

FREE TRADE ZONE BETWEEN EURASIAN ECONOMIC UNION AND SOCIALIST REPUBLIC OF VIETNAM COMES INTO FORCE

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The free trade zone agreement between Eurasian Economic Union (EAEU) and the Socialist Republic of Vietnam will come into force starting 5 October 2016. The document, which envisages easing of access to their markets in the framework of mutual trade of member states, will allow to significantly increase their trade turnover. The importance of this Agreement also consists in perfection of the negotiation practices and mechanisms of implementation of similar agreements for EAEU.

Creation of the Eurasian Economic Union (EAEU) is taking place amid serious transformation of world trade terms resulting from an increasing number of regional trade agreements (RTA). Over the period from 1948 through 1994, the General Agreement on Trade and Tariffs (GATT) received 124 notifications of RTAs. By the time of WTO creation in 1995, nearly 50 RTAs remained effective. However, over the following 20 years the WTO Secretariat received 460 notifications of RTAs of which 267 still remain effective, of these 90% represent agreements on free trade zone (FTZ) and 10% – agreements on creation of customs unions.

All WTO members are part of regional trade agreements except Mongolia. Many countries have several such agreements. For example, the Socialist Republic of Vietnam by now has signed 12 bilateral and multilateral agreements on free trade zone, of which 8 have come into force. While being a member of the ASEAN, Vietnam participates in the development of a free trade zone with Australia, New Zealand, Peoples Republic of China, India, Japan, and Republic of Korea. Vietnam has signed bilateral agreements on free trade zone with Chile, Japan, Republic of Korea, EAEU, and the European Union. The government of Vietnam signed an agreement on Trans-Pacific partnership.

The free trade agreement between the Eurasian Economic Union and the Socialist Republic of Vietnam comes into force on 5 October 2016. It creates new conditions for trade and economic activity for businesses of EAEU and Vietnam. For EAEU this is the first free trade agreement with third country.

Selection of Vietnam as the first country to have a free trade zone agreement with EAEU members is due to the combination of such factors as insignificant trade risks and big political importance. At the same time, the export pattern of Vietnam and EAEU member states is such that key export positions will not compete with one another on domestic market of member states of the agreement. This fact will allow to achieve balance of interests for all parties, which is the basis for a successful performance of a free trade zone.

As of today, trade turnover between Vietnam and the EAEU member states takes a small share in the trade volume of each of our countries. In 2015, foreign trade turnover between the EAEU member states and Vietnam constituted \$ 4.3bn (1.13% of the foreign trade turnover of Vietnam and 0.64% of the foreign trade turnover of EAEU), meanwhile 91.2% of the turnover accounts for the Russian Federation.

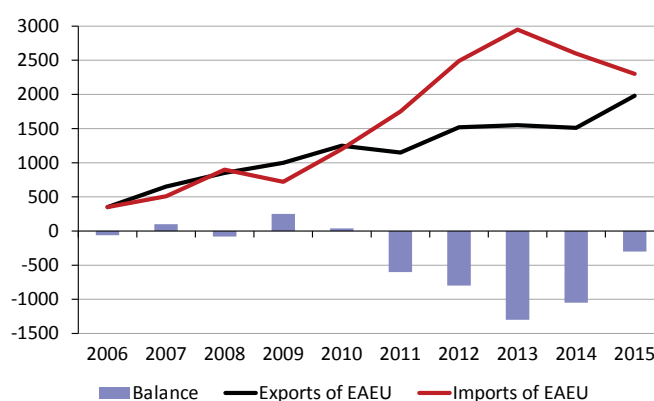
Following a deep plunge during 1990s, Russian-Vietnamese trade turnover has been recovering slowly and by fits and starts, which was due to the fact that during the period of Russia's absence from the Vietnamese market, the latter was taken by competitors. Nevertheless, during 2006 through 2015 the volume of bilateral trade between Russia and Vietnam grew six fold – from \$ 653.4mn to \$ 3.85bn. At the same time, export of Vietnamese goods to the Russian Federation has gone up by 5.9-fold and export of Russian goods to Vietnam – by 6.1-fold. In 2015, foreign trade turnover moved up in comparison with 2014 by 4% owing to increased export to Vietnam of Russian goods by 26.9% to \$ 1.8 bn, which is the maximum for recent 10 years. The volume of imports of Vietnamese goods has shrunk by 10.5% to \$2.05bn. Over seven months of 2016 trade turnover between two countries increased by more than 11% and constituted nearly \$ 2bn. During last years, Russia faces negative balance in its trade with Vietnam.

