



# Investment and Trade Opportunities after the EU-Vietnam Free Trade Agreement and EU- Vietnam Investment Protection Agreement

**DR. OLIVER MASSMANN - Partner, General Director**

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## AGENDA

- VIETNAM'S LATEST ECONOMIC DEVELOPMENTS
- EU- VIETNAM FREE TRADE AGREEMENT (“EVFTA”) AND EU- VIETNAM INVESTMENT PROTECTION AGREEMENT (“IPA”)
  - WHAT ARE THEY?
  - WHAT DO THEY HAVE TO OFFER?
  - HOW CAN FOREIGN INVESTORS TAKE ADVANTAGE OF THESE AGREEMENTS?
- STUDY ON CERTAIN SECTORS

# Vietnam's latest economic developments

# Vietnam 2018 Economy at a glance



- GDP: **US\$220.3 billion**
- GDP per capita: **US\$2,385**
- GDP Growth: **7.08%** (record breaking since 2008)
- Inflation: **3.54%**
- Population: **About 91.70 million**
- Labor force aged 15 and above: **54.61 million**
- Total export and import turnover: : **>US\$482 billion (14% increase compared with 2017)**
- Regional Minimum wage (Region I): **VND 4.180 million (US\$ 180) per month (Jan 2019)**
- Vietnam's average age: **29 years old**

Welcome to the most dynamic country on this planet : Vietnam!

90 million people

Which are the world's most dynamic cities?  
According to the JLL City Momentum Index 2017\*

1. Bangalore (India)
2. Ho Chi Minh City (Vietnam)
3. Silicon Valley (USA)
4. Shanghai (China)
5. Hyderabad (India)
6. London (UK)
7. Austin (USA)
8. Hanoi (Vietnam)
9. Boston (USA)
10. Nairobi (Kenya)

Growing middle-class  
(doubled by 2020 to  
33 million people  
according to Boston  
Consulting Group)

Fastest-growing ASEAN economy  
in 2018 and 2019, as in 2017 –  
Standard Chartered Bank predicts

# FOREIGN INVESTMENT IN VIETNAM

## REGIONAL COMPARISON OF COMPETITIVENESS ON MARKET ACCESS

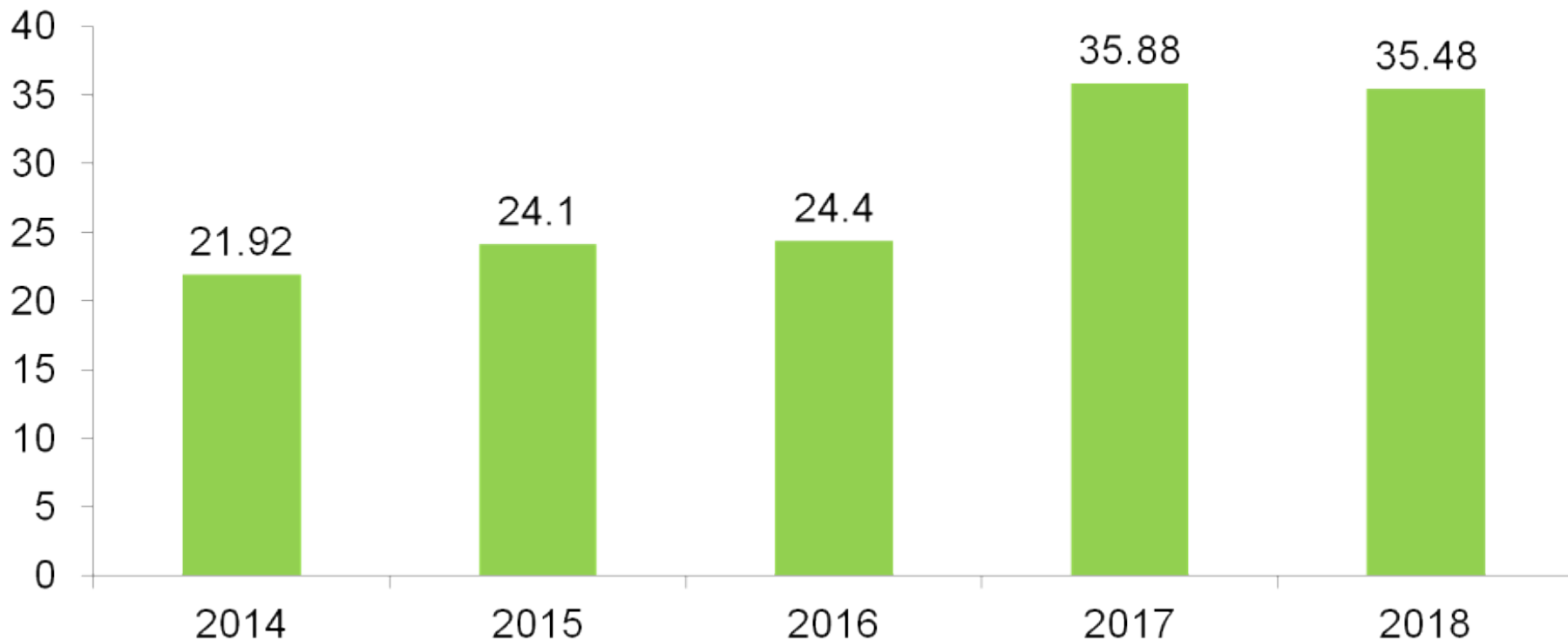
**Vietnam ties in first place with Singapore**

