

Vietnam trade with EU and UK after free trade agreements and three years of COVID-19

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Abstract

The European Union-Vietnam Free Trade Agreement (EVFTA), taking effect on August 2020, was expected to bring strategic benefits for Vietnam with one of its largest and most important partners. However, the United Kingdom, a leading economy within the EU, was left the EU on the January of the same year. The new free trade agreement between UK and Vietnam, known as UKVFTA, was signed with the hope to avoid missing any benefits that the EVFTA had promised. This paper aims to identify and analyze the impact of the two agreements, EVFTA and UKFTA on Vietnam-EU's and Vietnam-UK trades under the negative effects of the Covid-19 pandemic. A comprehensive analysis of the trade between Vietnam and the two mentioned partners for two year before and two year after the agreement was made to carry out the positive effects of the contracts. The secondary data were taken from the World Bank, ADB and Vietnam Office of Statistics. The results showed that, the two agreements successfully brought about higher surpluses for Vietnam trade, despite the fact that the overall of Vietnam trade are mostly deficit during the four examined years. The results would be helpful to evaluate free trade agreements for overcoming the negative impact of the Covid-19 pandemic for Vietnam and other developing countries.

Keywords: EVFTA; UKVFTA; Free trade agreements; Covid-19; Vietnam-EU; Vietnam-UK.

Introduction

Currently, the global economic is still experiencing an expansive and and sharper-than-expected slowdown, with inflation higher than ever seen in recent decades, since the Global Financial Crisis at 2007-2008 [1]. Several negative factors have concurrently affected on the world trade, including the lingering COVID-19 pandemic [2], [3], the elongated Russia-Ukraine war [4] and thus tightening financial conditions in most countries and territories [5]. The global growth is forecast to slowdown from 6.0 percent in 2021 to 2.7 percent in 2023, the weakest growth rate since 2001. While most countries have suffered significant losses, the Vietnam economy, with 8 per cent growth in 2022, was dubbed as miracle in Asia and a bright spot of economic growth in the world. In 2022, the Vietnam's economy of Vietnam was ranked at the 36th-largest economy in the world, in terms of gross domestic product (GDP) and 26th-largest in the world as measured by purchasing power parity (PPP) [6]. Major reasons for Vietnam's economic achievements have been pointed out, such as the flexible and effective management policies from the Vietnamese Government, including the easing of COVID-19 control measures, adapted living with COVID-19, mass vaccination campaign...[7]. Another essential factor, driving and providing conditions for international investment and the trade between Vietnam and other potential markets, is the implementation of several free trade agreements (FTAs) that successfully implemented just after COVID-19 pandemic. Among them, the agreements between Vietnam with European Union (EU) and with United Kingdom (UK) are of the most important, playing an increasing role in the country's economic recovery and growth.

To date, Vietnam has signed 18 active and planned, bilateral and multilateral Free Trade Agreements [8] with partner countries and regions. On the partner side, the EU has signed FTA with 80 partners [9], where 7 agreements launched over the last decade with South Korea (2012), Canada (2017), Japan (2016), Singapore, Vietnam (2021), Central America, Peru-Colombia-Ecuador [10]. The European Union-Vietnam Free Trade Agreement (EVFTA) came into force on the August 2020 [11], [12] as the most ambitious FTA between EU and a developing country, with 99% of the tariffs lifted within ten years [13]. Unfortunately, the United Kingdom (UK), a leading economy within the EU, has left the European Union under the wellknown term of "Brexit". It is worth noting that, UK contributed about 16 percent of the EU's GDP [14]. The Brexit formally

