

Market strategy

8 Jun 2020

EVFTA – A new driver for Vietnam export growth

- On 8 Jun, the National Assembly of Vietnam ratified the EU-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA). The EVFTA is expected to officially enter into force on 1 Aug 2020. The EVFTA and EVIPA are expected to boost trade and investment between Vietnam and EU in the next decade and leave the door for Vietnam to further integrate into the global value chain.

EVFTA could create a competitive edge for Vietnam's exports

As soon as the EVFTA takes effect, the EU commits to abolishing 85.6% of tariff lines on Vietnamese goods, the value of which makes up 70.3% of Vietnam's total export value to the EU. Now just over 42% of Vietnam's export value to the EU is entitled to 0% tax rate under the General System of Preference (GSP). Within seven years since EVFTA takes effect, the EU commits to abolishing 99.2% of tariff lines, equivalent to 99.7% of Vietnam's total export value to the EU. For the remaining, the EU commits to giving Vietnam a tariff quota with an import duty of zero per cent.

The EU is Vietnam's second-largest export market in 2019, after the United States. According to Vietnam customs data, the total export-import value between Vietnam and the EU (28 countries, including United Kingdom) reached US\$56.4bn, equivalent to 11% of Vietnam's total export-import value. In particular, Vietnam's exports to the EU reached US\$41.5bn, accounting for 15.7% of Vietnam's total exports while Vietnam's imports from the EU reached US\$14.9bn, accounting for 5.9% of the country's turnover.

The reduction of tax on Vietnamese goods exported to the EU will create great competitive advantages for Vietnamese goods compared to other rivals such as China and ASEAN countries. Let's take an example in the footwear industry. Vietnam's footwear export to the EU market will enjoy a tax rate 3.5-4.2% lower than those from China when EVFTA comes into effect. Furthermore, Vietnam will be the second country in Southeast Asia after Singapore that has a free trade agreement with EU.

Electronics, fisheries and textile are the biggest beneficiaries among Vietnam's export products, in our view

Figure 1: List of exported products/sectors which benefit the most when the EVFTA is in place

Product	EU commitment on Vietnam's export goods	Commentary
Fisheries (except canned tuna and fish balls)	Immediately remove about 50% of import tariff lines on Vietnam's export when the agreement takes effect; 50% of the remaining tax lines are removed within 3-7 years.	The EU is the second largest export market of Vietnam's seafood with export value in 2018 reaching US\$1.44bn, up by 1% yoy. As much as 90% of tariffs on Vietnam's seafood products will be reduced to 0% within 3-4 years, from an average export tax rate of 14% at present.
Telephones, computers, electronic products	As much as 74% of import tariff lines will be removed as soon as the agreement takes effect, the remainder will be eliminated within 3-5 years.	The items are Vietnam's largest export products to the EU, with the value in 2018 totalling over US\$18.1bn, accounting for 43.3% of Vietnam's total export value to the EU. The reduction in tariffs will create a competitive edge for Vietnam's exported electronic products, while promoting the trend of shifting manufacturing factories from elsewhere to Vietnam to take advantage of the tariff advantages under several FTA agreements, including the EVFTA.