Country	Limitation of market access*	Country	Limitation of market access*
Malaysia	medium	Myanmar	high
Indonesia	medium	Cambodia	medium
Philippines	medium	Laos	medium
Singapore	low	India	high
Thailand	medium	China	medium
Brunei	high	<b>Vietnam</b>	low

- **\*Typical restrictions: number of opened sectors, JV requirement, limits on foreign-owned shares, permission requirement**

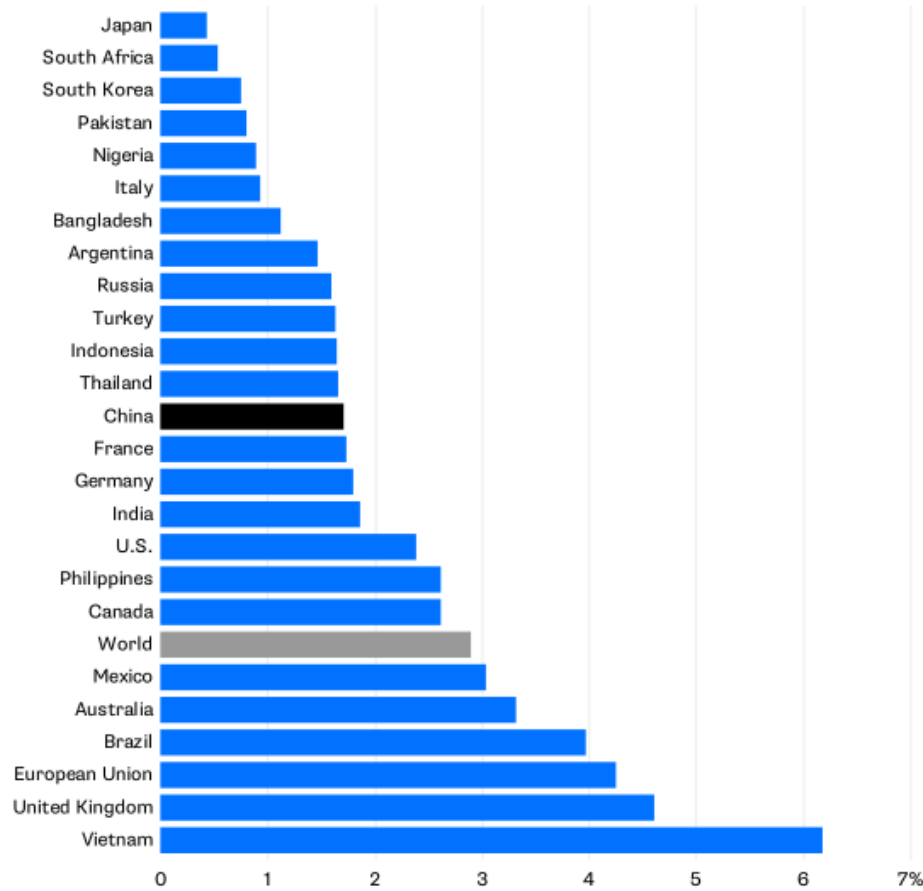
# Increasing Foreign Direct Investment

**Foreign Direct Investment Value (2014-2018) (billion USD)**



### Trading Places

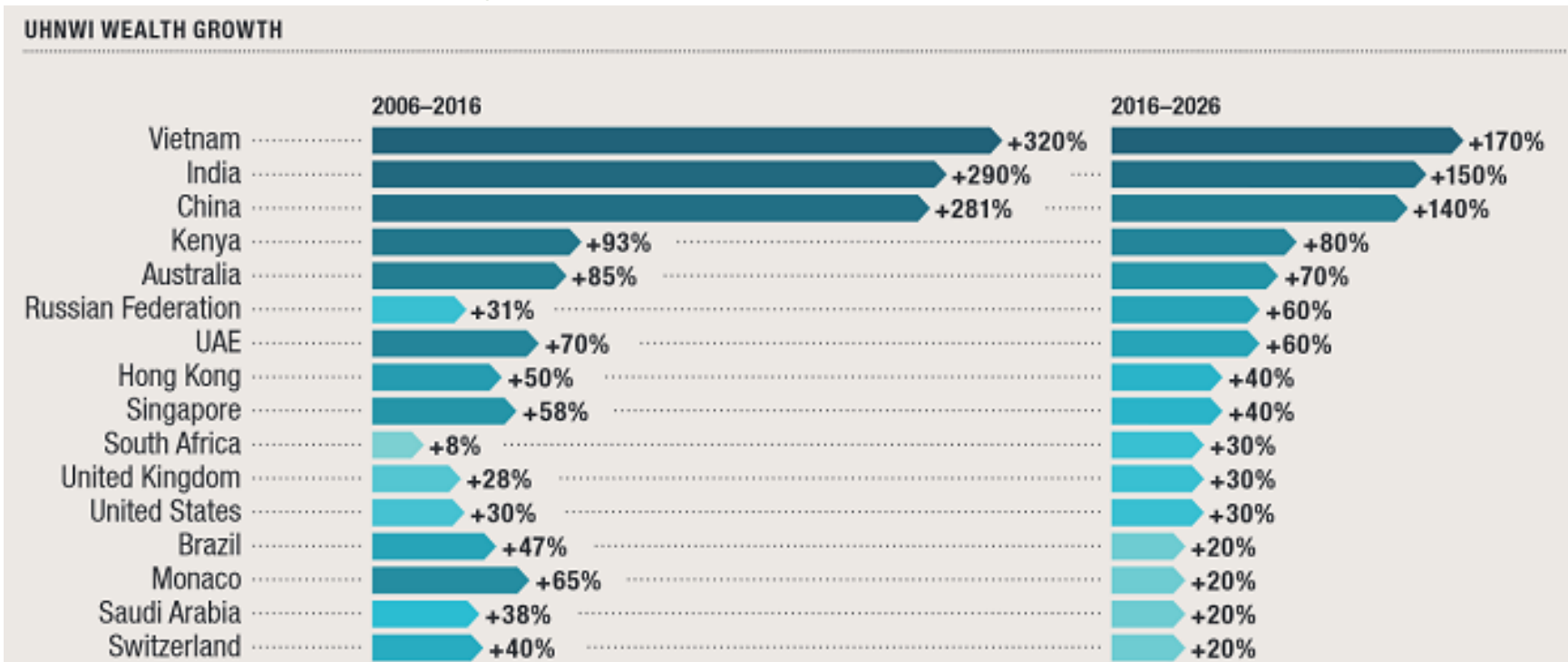
China is on a par with France, Germany and India in terms of foreign direct investment inflows as a share of gross domestic product



