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OPPORTUNITIES AND PROSPECTS FOR BULGARIA PROVIDED BY THE EU-VIETNAM FREE TRADE AGREEMENT

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AUTHOR'S CONTRIBUTION

The sole author designed, analyzed and interpreted and prepared the manuscript.

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Short Research Article

ABSTRACT

As the process of ratification of the EU-Vietnam Free Trade Agreement is almost complete, the article aims at disclosing the prospects which the FTA provides for Bulgaria. The article firstly presents some insights from economic literature on the benefits of Free trade agreements. It then discusses the development of the institutional framework of trade relations between the EU and Vietnam, presents briefly the main features of the EU-Vietnam FTA and the current trends in the bilateral trade between Bulgaria and Vietnam. Finally some conclusions are drawn on the opportunities and prospects which the Agreement presents in front of Bulgaria.

Keywords: EVFTA; EU trade policy; Bulgaria-Vietnam bilateral trade; Bulgaria-ASEAN relations.

1. INTRODUCTION

Bilateral and multilateral free trade agreements are becoming more widespread in recent decades, including along with the issues related to trade liberalization, also measures to stimulate investment, technology transfer, cooperation and simplify customs procedures, as well as a number of provisions in some new to traditional trade agreements areas such as labor market, environment, sustainable development, etc.

In recent years a trend is observed for Bulgarian exports to expand their value to partners with higher share at the expense of the reduction of exports to countries with a more insignificant presence in the country's international trade relations. The concentration of foreign trade with one country or economic community, as is the case with the European Union (EU), determines the dependence of Bulgarian economy on the economic situation of those main partner countries, which poses a high risk of rapid transmission of (negative) global economic trends in our country [1]. From this perspective, the Free Trade Agreement between the EU and Vietnam (EVFTA) which was signed in December 2015 can be considered as potential opportunity to support growth and stability of the Bulgarian economy in the medium and long term.

The article aims at outlining the potential benefits Bulgaria could gain after the EVFTA enters into force by summarizing the main features of the agreement and considering the main trends in Bulgarian-

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Vietnamese trade relations for the past decades. It does not have the ambition of providing a thorough analysis of the provisions of the FTA, its potential specific effects on Bulgarian and especially Vietnamese economy, nor to give political recommendations for the possible further amendments of the agreed by the EU and Vietnam contents of the agreement.

The article is structured as follows: Section 2 discusses some insights from economic literature on the benefits of Free trade agreements; Section 3 presents the development of the institutional framework of trade relations between the EU and Vietnam; Section 4 discusses briefly the main features of the EU-Vietnam FTA; Section 5 gives a snapshot on the trade relations between Bulgaria and Vietnam; finally, Section 6 draws some conclusions on the opportunities and prospects which the Agreement presents in front of Bulgaria.

2. THE BENEFITS OF FREE TRADE AGREEMENTS – INSIGHTS FROM ECONOMIC LITERATURE

Trade liberalization can take several forms. The simplest path to liberalization is for a nation to cut tariffs unilaterally but, more usually, nations lower their import barriers at the same time as their trade partners. This latter type of agreement is referred to as a preferential trade agreement (PTA). The defining characteristic of a PTA is that lower tariffs are imposed on goods produced in the Member countries than on those produced outside.

According to Panagariya [2] the lowest form of integration is the preferential trade agreement (PTA). It is an arrangement between two or more countries in which goods produced within the union are subject to lower trade barriers than the goods produced outside the union. A Free Trade Area (FTA) is a PTA in which member countries do not impose any trade barriers (zero tariffs) on goods produced within the union. However, each country keeps its own tariff barriers to trade with non-members [3]. FTAs are defined in paragraph 8 of article XXIV of the GATT as follows: “A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade between the constituent territories in products originating in such territories”.