Textile	As much as 42.5% of import tariff lines on the Vietnamese export product will be removed (mainly tariff on textile materials) as soon as the agreement comes into effect, the remainder (mainly tariff on final textile products) will be gradually reduced to 0% within 3-7 years from a starting rate of 12%.	<p>The EU is the second-largest export market of Vietnam's textile and garment industry, with 2018 export value reaching US\$4.1bn (or 13.4% of the total export turnover of textiles and garments). Currently Vietnam's textile products exported to the EU are subject to tariffs of 7-17% (an average of 9.6%) under the GSP.</p> <p>We believe that exporters of textile materials (fiber, yarn, wool...) to the EU (currently accounting for a small portion of Vietnam's textile and garment export value to the EU) will benefit as soon as EVFTA takes effect. For companies that export final textile products to the EU, the benefits under the EVFTA will increase strongly along with tax reductions from the second year onwards.</p>
Coffee	Completely eliminating tariff on coffee exported from Vietnam as soon as the agreement comes into effect.	The EU is the largest export market of Vietnam's coffee, generating a value of US\$1.34bn in 2018. Vietnam's coffee is expected to gain more market share in the EU market thanks to the elimination of tariff when the EVFTA comes into effect.
Port operators and the logistics sectors	NA	This sector can receive benefits from the increase of the export and import volumes between Vietnam and the EU.
Industrial park (IP) sector	NA	The IP sector can receive benefits from the factory relocation to Vietnam from other countries as manufacturers seek preferential treatments from the FTAs that Vietnam is going to sign, including the EVFTA.
Footwear	About 37% of the import tariff lines will be removed as soon as the agreement comes into effect (mainly tariffs on waterproof shoes with outer soles and upper of rubber or plastics, slippers and other indoor footwear); The remainder will be gradually reduced to 0% within three to seven years from starting rates of 5-8% (most of Vietnam's footwear exported to the EU belongs to this group).	<p>The EU is the second-largest export market of Vietnam's footwear, with the export value in 2018 reaching US\$5.8bn, up 17.9% yoy and accounting for 28.7% of the total footwear export turnover. Currently, Vietnam's footwear products are subject to an average tariff of 3-4% on the EU market under the GSP.</p> <p>In the first two years after the EVFTA into effect, many footwear products could not benefit immediately as the starting tax rates for some Vietnamese key footwear products exported to the EU will be higher than the current tax rates under the GSP. It takes about two years for the EVFTA's tariff on Vietnam's footwear to drop to the same level or below the tax rates currently granted from GSP.</p> <p>When the tariffs on most of Vietnam's footwear are reduced to 0%, the product will enjoy a tax rate 3.5-4.2% below those on Chinese footwear products when exported to the EU market, creating a great competitive advantage for Vietnam.</p>
Wooden furniture	About 83% of import tariff lines will be removed as soon as the agreement comes into effect; The remainders (including particle board, fiber board and plywood, etc.) will be eliminated in line with a roadmap of three to five years.	The EU is Vietnam's fifth-largest wood export market, with an export value of about US\$770m in 2018, up 3.7% yoy. Currently Vietnam's wooden furniture exports to the EU are subject to tariff of 0-2%.

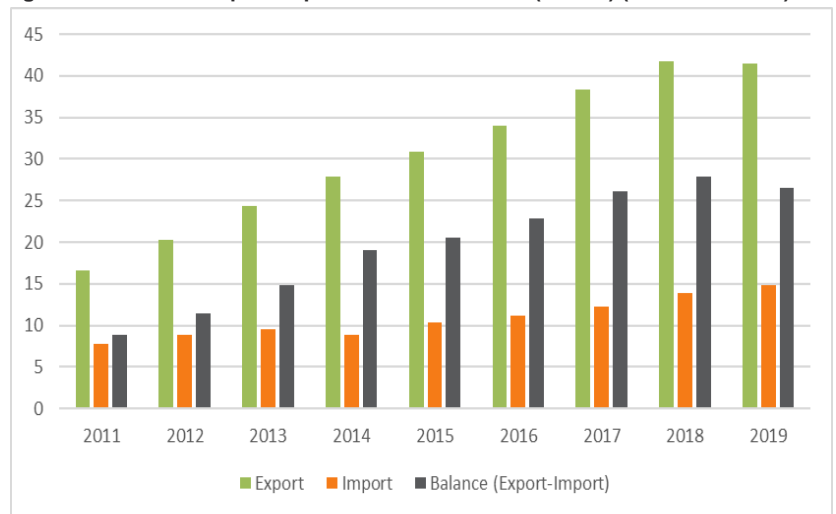
*Dark color indicates the high level of benefit

Source: The EVFTA agreement documents, VNDIRECT

Exports to the EU are forecasted to increase 42.7% in 2025F thanks to EVFTA

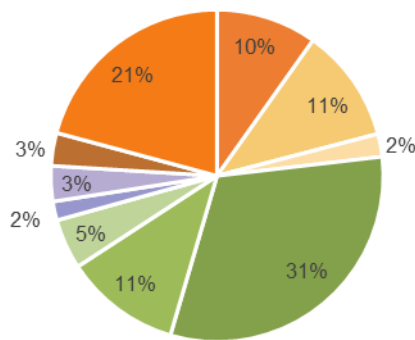
According to a Ministry of Planning and Investment (MPI) research, if the EVFTA comes into effect in 2019, Vietnam's export value to the EU could jump about 20% in 2020F, 42.7% in 2025F and 44.4% in 2030F compared to the scenario without EVFTA. At the same time, Vietnam's imports from the EU would also increase, but at a lower pace. Specifically, the import value from the EU could be higher by about 15.3% in 2020F; 33.1% in 2025F and 36.7% in 2030F compared to the case without EVFTA. The EVFTA could help Vietnam's GDP to be about 2.2-3.3% higher (in 2019-2023F period); 4.6-5.3% higher (in 2024-2028F period) and 7.1-7.7% higher (in 2029-2033F period) compared to the case without EVFTA.