Note: We've taken three-year averages of the 2015-2017 period, as year-by-year figures can be volatile as a result of major transactions.  
 Source: World Bank, Bloomberg Opinion calculations



# Vietnam's super rich population is growing faster than anywhere else....



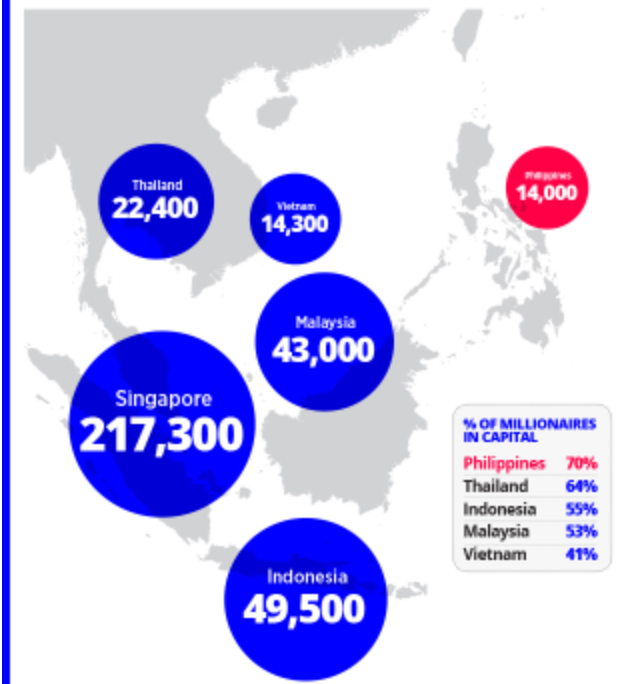
... and is on track to continue leading the growth in the next decade

# Communist Vietnam Has More Millionaires Than Capitalist Philippines



## ASEAN Millionaires

Number of residents in large Southeast Asian countries with a net worth of at least a million US dollars in 2016