came into force on 31 January 2020, having serious impacts on both the EU and UK trade since then. It has been found that, the Brexit reduced UK–EU trade by about 15% [14]. For Vietnam, it was expected that the UK should have been a part of the European Union-Vietnam Free Trade Agreement (EVFTA). In fact, the Vietnam-EU surplus reached 21.7 USD billions in 2019, where the Vietnam-UK trade contributed 23% of such positive balance. Hence, neither UK or Vietnam wanted to miss out on the benefits that the EVFTA had promised. In this context, the free trade agreement between UK and Vietnam (UKVFTA) has been signed, and become effective on 1 May 2021. At this time, the fourth wave of the Covid-19 pandemic, started from April 2021, has negatively affected the world’s trade, including EU, UK and Vietnam. Several investigations have been made to analyze the effects of the agreements and the pandemic, see for example [11], [13] studying the effects of EVFTA and Covid-19, [15] for Vietnam's achievement in its early and continued success in combating COVID-19, or [16] as for the impact of one-year EVFTA implementation only. This paper provides an evaluation of the Vietnam-EU and the Vietnam-UK trades under the effects of Covid-19 and the two free trade agreements, EVFTA and UKVFTA.

Recent development of Vietnam economy

Figure 1 represents recent annual GDP rate of the 5 fastest growth economies in the Association of SouthEast Asian Nations (ASEAN), in comparison with the World's average GDP growth rate at the same time.

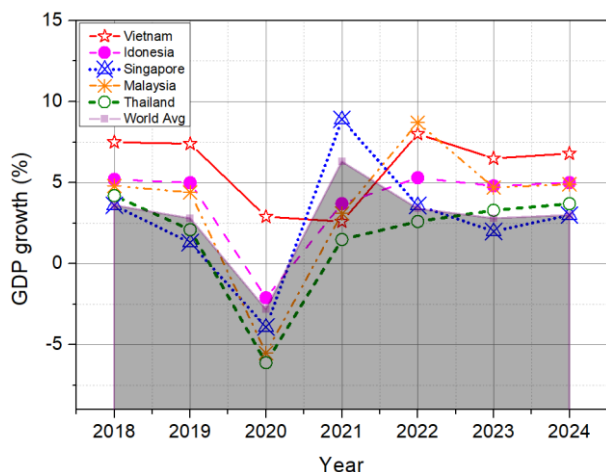


Figure 1. The annual GDP growth rate of selected countries and that of the World

Source: The authors collected from IMF data [6]

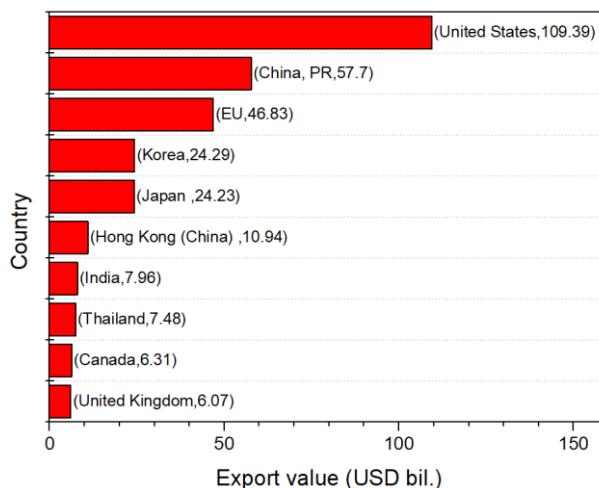


Figure 2. Largest partners of Vietnam's export in 2022

Source: The authors collected from Vietnam General Statistics Office [17]

As can be seen in the Figure, the GDP growth rate of Vietnam was significantly higher than those of the other countries in the Asean area, both for the years before and after the Covid-19 appeared. At 2020, when the world's economy was severely suffered from the Covid-19 pandemic with negative growth rate of -2.8% average, the Vietnam's GDP was kept going with 2.9% increase. The Vietnam's economy is predicted to have largest GDP growth rate for the next two years (2023-2024), as the highest rank in the area. One of the most important factor contributing to such bright possibility of the Vietnam's economic recovery is from the trade activities of the countries. In order to illustrate this cognizance, Figure 2 shows the export values of Vietnam to the top ten partners for 2022 [17]. Among the largest export partners, EU and UK were the 3rd and the 10th importers of Vietnam, with 57.7 and 6.07 USD billions, respectively. The trade between Vietnam and such countries have significant improvements after the free trade agreements came into force, as will be shown in the next sections.