As distinct from the era of Soviet-Vietnamese cooperation, Russian-Vietnamese relations are currently determined not by political situation but by market forces. This resulted in the fact that the pattern of the Russian-Vietnamese trade turnover has recently changed significantly to the RF disadvantage. Russia stopped supplying Vietnam with machinery and equipment in the volumes true of the Soviet period. Vietnam instead of agricultural raw materials and seafood exports hi-tech goods to Russia.

In 2011-2013, manufactured products (as a rule, with high value added) took a big share in Russia's export owing to the joint implementation in Vietnam large infrastructure projects in the sphere of transport machine building, power sector, extraction of natural resources and their processing. However in 2014-2015, the share of hi-tech products fell sharply. In particular, the share of machines and equipment shrank in 2015 to 28.2% against 66.4% in 2012 and 48.4% in 2013.

Vietnamese export pattern to the Russian Federation has also changed. If ten years ago agricultural products constituted the main share (in 2006 – 62.1%), then now machines and equipment stay ahead (in 2006 – 5.7%, in 2015 – 54.7%). The share of textile products and footwear remains traditionally high (in 2006 – 22.2%, in 2015 – 21.5%).

Prior to 5 October 2016, trade between the EAEU member states and Vietnam was subject to most favored nation treatment regime. Vietnam applied weighted average tariff of 9.5% (16.3% for agricultural products, and 8.4% for the non-agricultural products). After the entry into force of this Agreement Vietnam will have to abolish for the EAEU businesses import customs duty for over 58% of tariff positions of the total merchandise classification. Regarding further 30% of tariff positions import customs duty rates will be declining over 12 years and will come to 0% by 2027 whereafter the average Vietnamese customs duty rate in commerce with the EAEU member



Sources: International Trade Centre; http://www.trademap.org/tradestat/Product_SelCountry_TS.aspx?nvpm

Fig. 1. Key figures of trade between EAEU and Vietnam (million US dollars)

states will fall to 1.0%. At the same time, the simple average duty rate for Vietnam will decline from 9.7% to 2.0%.

Import customs duties will continue for the remaining 12% of tariff positions for both Vietnam and EAEU. In other words, the Agreement does not envisage total tariff liberalization; moreover, there is a possibility to protect domestic market with the help of non-tariff measures (NTMs). The Agreement regulates rules of determination for goods origin, customs administration, sanitary and phytosanitary measures, state procurements and many other issues. It should be noted that there is not a single goods classification in Vietnam in importing which a non-tariff measure would have applied (*Table 1*).

Table 1

**REGULATORY AND LEGAL BASE REGULATING APPLICATION OF NTMS
IN VIETNAM**

	Indicator	Quantity
1	General rules regulating NTMs	121 regulatory acts
2	Total number of notifications of NTMs submitted to WTO Secretariat	142 notifications
3	Total number of codified NTMs	379 measures
4	Total number of goods subject to NTMs (HS lines, national tariff lines)	
4a	Total number of goods subject to NTMs	9558
4b	Share of goods subject to NTMs in the overall import volume	100
5	Total number of institutions developing regulatory and legal basis	15

Source: Data base 2015 NTM data base ASEAN-ERIA-UNCTAD raw data.

Table 2

NON-TARIFF MEASURES, CLASSIFIED BY TYPE, 2015

	NTM by type	Number of NTMs	%
A	Sanitary and phytosanitary measures	142	37.47
B	Technical barriers in commerce	142	37.47
C	Pre-shipment inspection and other formalities	5	1.32
E	Non-automatic licensing, quotas, bans, quantitative restrictions unrelated to sanitary and phytosanitary and technical barriers	9	2.37
F	Measures of price control including additional taxes and levies	7	1.85
G	Financial measures	2	0.53
H	Measures affecting competition	8	2.11
J	Restrictions on distribution	1	0.26
P	Measures linked to export	63	16.62

Source: Data base 2015, NTM data base ASEAN-ERIA-UNCTAD raw data

With joining the World Trade Organization Vietnam have taken an obligation to totally comply with the requirements of the WTO Agreement regarding sanitary and phytosanitary measures without resort to transition measures. Vietnam accepted standards of phytosanitary and veterinary control, which correspond to the European and American norms without special conditions or restrictions for certain countries.