Source: Knight Frank, The Wealth Report 2017

Entrepreneur

# Female Business Ownership



**1<sup>st</sup> in Asia, 6<sup>th</sup> / 53 surveyed countries**

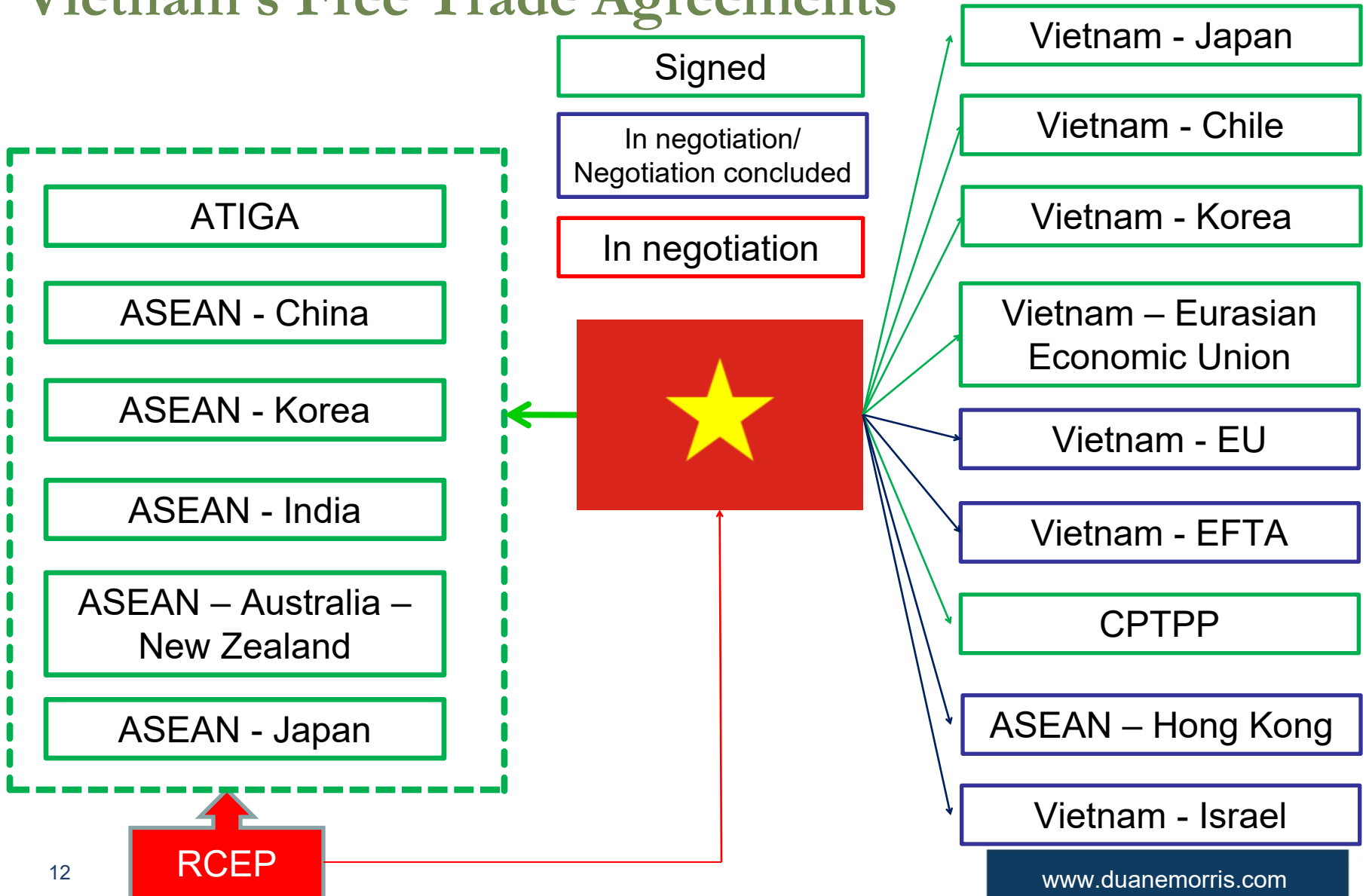
**18<sup>th</sup> in terms of women's advancement outcomes,  
knowledge assets, financial access and supporting  
entrepreneurial conditions\***

**Women hold 25% of CEO or board-level positions  
in Vietnam\*\***

\* Similar to Thailand, Hong Kong and Switzerland

\*\* Far above Singapore, Myanmar and Indonesia

# Vietnam's Free Trade Agreements



# EU – Vietnam Free Trade Agreement (EVFTA)

## EVFTA AND IPA

- The EVFTA is a new generation free trade agreement between Vietnam and 28 EU member countries
- On 2<sup>nd</sup> December 2015, both Vietnam and the EU concluded the negotiations.
- On 26 June 2018, the EVFTA was divided into 2 agreements in terms of trade and investment following the European Court of Justice's opinion on the EU – Singapore FTA
- The EVFTA will cover trade issues while investment protection and investment-related dispute settlement will be under the IPA.
- In August 2018, EU and Vietnam completed the legal review of the EVFTA and the EU – Vietnam Investment Protection Agreement (EVIPA).
- The EVFTA is the first comprehensive and ambitious trade and investment agreements that the EU has ever concluded with a developing country in Asia

# EVFTA – Comprehensive agreement

- **Trade in goods**

Market access for goods – tariffs

Rules of Origin

Export duties

Technical Barriers to Trade (TBT)

Sanitary and Phytosanitary Measures

Customs and Trade Facilitation

Administrative Cooperation in Customs Matters

- **Services and investment:**

E-commerce/ Renewable energy generation

Liberalisation commitments / market access

## **Cross-cutting issues**

Dispute Settlement

Government Procurement

State Owned Enterprises & Subsidies

Intellectual Property Rights

Geographical Indications

Trade and Sustainable Development

Cooperation and Capacity building

Annexes (car; green tech and pharma)