Research of trade integration and the explanation of theoretical issues related to preferential trade agreements are based on Viner’s study [4] – the first one to define specific criteria for the distinction of the pros and cons of economic integration. His so-called static analysis of economic integration distinguishes the now well-known effects of trade creation and trade diversion. One speaks of trade creation when with signing a trade agreement between two countries trade is shifted from a higher cost producer to a lower cost producer among member-states. Trade diversion occurs when imports are shifted from a lower price producer from a third country, which is not a part of the integration agreement to a higher price producer from a member-state. This happens when a common customs tariff is applied if the integration agreement protects the higher cost supplier from a member-state. What Viner’s theory practically means is that countries would have motivation to participate in integration if it would possibly bring more benefits than costs, or, in other words – when integration leads to more trade creation than trade diversion. A main thesis in international economics is that free trade on competitive markets enables production and consumption efficiency globally as well as in every single country. At first, the creation of preferential trade agreements motivated by the ideas of static effects analysis is viewed as a shift towards free trade and thus is perceived as a tool to increase real income.

However, this turns out not to be true – this type of analysis does not give simple answers and principles, thus the attention should be put on the dynamic analysis of economic integration [5]. Moreover, static effects analysis cannot fully assess the impact of integration on welfare. Balassa [6] and Cooper and Massell [7] are the first researchers that introduce the concept of the dynamic effects of economic integration, which adds a new dimension to the research in this area. The definition of the dynamic effects of economic integration could be summarized as anything that affects the rate of medium and long term economic growth of the participating in the integration agreement member-states. New theories of economic integration are developed together with the change in global economic conditions. The driving forces behind previous integration efforts (simple trade creation and trade diversion) are drastically different from the factors that stand behind recent integration development, such as private sector participation, foreign direct investment, an increasing role of services, etc. Together with these, among the main effects and factors that dynamic analysis regards as coming from the participation in integration agreements are, as follows: economies of scale [8], economies of scope [9], investment creation and investment diversion [10], increase of competition [11], etc. Dynamic analysis of the effects of economic integration comes from the characteristics of today’s free economy. Because of their deeper scope dynamic effects have a larger impact on economic processes than static ones. The dynamic effects of economic integration can be summarized as follows: increase of investment expenditure, sustainable increase of demand, consolidation of production and increase of its specialization, improvement of the organization and management of production and production technology, rationalization of territorial distribution and utilization of resources, increase of production efficiency, creation of economic growth, etc.

In most cases, theories of economic integration and its benefits – of dynamic ones, but even more of static ones, are not fully applicable to integration agreements among developing and least developed countries. Meier [12] claims that Viner's analysis has limited or no relevance to integration among developing countries. Even Balassa [13] claims that theoretical literature on economic integration issues discusses customs unions only in industrialized countries. Their problems and environment are not related to economic development, but more to relative changes of production and consumption features. The rationale behind economic integration among developing countries could not be defined and explained just by the static and dynamic effects that determine integration between developed economies. With developing countries some factors have a stronger, while, controversially, others have a weaker impact on their willingness to participate in integration agreements [14].

From the perspective of developed countries free trade agreements provide opportunities to access new markets, to increase the volume and value of trade flows, particularly in times of economic recession and slowdown, as well as a means of geopolitical influence to promote economic development, strengthen democratic values and support the integration of their developing partners in the global economy.

For developing countries joining a free trade area is regarded a way of promoting exports, but alongside this the participation in such an arrangement creates pressure for the country to increase production efficiency, promote competition, develop innovative products and services and improve its legal and institutional system so that it reaches recognized international standards [15]. Furthermore, preferential trade agreements, and in particular free trade areas assist developing countries to strengthen their relations with their political and economic partners, and more specifically with the large developed economies.

3. INSTITUTIONAL FRAMEWORK OF EU-VIETNAM TRADE RELATIONS

In recent years, Vietnam participates in the negotiation of several bilateral and multilateral free trade agreements – the Transpacific Partnership (TPP), the Free Trade Agreement with the EU, the Regional Comprehensive Economic Partnership (RCEP), the Free Trade Agreement with South Korea, the Customs Union Agreement with Russia, Belarus and Kazakhstan (VCUFTA), etc. The scope of these free trade agreements, along with trade in goods and services and includes some new issues such as intellectual property rights, public procurement, sustainable development, etc. In the context that the Association of Southeast Asian Nations (ASEAN) and each individual ASEAN member countries have not yet formed an FTA with the EU, Vietnam continued the integration process by negotiating bilateral free trade agreement with EU [16].

In 1995, Vietnam and the EU signed a Framework agreement on economic cooperation. In 2010, the two parties completed the negotiations and signed the Partnership and Cooperation Agreement (PCA).