Figure 2: Vietnam's export-import value with the EU (US\$bn) (from 2011-2019)



Source: MoIT, Vietnam's customs

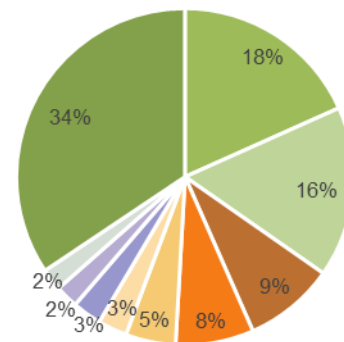
Figure 3: Proportion of major export products to the EU (2018)



- Textile (9.8%)
- Footwear (11.1%)
- Bags, suitcase, umbrellas (2.2%)
- Telephones (31.4%)
- Computers (11.3%)
- Machinery & Mechanical Appliances (4.9%)
- Wooden furniture (1.8%)
- Fishery (3.4%)
- Coffee (3.2%)
- Others (20.8%)

Source: MoIT, Vietnam's customs

Figure 4: Proportion of major import products from the EU (2018)



- Machinery and appliances (18.3%)
- Aircraft & accessories (16.4%)
- Pharma products (8.7%)
- Electrical equipment (7.5%)
- Optical photographic & medical equipment (4.8%)
- Plastics (2.8%)
- Vehicles (2.8%)
- Leathers & skins (2.2%)
- Fishery (2.1%)
- Others (34.4%)

Source: MoIT, Vietnam's customs

On the other hand, Vietnam will also open market for EU export goods

Accordingly, Vietnam commits to abolishing 48.5% of tariffs lines on goods exported from the EU immediately after EVFTA takes effect, equivalent to 64.5% of total import value from the EU. Within 10 years of EVFTA in effect, Vietnam commits to abolishing over 98.3% of the tariff lines on EU export goods, equivalent to 99.8% total import value from the EU.

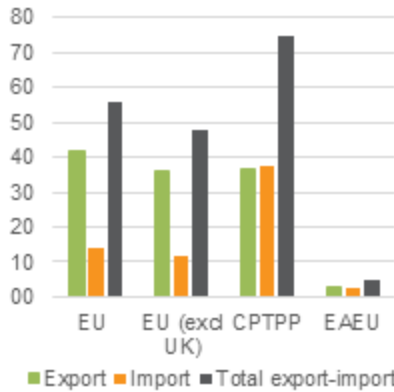
Currently, the EU is Vietnam's fourth-largest supplier of goods. EU exports to Vietnam mainly include machinery, chemicals and transportation equipment, which are essential for the transformation and modernisation of the Vietnamese economy.

The reduction of tariffs on imported goods from the EU will create opportunities for Vietnam's businesses to access high-quality machines, equipment and new technologies from Europe at lower prices. This will help Vietnamese businesses improve labour productivity as well as increase high-tech content, thereby opening opportunities for Vietnamese enterprises to integrate more deeply into the global value chain. In addition, the penetration of European goods into Vietnam will create competitive pressure to force domestic manufacturers to reduce production costs while improving product quality. Finally, Vietnamese consumers will be the biggest beneficiaries.

Some domestic sectors such as pharmaceuticals, milk and livestock will face increasing competitive pressure from imported products from the EU when EVFTA comes into effect

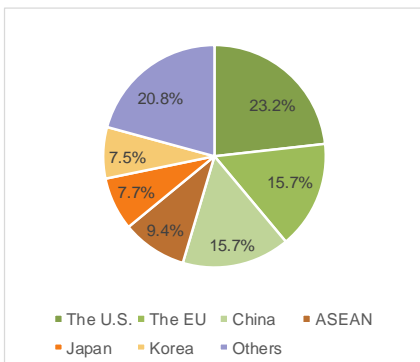
- Around half of EU pharmaceutical exports will be duty free immediately and the rest after seven years. The reduction of import duties on imported pharmaceutical products from the EU will increase the competitive pressure on pharmaceutical manufacturers.
- Frozen pork meat will be duty free after seven years, daily products after five years, food preparations after seven years and chicken will be fully liberalized after 10 years. Currently the EU's livestock products exports to Vietnam are subject to tariff of 10-40%. The reduction of import tariff on livestock products from the EU will promote the penetration of livestock products from Europe into Vietnam and increase the competitive pressure on domestic livestock products.
- Some European countries are fame in dairy products. The reduction of import duties on milk products imports from the EU will increase the competitive pressure on domestic milk manufacturers. However, EVFTA also opens opportunities for Vietnamese dairy companies to more easily access to the production technology and milk ingredients from Europe, which are highly appreciated for quality and food safety, thereby contributing to improve the quality of domestic dairy products