## EVIPA

- Applies to covered investment and its investors
- “Investment” means every kind of asset which is owned or controlled, directly or indirectly, by an investor of EU/ Vietnam in the territory of Vietnam/ EU, which has the characteristics of an investment (for example, commitment of capital or other resources, the expectation of gain or profit, the assumption of risk and a certain duration).
- Investment protection
- Investor-to-State dispute settlement mechanism (“ISDS”)
- EVIPA will replace all bilateral investment agreements between Vietnam and other EU members



## EVFTA – Main features

- Symmetrical elimination of nearly all tariffs (over 99%)
- Removal of almost all export duties and cap on remaining ones
- Services commitments going beyond GATS

## EVFTA – Tariff Liberalization

- Tariff liberalization:
  - 99% of tariffs both value and number of tariff lines
  - After 7 years for EU
  - Vietnam 10 years
- Coverage at entry into force:
  - 71% of value of Vietnamese exports / 84% tariff lines
  - 65% value of EU exports / 49% tariff lines

## EVFTA – Benefits for Vietnam

- Vietnam's annual economic expansions rate may grow an additional 15% every year
- Tariffs for most of Vietnamese export product to the EU will gradually reduce to 0% and Vietnam's export to EU is expected to grow about 35% for next few years
- The real wages of skilled laborers may increase by up to 12% while real salary of common workers may rise by 13%
- The EVFTA is the legal framework for a more stable relationship in bilateral trade for Vietnam when competing in the international market
- The EVFTA will generate greater effects, e.g. increased quality of investment flows from EU, acceleration of the process of sharing expertise and transfer of green technology and the creation of more employment activities

## EVFTA – Benefits for the European Union

- 23 of the 28 member states of the EU are trade partners of Vietnam
- Improvement of intellectual property rights
- Higher level of security over EU's investment in Vietnam
- Better access to EU's second important trading partner in ASEAN

## Government Procurement

- Average government procurement in the EU is about 16%
- Vietnam has one of the highest government procurement rates of all countries worldwide (with about 39%)
- Vietnam is not a member of the Government Procurement Agreement of the WTO
- Vietnam undertakes to transparency and procedural fairness regulations
- Investors will get access to a huge market of government procurement

## IPA - Conflict Resolution

- IPA secures a modern reformed investment dispute resolution standard
- A standing international and fully independent investment tribunal will be competent to all conflicts about investment protection provisions (5 year transitional period for Vietnam)
- Decisions of the Tribunal can be appealed to a permanent Appeal Tribunal
- UNCITRAL rules on transparency in treaty-based investor-state arbitration are implemented which guarantees a high standard of juridical transparency
- A final award must be enforced and cannot be questioned by local jurisdiction

# Opportunities and challenges in some specific sectors



## Automotive

- Almost fully liberalization of EU machinery and appliances exports
- EU exported car parts will be duty free after seven years
- Cars and motorcycles will be duty free after ten years
- 3 years after the FTA comes into effect, Vietnam will accept UNECE (standards adopted from the EU, U.S., Russia and many other states which settle e.g. Worldwide harmonized Light vehicle Test Procedures) certification without any further testing requirements
- Demand for automobiles in Vietnam is at no other time set to surge like this moment
- Vietnam is going to be the new production hub in Asia for the machinery and especially automotive tier two manufacturing industry where several German and European automotive companies already experienced their own success story





## Pharmaceutical Products

- Already 8% of EU exports to Vietnam (2015)
- Improvement of intellectual property right
- Simplification of marketing authorization
- Centralized procurement system for pharmaceuticals which will legally secure market access

## Alcoholic Beverages

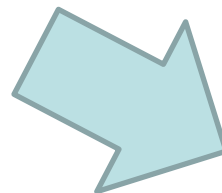


- Geographical Indications will be better protected
- Tariffs for alcoholics will be reduced after 7 or 10 years
- Vietnam removed / decreased restrictions in manufacturing of beverages

## Textile & Apparel

- The EU has for a long time been the second largest importer of Vietnamese textiles and garments (representing 13.5% of Vietnam's global export in 2016).
- EU duties on textile & apparel have dismantling periods stretching from 5 to 7 years for the more sensitive items and 3 years from entry into force for less sensitive goods.
- Tariff elimination within seven years for Vietnam's textiles and apparel products, from the existing duty rate of 12.4%.
- Garment and textile material projects will tend to move to Vietnam to take advantage of the agreements → chances for supporting industry development.
- Around 6,000 textile companies in Vietnam - **~600,000 machines have to be replaced**