The potential for increasing the volume and value of trade flows is increasing in line with the agreements under the common commercial policy [17]. At present, Vietnam enjoys access preferential access to the EU through the General System of Preferences granted by the EU to developing countries. However, the limitations of this system are clear: Vietnam only had access for the products defined unilaterally by the EU and the conditions could be changed by the EU at any time. Furthermore, the EU had no preferential access to Vietnam. In this sense, the implementation of the FTA is clearly mutually beneficial [18].

The Free Trade Agreement between the EU and Vietnam was negotiated and signed in December 2015, and on February 1st 2016 after the formal conclusion of negotiations, which began in 2012, its full text has been officially published. It is currently subject to legal revision by the legal experts which will be followed by translation into Vietnamese and the official languages of the EU It will then be sent to the Council of the European Union and to the European Parliament for ratification.

The agreement may be seen as a deepening of the active commercial policy of both parties, as well as an important step in completing the manifested by the EU strategic priority to liberalize trade with the help of a free trade agreement with one of its most important strategic trading partners – ASEAN. The EVFTA is a continuation and deepening of the strategic partnership in international economic relations, which began with the signing in 2012 of the Partnership Cooperation Agreement (PCA), and is in compliance with the European Commission's new trade strategy "Trade for all".

The EU-Viet Nam Free Trade Agreement will contribute to strengthening our economies and societies through improved access to each other's markets. It will also help trigger a new wave of high quality investment in both directions, and support Viet Nam's transition towards a more competitive, smart and green economy. Viet Nam is a market with significant potential. With its 93 million people, a growing purchasing power and a young and dynamic work force, it offers increasing opportunities for the EU's agricultural, industrial and services exports. Furthermore, the agreement is also a significant milestone for ASEAN-EU trade relations overall, and builds towards the ultimate goal of an ASEAN-EU region-to-region free trade agreement [19].

4. MAIN FEATURES OF THE EVFTA

This section summarizes the main features of the EVFTA presented in this section based on the Agreed text of the EU-Vietnam Free Trade Agreement, published by the European Commission [20].

Improved market access is one of the key objectives of any FTA. The EU-Vietnam FTA contains full dismantling of nearly all tariffs except for a few tariff lines that are subject to duty-free tariff rate quotas. Right from the day of entry into force of the FTA provides 65 percent of EU exports to be duty-free, while exports of the remaining products will be liberalized within 10 years. EU relieves of duty 71% of imports from Vietnam with the entry into force of the Agreement, while 99% of Vietnamese imports to the EU will enter freely following seven years. The transitional period for certain products is designed to enable domestic producers to adapt to the conditions of free trade. The benefits for consumers in both partners come from the lower prices, while these for the exporters – from increased competition and the bigger market.

Along with tariff liberalization the EU-Vietnam FTA provides a prohibition of discrimination between imported and domestic products in terms of national taxation, and (in accordance with WTO rules) import licensing and voluntary export restrictions. The text of the FTA includes only a short list of goods for which Vietnam has the right to restrict imports, for example right-hand steering vehicles, used consumer goods such as textiles and clothes, footwear, electronic goods, furniture and used motor-vehicles more than five years old as well as limited number of other products.

Besides tariff reduction and opening up of markets, trade facilitation is a critical part of international trade. The main measures of simplification of customs and trade procedures in the FTA aim at the elimination of non-tariff barriers to trade by facilitating legitimate trade, without hindering the effectiveness of national customs control.

Rules of origin in EVFTA follow the approach of the General System of Preferences of the EU and the one in the FTA with Singapore, taking into account the specific characteristics of the countries – for example on products containing sugar and dairy, products of steel, mechanical machinery, electrical machinery, etc. The Agreement contains measures to eliminate technical requirements (for signs and security) that are more detailed than the requirements of the WTO, opportunities for discrimination of goods.

Businesses producing with traditional methods kinds of food and drinks protected by 169 European geographical indications (distinctive sign used to identify a product as originating in the territory of a particular country, region or locality where its quality, reputation or other characteristic is linked to its geographical origin) will benefit from the recognition and protection on the Vietnamese market at a comparable level to that of EU legislation.[1]

There are provisions in the EU-Vietnam FTA on liberalization of trade in services (business, environmental, postal and courier, banking, insurance, maritime transport) and electronic services. The Agreement contains a number of measures related to other possible barriers to trade in goods and services – sanitary and phytosanitary measures, geographical indications, protection of intellectual property, public procurement, public enterprises and state aid.