Regarding sanitary and phytosanitary measures the free trade agreement between EAEU and Vietnam is aimed at the development of cooperation and assistance in exchange of information between the parties. With retention

of a sufficient level of protection, which was secured according to the provisions of the WTO Agreement regarding sanitary and phytosanitary measures, the parties have agreed to develop cooperation based on this agreement. The Agreement embraces basic mechanisms for cooperation on issues of acknowledging equivalence of sanitary and phytosanitary measures, adaptation to regional conditions, auditing and inspection, and introduction of emergency measures. Also for the simplification of access to the market in the event of interest of national exporters, there is a possibility to develop bilateral documents, which confirm safety of goods and conducting mutual consultations on possible sanitary and phytosanitary barriers. Thus, there is a basis for cooperation on liquidating barriers in sanitary and phytosanitary sphere, which impede trade.

The Law on standards and technical regulations of 2006 No. 68/2006/QH11 regulates issues related to standards in Vietnam. According to this Law, Vietnam has national standards and standards of organizations as well as national technical regulations and local technical regulations. Compliance with technical regulations is mandatory, compliance with standard in voluntary. At present, there are nearly 6,800 national standards in Vietnam. In the event of violation of requirements of standardization and technical regulation measures of administrative, civil legal liability and criminal liability can be applied.

Vietnamese system of standards is rather complicated and not always transparent. Currently solely about 40% of national standards of Vietnam have been reconciled with international standards. However, Vietnam does not use technical standards as non-tariff barriers. The free trade agreement between EAEU and Vietnam ensures transparency of the system of technical regulation of Vietnam for exporters from the EAEU member states.

Such quantitative restrictions as tariff quotas for salt, eggs, refined sugar, and raw sugar are in force in Vietnam. For example, in 2015, a quota for 46,305 dozens of eggs was introduced. Non-preferential import duty of eggs within the quota is set at 30%, outside the quota – 80%. The free trade agreement signed between EAEU and Vietnam envisages additional special quota for supply of poultry eggs in the amount of 8,000 dozens per annum for the EAEU countries. The agreement envisages that the rate within the quota will come to 15% in 2016, and will go down to 0% in 2018. Annual growth of the tariff quota amounts to 5%.

Import of a number of products on the Vietnamese territory is banned. Licensing of import is applied to two-wheel or three-wheel means of transport with the engine volume of 175 cm and higher, sports guns and goods, which import is controlled in the framework of international treaties and agreements signed by Vietnamese government. Ministry of industry and trade of Vietnam periodically renews the list of goods, which are subject to automatic license on import and issues quotas according to effective law on import licensing. The free trade agreement signed between EAEU and Vietnam envisages transparent and predictable introduction of import licensing procedures in accordance with the WTO Agreement on import licensing procedures.

Issues of protection of intellectual property, principles and rules of competition, mechanism of resolution of disputes, veterinary and phytosanitary measures and many other provisions of the Agreement have been developed and coordinated by the parties on the basis of the WTO rules, which ensures

safeguarding of interests of all parties to the Agreement. Thus, together with tariff liberalization the Agreement envisages mechanisms of protection of member states domestic markets for sensitive products as well as protects from the entrance into market of defective goods by not turning non-tariff measures into trade barriers. It is expected that thanks to the Agreement by 2020 mutual trade turnover between EAEU member states and Vietnam will grow to \$ 10bn.

The Eurasian Economic Union intends to broaden ties with countries of Asia-Pacific region. Vietnam can be a testing ground where EAEU will perfect mechanisms of free trade with third countries. According to first deputy minister of economic development, Alexei Likhachev, all countries forming part of ASEAN manifest a desire to establish free trade zone with Russia and EAEU. ●