Figure 5: Vietnam's export-import value with other parties in free trade agreements (FTA) (US\$bn)



Source: MoIT, Vietnam's customs

Figure 7: Proportion of Vietnam's export markets (2019)

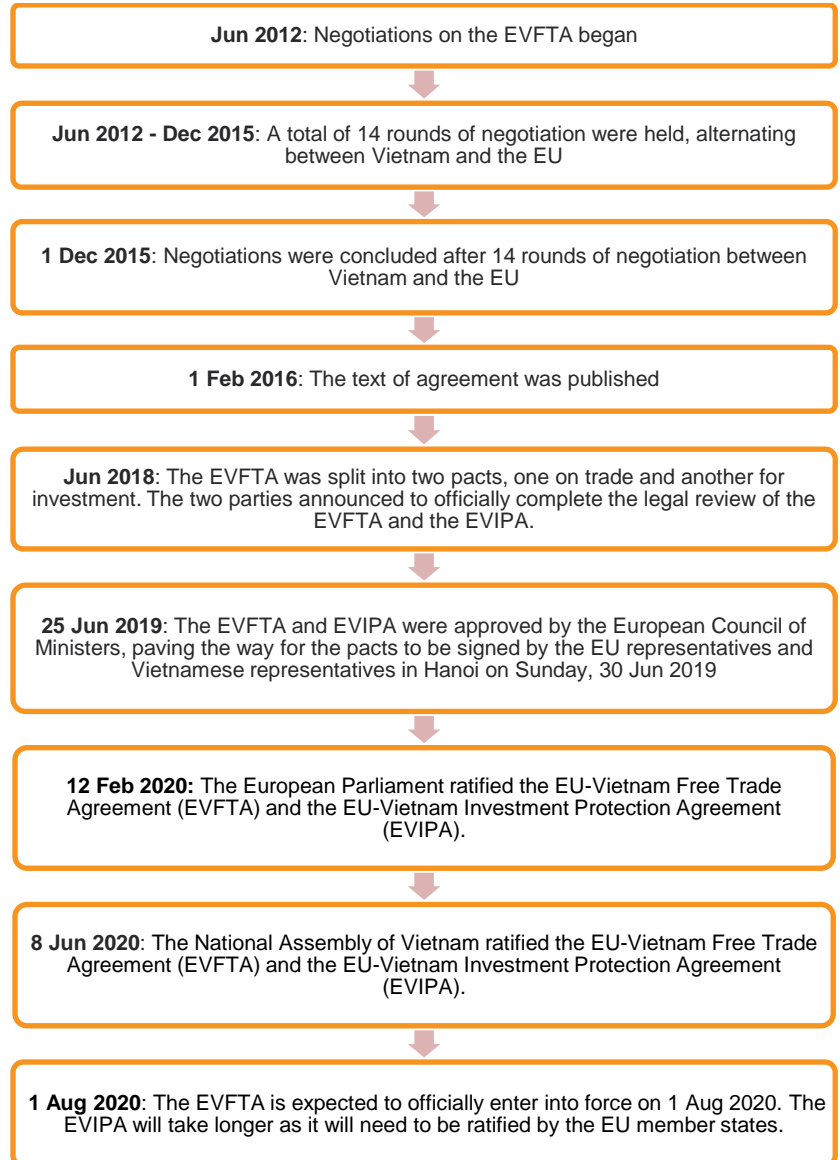


Source: MoIT, Vietnam's customs

What is EVFTA

The EVFTA is a new generation free trade agreement (FTA) between Vietnam and 27 EU member states. The EVFTA, together with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), are the two FTAs covering a wide range of commitments, and the highest level of commitment by Vietnam ever.

Figure 6: Negotiation progress



Source: MoIT and the European Council

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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