12.4%  
import  
tariff rate



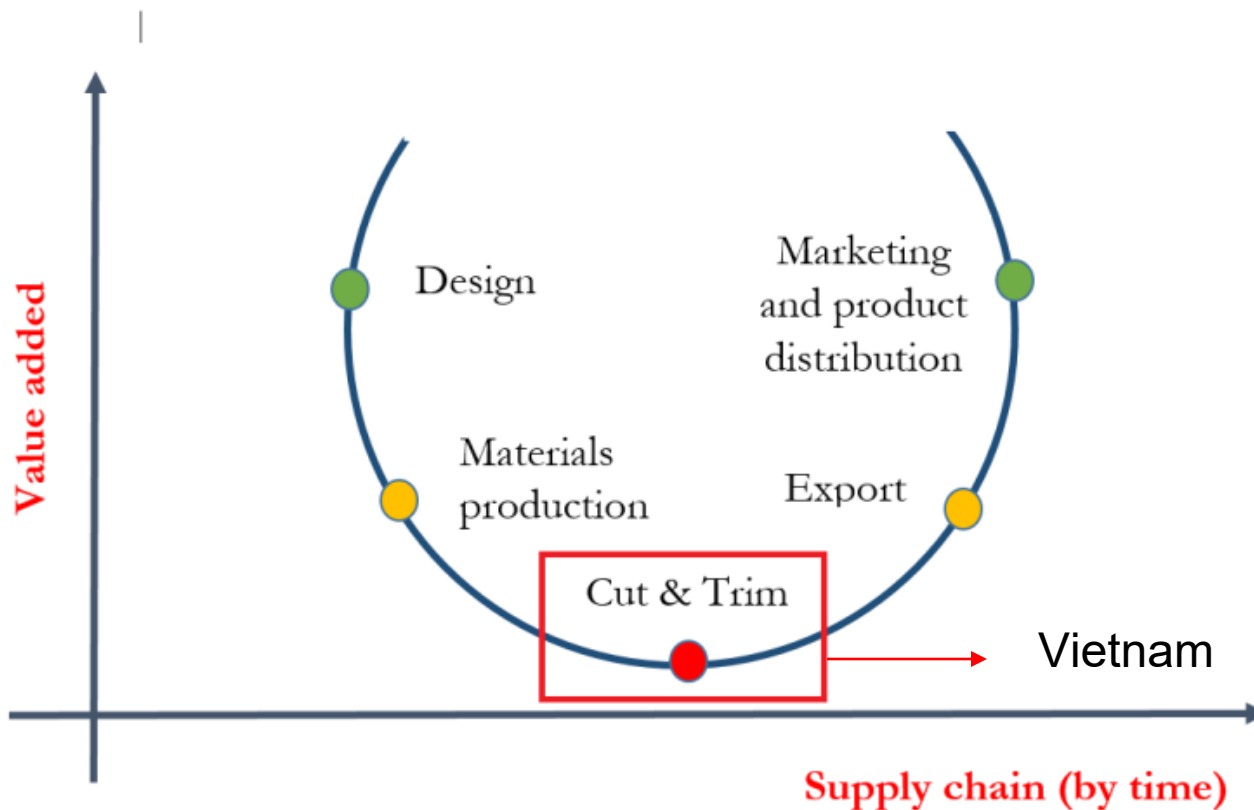
0%

## EVFTA – Fabric-forward rule

- Requirement of the use of fabrics produced in Vietnam, with the only exception being of fabrics produced in South Korea, another FTA partner of the EU (Bilateral cumulation).



# Vietnam's textile sector in the supply chain



## Agricultural products

- The EU offered duty-free tariff rate quotas for Vietnamese rice exports of total 80,000 tons. This is a considerable amount giving the average rice export from Vietnam to EU during 2011-2013 being 28,000 tons/ year.
- The EU offered duty-free tariff rate quotas for Vietnamese exports of total 10,400 ton white sugar and 10,000 tons of products with 80% sugar. The current base rate is EUR33.9 – 41.9/ 100 kg.
- Other agro-food that enjoys tariff elimination right at the entry into force of the EVFTA includes coffee, pepper, natural honey, etc. Notably all fruits and vegetables, either fresh or processed, juice, fresh flowers from Vietnam which are currently subject to 20% base rate will also enjoy such tariff elimination.
- Other products which received improved market access via duty-free tariff rate quotas include sweet corn, sugar and high-sugar-containing products, surimi and canned tuna.

## Challenges

- As the market will be much more open, a high level of competitiveness will reach Vietnam's companies
- Especially the sellers of electrical products, cars, motorcycles and machinery will get to know a new level of business competition
- The challenge will be to maintain and improve the standards of labor rights, environmental protection and sustainability even though the price pressure will increase
- The income from tariffs will be reduced