In terms of investment, entering into force the EVFTA will replace the currently acting 21 bilateral investment agreements between Vietnam and EU Member States. There is a new approach that guarantees a high level of investor protection, including a through modern mechanism for dispute resolution, which combines investor protection with the right of each country to regulate its own policy.

5. CURRENT TRENDS IN BULGARIA-VIETNAM BILATERAL TRADE

The total value of Bulgaria's trade flows with African countries in 2015 is just over 93 Million USD (see Fig. 1), which is 0.17% of the country's total trade. Imports amount to 50 Million USD, while exports are nearly 43 Million USD, thus creating a negative trade balance of 7.5 Million USD.

[1] It should be noted that unfortunately among the nearly 170 agreed geographical indications from the EU there is not even one submitted by Bulgaria.

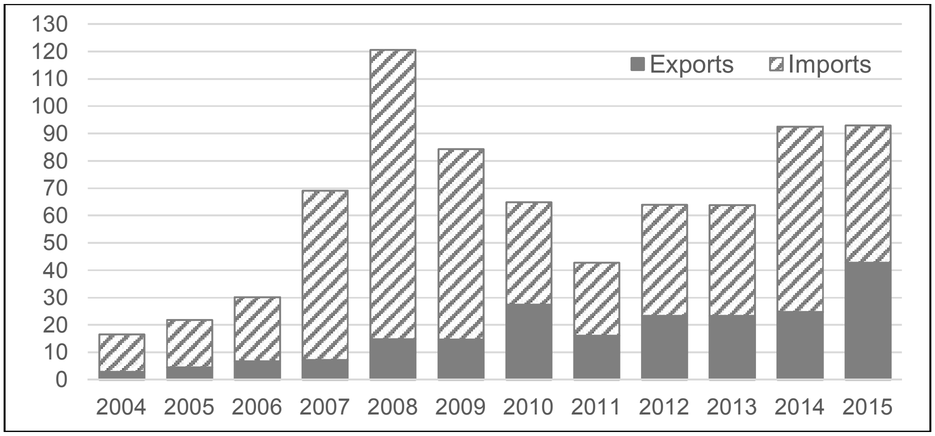

Fig. 1. Bulgaria-Vietnam bilateral trade (Million USD)
(Source: ITC calculations based on UN COMTRADE statistics)

Table 1. Commodity structure of Bulgaria-Vietnam bilateral trade

Product	Value (Million USD)	Share of Bulgaria
Main exports		
Cereals	17,1	39,9%
Pharmaceutical products	4,9	11,4%
Organic chemicals	3,6	8,4%
Copper and articles thereof	3,1	7,2%
Miscellaneous chemical products	2,8	6,5%
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	2,5	5,8%
Main imports		
Coffee, tea, maté and spices	15,3	30,5%
Cotton	6,3	12,5%
Mineral fuels, mineral oils and products of their distillation; bituminous substances...	5,7	11,4%
Rubber and articles thereof	5,4	10,7%
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2,4	4,7%
Fish and crustaceans, molluscs and other aquatic invertebrates	2,2	4,3%

(Source: ITC calculations based on UN COMTRADE statistics)

For the period 2004-2015 the value of trade flows increased over 5.5 times with exports growing twice faster than imports (respectively with an average annual growth of 25 and 12%). However trade is very volatile throughout the period – up to Bulgaria's accession in the EU its value is very low (just 30 Million USD in 2006), then it increases rapidly to reach over 120 Million USD in 2008. During the global crisis there is a significant decline in each of the years up to 2011 when total trade between Bulgaria and Vietnam fell to just 43 Million USD. In the last years a new increase is observed – to 64 Million USD in 2013 and to the current 93 Million in 2015. Most of these volatilities are due to the unstable value of imports which increased from 13 Million in 2004 to 106 Million in 2008 to fall to 27 Million in 2011 and increase again to almost 68 Million in 2014. For the last year there was a significant decrease in imports as well – with over 17 Million USD, which however was compensated by an almost equal increase in exports due to the renewed export of wheat.