EU-Vietnam trade under Covid-19 and EVFTA effects

Vietnam is the EU's 15th trade in goods partner and has been considered as the EU's largest trading partner in ASEAN. Figure 3 shows the overall trade between Vietnam and EU for 10 years, from 2002 to 2022. The data were collected from the annual report of Vietnam General Statistics Office (See for example in [17]). As can be seen from the Figure, both the annual export from Vietnam to EU and the import of Vietnam from EU were continuously increased year-by-year during the whole period. Due to the negative effect of the Covid-19

at the end of 2019, the trade between the two sides was down for 2020. However, with the positive impact from EVFTA that came into force since August 2020, both export and import trade values were significantly grew up for 2021 and 2022, as illustrated in the Figure.

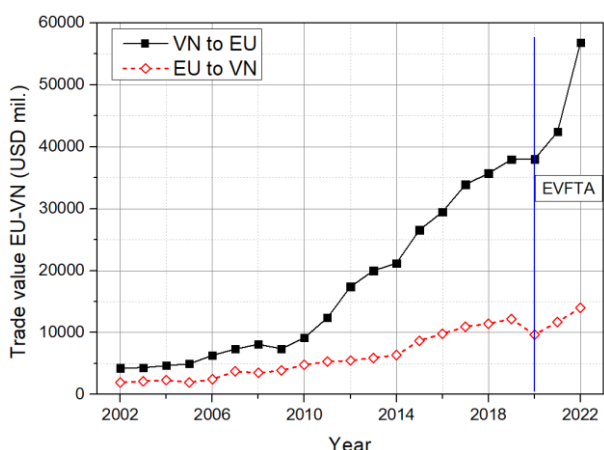


Figure 3. The anual trade between Vietnam and EU

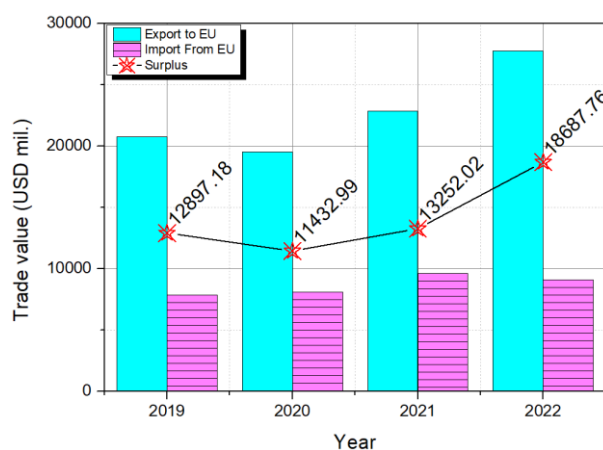


Figure 4. The two-year trades between Vietnam and EU before and after EVFTA

In order to further evaluate the positive effects of the EVFTA on the trade balance between Vietnam and EU, Figure 4 shows the export, import and surplus values for four years, including two year before the aggrement (2019, 2020) and two year after the contract. Since EVFTA came into force at August the 1st 2020, a 7-month period of time (from 01 January to 31 July) was used to compare the trade amongth the evaluated years. The evaluation of data in the same such period allows to eliminate other effects of seasonal factors, such as climate, traditional business... etc. As can be seen in Figure 4, despite the negative impact of the Covid-19 pandemic, the Vietnam trade obtained significant benefits for the two year after EVFTA came into force, especially the export income and thus the surplus from trading with EU. As Vietnam has a as long as half month for its traditional new year holiday, usually falling in February, the trade activities in such time are consequently quiter than those in other months. A detailed benefits for Vietnam for each month of the 7-month period from trading with EU partner is depected in Figure 5. As can be seen, the trade benefit at February each year were all lowest compare to those at other months of the same year. In overall, the monthly surpluses of 2022 all reached the highest values compared to those of corresponding months of other three years. The second highest monthly surpluses were come from 2019, when the Covid-19 was not happened. The lowest trade benefits were of 2020, when the pandemic was happening around the world. The trade of next year, 2021 recorded a significant slightly improvement of business as a result EVFTA, despite the 4th wave of the Covid-19 during the middle of the year.