## Impacts

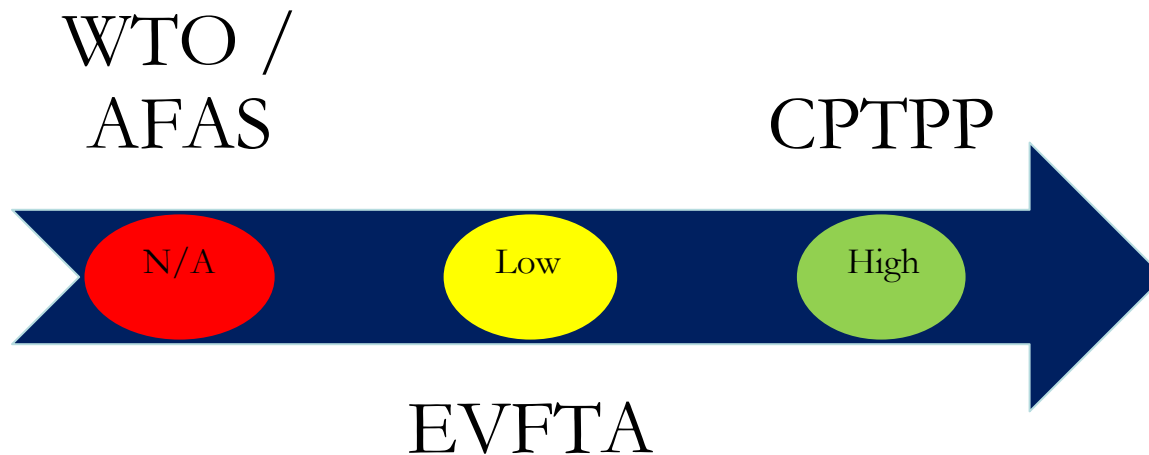
- EVFTA and IPA will make trading more transparent and competitive
- It will be much easier for investors to access new markets in Vietnam
- A high quality standard is settled
- Intellectual property will be safer



# MARKET ACCESS COMPARISON OF CERTAIN COMMERCIAL SECTORS IN THE WTO, AEC, EVFTA AND CPTPP

## Power/ Energy Sector

Level of commitment in Power / Energy sector

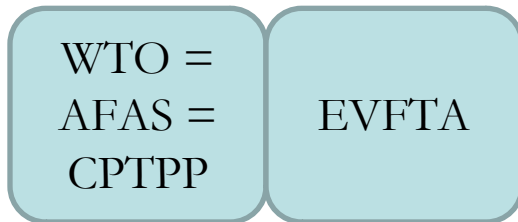


# Power/ Energy Sector

WTO / AFAS	EVFTA	CPTPP
<p>N/A</p>	<p>Unbound (meaning no commitment) regarding:</p> <ul style="list-style-type: none"> <li>- Production of electricity; transmission and distribution of electricity on own account</li> <li>- Manufacture of gas; distribution of gaseous fuels through mains on own account</li> <li>- Production of steam and hot water; distribution of steam and hot water on own account</li> </ul> <p>Other sub-sectors: not included (meaning no commitment) in the service schedule.</p>	<p>Only the following restrictions:</p> <ul style="list-style-type: none"> <li>- Foreign investment to own or operate power transmission facilities in Viet Nam may not be permitted. EVN (Viet Nam Electricity Corporation) is currently the sole authorised owner and operator of power transmission facilities in Viet Nam.</li> <li>- Viet Nam reserves the right to adopt or maintain any measure with respect to hydroelectricity and nuclear power.</li> <li>- Services incidental to energy distribution: Foreign services suppliers are not allowed to supply the services incidental to energy distribution. Foreign investment in these services is not permitted.</li> </ul>