The volatile value of both imports and exports is due to the highly erratic commodity stricture of trade in different years. In 2015 bilateral trade is not very diversified with both imports and exports being concentrated in 5-6 main product groups (see Table 1 above).

Nearly 40% of Bulgaria's exports to Vietnam in 2015 is concentrated in cereals (17.1 Million USD), more specifically wheat and meslin (excluding seed for sowing, and durum wheat). Five other product groups constitute another 40% of Bulgaria's exports (see Table 1) with the most exported products being Medicaments, Antibiotics, Plates, sheets and strip, of refined copper, Fungicides, Machinery for filling, closing, sealing or labelling bottles, cans, boxes or bags and Pulley tackle and hoists, powered by electric motor. Other exported goods with a share of 1-3% of Bulgaria's exports to Vietnam (0.5-1.3 Million USD) are Oil seeds and oleaginous fruits; Salt, Sulphur, earths and stone, lime and cement; Man-made staple fibres; Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical appliances; Meat and edible meat offal; Tobacco and manufactured tobacco substitutes; Plastics and articles thereof; Articles of iron or steel; Electrical machinery and equipment and parts thereof.

More than 30% of Bulgaria's exports to Vietnam in 2015 is concentrated in coffee, tea, maté and spices (15.3 Million USD), more specifically coffee (12.9 Million USD) and pepper (2.4 Million USD). Here again five other commodity groups constitute another 50% of Bulgaria's exports (see Table 1) with the main imported products being Cotton yarn, Anthracite coal, New pneumatic tires, Parts and accessories for motorcycles and bicycles and Frozen fillets of catfish. Other imported commodities with a share of 1-4% of Bulgaria's imports from Vietnam (0.6 – 2 Million USD) are Edible fruit and nuts; peel of citrus fruit or melons; Articles of iron or steel; Footwear, gaiters and the like; Articles of apparel and clothing accessories, knitted or crocheted; Plastics and articles thereof; Furniture, bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; Tobacco and manufactured tobacco substitutes; Machinery, mechanical appliances, nuclear reactors, boilers and parts thereof; Preparations of vegetables, fruit, nuts or other parts of plants.

6. CONCLUDING REMARKS: OPPORTUNITIES FOR BULGARIA

The EU-Vietnam FTA envisages almost complete liberalization of trade, including the elimination of 99.9% from customs duties for a period of seven years for the EU and ten years for Vietnam, the abolition of non-tariff barriers to trade, the establishment of rules of origin, as well as a vast number of others trade-related issues – public procurement, competition, services, investments.

In terms of trade in goods between Bulgaria and Vietnam the EVFTA extends and deepens the potential for development of trade relations, establishing reciprocal liberalization of trade in goods and services, which presents significant opportunities for Bulgarian exporters and Vietnamese importers to occupy potentially competitive niches. The agreement opens opportunities regarding the trade of some products that have traditionally been part of Bulgarian exports to Vietnam – pharmaceutical products (50% of them will enjoy duty-free market access to Vietnam since the entry into force of EVFTA, and the rest - after seven years), machinery and equipment (almost complete liberalization at entry into force of EVFTA), textiles (full liberalization at entry into force of EVFTA) and fresh and processed food.

On the other hand, the embodied in the Agreement schedule of tariff liberalization, the clear rules of origin, the intended reduction of customs, technical, sanitary and phytosanitary barriers create opportunities for Bulgaria to become a gateway to the EU for Vietnamese exporters. These possibilities are even more pronounced considering the growth of trade flows and the potential extension of the commodity structure of bilateral trade.

Regarding investment, the unification of the rules for participation in public procurement, the clear definition of the conditions for e-commerce and the introduction of an effective system for dispute resolution could be seen as measures enabling serious penetration of both Bulgarian investors in the Vietnamese market as well as of Vietnamese investments in Bulgaria. In this regard should be noted the sectors of agriculture and food technology, where there are serious opportunities to attract investment from Vietnam [21].

Moreover, the EU-Vietnam FTA could be seen as a serious step towards the creation of a freer environment for business and investment, which opens serious prospects for the deepening of economic relations between Vietnam and the EU, and in particular the bilateral relations between Vietnam and Bulgaria. Moreover, with the entry into force of the Agreement, Vietnam could become a gateway for Bulgaria to the huge market of ASEAN.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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