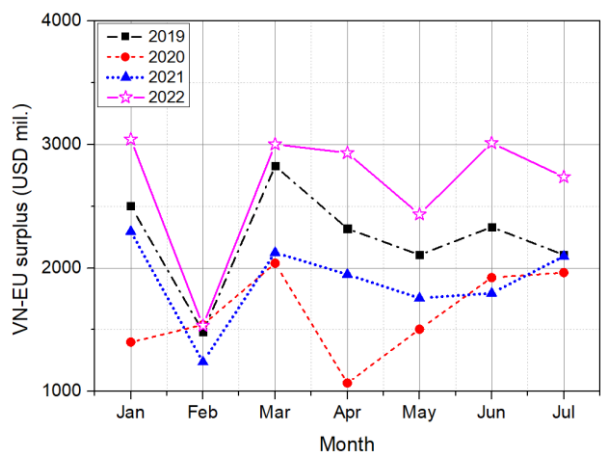


Figure 5. Monthly surplus of Vietnam in trading with EU for 7-month period before and after EVFTA

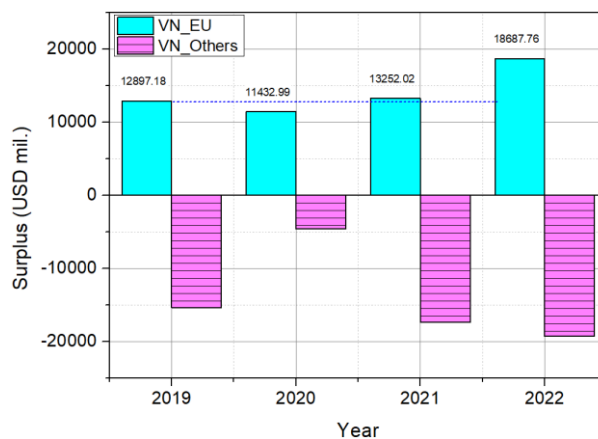


Figure 6. Comparison of the surpluses of Vietnam in trading with EU and the other countries before and after EVFTA

It is worth noting that, during such four years, the trade balance between Vietnam and the other countries have all recorded with significant deficits (i.e. negative surplus), as illustrated in Figure 6. Here the Vietnam surpluses for the two later year (2021 and 2022) were more dropped down with significantly higher deficit compared to the two year before (2019 and 2020). This situation was considered as reasonable as a result of terrible and long effects of the continuous waves of Covid-19 pandemic. Nevertheless, the Vietnam-EU still had high values of surplus, reflecting the dramatically effect of the trade contract between the two partners.

UK-Vietnam trade under Covid-19 and UKVFTA effects

UK was one of the largest economy within the EU, contributing a large scale of the trade between EU and Vietnam. Unfortunately, UK has left the EU (Brexit) since January 2020, leading a serious impacts on not only the EU-UK trade but also the EU-Vietnam free trade trade aggrement. Both UK and Vietnam did not want to loss the benefits that the EVFTA can bring about. Consequently, the free trade aggrement between UK and Vietnam (UKVFTA) has been signed, and become effective on 1 May 2021 when the fourth wave of the Covid-19 pandemic was starting at April 2021.

The contribution of the UK into the Vietnam-EU trade in 2019, before the Brexit came into force, was depicted in Figure 7. As can be seen, the monthly surpluses that Vietnam obtained from trading with UK occupied from 15.69% to 19.49% of the total surpluses with EU. The Vietnam-UK trade effecttiveness always follow that between Vietnam and EU. Looking back to the last decade, the Vietnam-UK trade balance had a significant grew-up trend, as shown in Figure 8 [18].

