EUVFTA*

Furthermore, EU has offered mostly duty-free Tariff Rate Quotas (TRQs) for Vietnamese rice exports, which for different variant in term of quantity equals following weights of rice: for milled rice 30,000 tons, for husked rice 20,000 tons, for broken rice: 50% tariff cut at entry into force and then linear reduction over 5 years. and lastly 30,000 tons for fragrant rice.

Given that it is believed that once Vietnam start harness from the preferential duty-free tariff quotas of rice its will adversely affect our rice exports to EU, which is currently being among our top exports to EU. However, currently Pakistan and Vietnam are facing equal tariffs of 12 percent and in term of value Pakistan was capturing more market share than Vietnam, but after EUVFTA Vietnam will have comparative advantage over Pakistan as it will face zero tariff for specified quantity of export, thereby, its rice export may capture some of Pakistan’s share in EU market.

Additionally, it is also argued in the business community that renowned international brands/buyers have already started negotiating with sourcing in Vietnam to shift their orders from Pakistan, fearing that after 2023 duties on Pakistani imports may affected in case GSP+ status is not extended.

Moreover, news is being circulating that international buyers based on their four- or five-year projection and emerging scenarios are now holding business discussions and collecting sampling. Therefor it is argued that keeping in view the repercussion of EUVFTA on Pakistan this may not be negated or otherwise Pakistan may bear the brunt in case it does not cope with the emerging trends and meanwhile the GSP expires. Which has enhanced Pakistan exports to European Union from the US \$5.57 billion in 2014 to the US \$6.50 billion in 2019 registering a 13.4 per increase.

### 3. CONCLUSION

In the given circumstances where Vietnam have secured preferential tariff on its textile, footwear, and rice exports in EU market after concluding its EUVFTA, which provide Vietnam equal playing ground as that of Pakistan under EU GSP Plus status in Textile and Footwear product, in which Vietnam with comparatively high tariff were already exporting more than Pakistan share in EU. Moreover, Vietnam trade after EUVFTA may also face less non-tariff barriers as both EU Vietnam has agreed to standardize their requirement on international standard and, they have devised a mechanism to effectively ensure its implementation on SPS and TBT requirement for smooth trade.

Therefore, it is asserted that in given scenario Vietnam may have a better positioning to expand its trade with EU in the same product and may also capture Pakistan share as being already a major exporter of the said products.

And on the other hands Vietnam have also secured zero tariff rate on its exports of rice in medium and long term of 3 to 7 years, respectively. Currently, on which both parties are facing advalorem tariff of 12 percent, thereby it is argued that Vietnam will have a comparative advantage of zero tariff over this period, However, tariff limit quota are in place, but still that preferential treatment provide them better opportunities to expand its rice exports. Nonetheless, given that and the expected maturity of EU GSP in 2023, Pakistan over the year may lose its export share in EU currently being catered by Pakistan on same tariffs.

### 4. RECOMMENDATIONS

It is recommended that Pakistan in order to sustain its current level of exports to EU, which is Pakistan's top export destination, it may start negotiating preferential agreement with EU on its earliest given the uncertainty regarding extension of EU GSP program and its expected expiry in 2023. Moreover, product under immediate pressure may be supported through rationalized



incentives and interventions to make sure that they remain competitive and does not lose its share to Vietnam amid its FTAs.



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