# Transport Services

## Maritime Transport



## Internal Waterways Transport



## Rail Transport



## Air Transport



Low

High



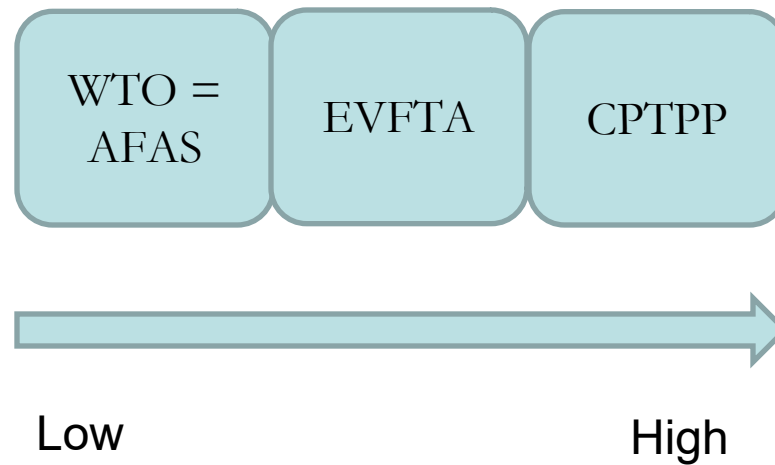
Low

High

# Transport

Sub-sectors	WTO	AFAS	CPTPP	EVFTA
<b>Maritime transport services</b>	Mode 3 MA: joint venture with maximum <b>49%</b> foreign ownership	Same as WTO	Same as WTO	Mode 3 MA: joint venture with maximum <b>70%</b> foreign ownership
<b>Internal Waterways transport + Passenger transport + Freight transport</b>	Mode 1: No commitment Mode 3: joint venture with maximum <b>49%</b> foreign ownership	Mode 1: No restriction Mode 3: joint venture with maximum <b>51%</b> foreign ownership	Same as WTO	Same as AFAS
<b>Rail transport + Passenger transport + Freight transport</b>	Mode 1: No commitment Mode 3: joint venture with maximum <b>49%</b> foreign ownership	Mode 1: No restriction Mode 3: joint venture with maximum <b>51%</b> foreign ownership	Mode 1: No restrictions Mode 3: + Freight transport: joint venture with maximum <b>49%</b> foreign ownership + Passenger transport: not permitted	Same as WTO
<b>Air transport + Selling and Marketing of Air Transport Services</b>	Mode 1: No restriction Mode 3: Airlines are permitted to provide service in Viet Nam through their ticketing offices or agents in Viet Nam	Mode 1: No restriction Mode 3: No restriction	Viet Nam reserves the right to maintain or adopt any measure.	Same as WTO

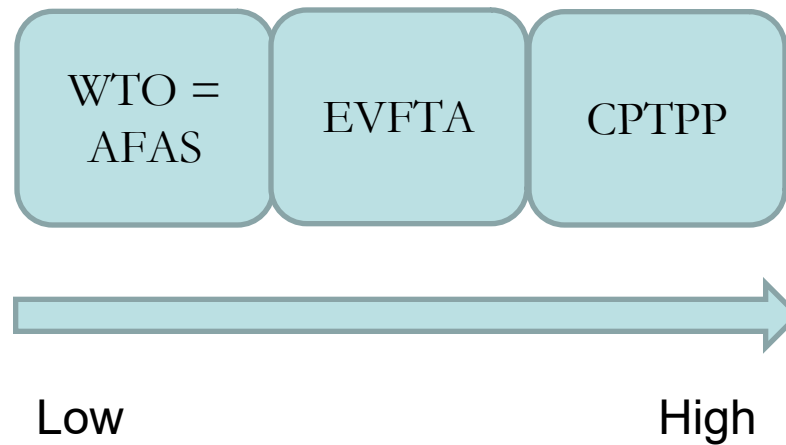
## Securities services



# Securities services

WTO/ AFAS	EVFTA	CPTPP
<p>Commitments on 6 sub-sectors</p> <p><b>Mode 3:</b> foreign securities service suppliers are permitted to establish representative offices and joint ventures with maximum foreign ownership of <b>49%</b>.</p> <p>After 5 years from the date of accession, securities service suppliers with <b>100%</b> foreign-invested capital shall be permitted.</p>	<p>Same commitments in 6 sub-sectors</p> <p>Commitments on 2 additional services: Provision and transfer of financial data processing; and credit reference and analysis.</p> <p><b>Mode 3:</b> Same as the WTO/ AFAS</p>	<p>No restrictions except the following: The operation and services provided by branches of foreign securities company and fund management company in Viet Nam are subject to approval of the Government of Viet Nam, including the imposition of conditions for the approval.</p> <p>Foreign participation from above <b>49% to less than 100%</b> of charter capital of a securities company, fund management company in Viet Nam is subject to approval of the Government of Viet Nam, including the imposition of conditions for the approval.</p>

# Telecommunication Services





# Telecommunication Services

Sub-sectors	WTO/ AFAS	EVFTA	CPTPP
<b>Non facilities-based services</b>	Mode 3: Joint venture with maximum <b>65%</b> foreign ownership	Mode 3: Upon entry into force, Joint venture with maximum <b>65%</b> foreign ownership 5 years from the date of entry into force of the Agreement, this capital limitation will be <b>75%</b> .	joint venture or purchase of shares in a Vietnamese enterprise, with maximum <b>65%</b> foreign ownership. No later than 5 years from the date of entry into force of the Agreement, this capital limitation will be <b>100%</b> .
<b>Other services - Virtual Private Network (VPN)</b>	Mode 3: Joint venture with maximum <b>70%</b> foreign ownership	Mode 3: Upon entry into force, Joint venture with maximum <b>70%</b> foreign ownership 5 years from the date of entry into force of the Agreement, this capital limitation will be <b>75%</b> .	joint venture or purchase of shares in a Vietnamese enterprise, with maximum <b>70 %</b> foreign ownership. No later than 5 years from the date of entry into force of the Agreement, this capital limitation will be <b>100%</b> .

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WHEREVER YOU ARE - BE ALL THERE

*Jim Elliot*

# **DUANE MORRIS VIETNAM LLC**

**Thank you very much!**

## **HANOI OFFICE**

**Pacific Place, Unit V1307/08, 13<sup>th</sup> Floor,  
83B Ly Thuong Kiet, Hoan Kiem District  
Hanoi, Vietnam**

**Tel.: +84 4 39462200**

**Fax: +84 4 3946 1311**

## **HO CHI MINH CITY OFFICE**

**Suite 1503/04, Saigon Tower  
29 Le Duan Street, District 1  
Ho Chi Minh City, Vietnam**

**Tel.: +84 8 3824 0240**

**Fax: +84 8 3824 0241**

**Contact email:**

**[omassmann@duanemorris.com](mailto:omassmann@duanemorris.com)**