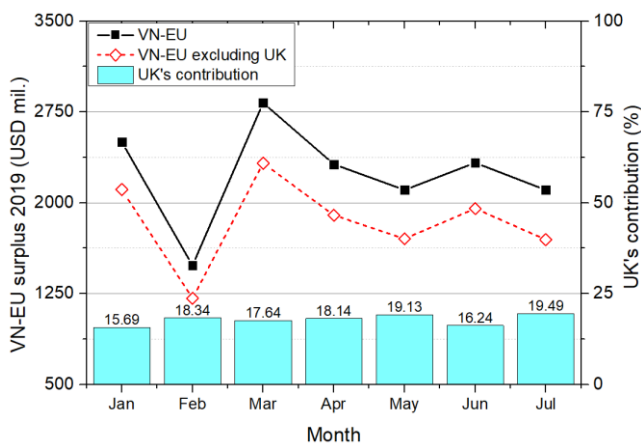


Figure 7. The trade benefits of Vietnam with EU and UK and the UK's contribution to that in 2019

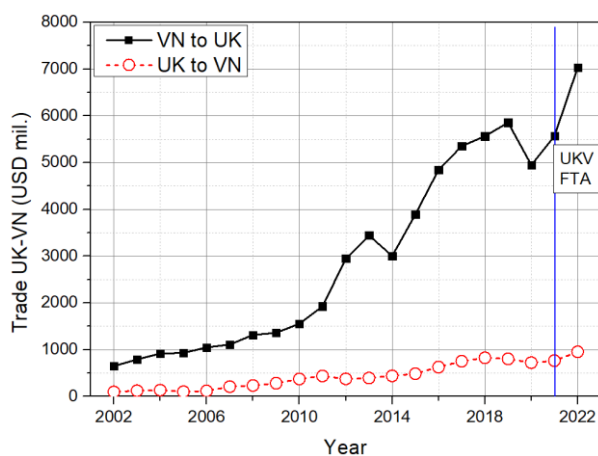


Figure 8. Vietnam-UK trade for the last decade

The trade surplus was dropped down at 2020 as under the negative impact of the Covid-19 pandemic, but quickly recovered just from 2021. A drammmatically grew up surplus value was found in 2022, just after the Vietnam-UK free trade aggrement (UKVFTA) implimented. This would be a great illustration of aggrement for the two partners. The detailed trading values, including the export, the import and surplus that Vietnam made with UK from 2019 to 2022, is represented in Figure 9.

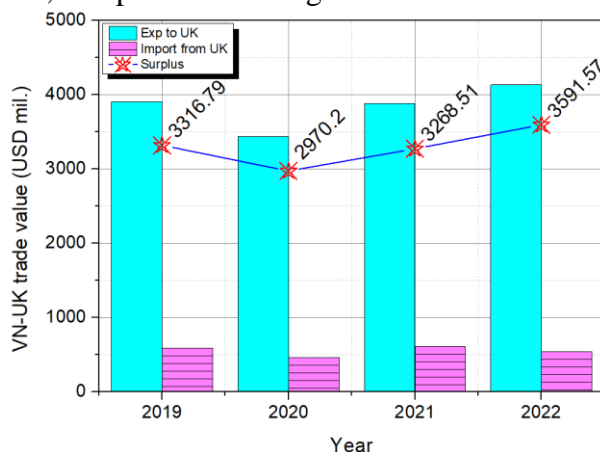


Figure 9. Detailed Vietnam-UK trade from 2019-2022

As can be seen from the Figure, both export and import of Vietnam to and from UK were slightly dropped down in 2020 under the Covid-19 impacts, and started recovered in 2021 and continued to grow up in 2022. However, the export trend has a faster speed than import, resulted in a up-trend of the Vietnam-UK surplus from 2020 to date.

Conclusion

This study provided an evaluation of the Vietnam-EU and the Vietnam-UK trades under the effects of Covid-19 and the two free trade agreements, EVFTA and UKVFTA. The former agreement came into force in August 2020, when the 3rd wave of the Covid-19 pandemic was happened. The later, UKVFTA, was implemented after the UK exited from EU, just before the 4th wave of the pandemic occurred. The two agreements have both positively impacts on the Vietnam international trade. While the trade balance of Vietnam with the other countries get large deficit, the surpluses from trade of Vietnam with either EU or UK were still increasing after the agreements came into force. The free trade agreement between Vietnam and UK, despite coming into force when the Covid-19 still affected on the world economy, did provide a positive effect on the trade of the two sides and so for the economies of the two partners. The results would be a good reference to study the positive side of free trade agreements, especially for developing countries.

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