HSBC News Release

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HSBC Vietnam's CEO comments on EVFTA and its impact on Vietnam's economy

Today's ratification of the EU-Vietnam Free Trade Agreement (EVFTA) by Vietnam's National Assembly marks the beginning of a new chapter of much deeper collaboration between Asia's fastest-growing economy[1] and the world's largest trading bloc. As a bank with trade finance in its DNA, HSBC welcomes the ratification, a step which affirms Vietnam's position among the forefront of the world's great trading nations.

The EU, with a combined GDP of USD15 trillion, is already Vietnam's second-largest export destination, and that rank could rise as the EVFTA takes effect and begins the process of eliminating duties on 99% of products.

Two-thirds of EU export duties will be removed immediately after the agreement takes effect, while around 71% of tariffs on Vietnam's exports to the EU will be eliminated immediately, with the rest following a seven to 10-year roadmap. As a new generation agreement, EVFTA includes terms and articles on copyrights, free investment and sustainable development.

The benefits that the EVFTA will bring to Vietnam's future growth are substantial. HSBC economists estimate that it will add an average of 0.1ppt (with a range of 0-0.3ppt) to Vietnam's real GDP growth each year solely as a result of the positive trade impact. We expect the textile and footwear industries to benefit the most from the deal as these have traditionally had the highest tariff rates across all sectors. In 2019, Vietnam exported over USD9 billion worth of textiles, garments and footwear to the EU at a weighted average tariff of 9%.

But these changes will take effect at a time when global supply chains are under unprecedented pressure from both growing trans-Pacific trade tensions and the fallout from COVID-19.

The new Free Trade Agreement will provide protection for some Vietnamese exporters and create new opportunities for others, but we will have to adjust and re-design supply chains if we are to take full advantage of the opportunities. This will take time and will require industry and government to collaborate to achieve the transition as quickly as possible.

Take the example of the industry that stands to benefit most - textiles and garments. As it stands, the products of many Vietnamese textile and garment manufacturers do not have enough locally produced inputs to satisfy the EU's demanding rules on country of origin. The government and business will need to work in harmony to expand our domestic textile and garment industry to include the production of input materials instead of importing these from other countries if we are to take full advantage of the Agreement's benefits.

This commercial transformation needs to take place alongside a transformation of governance. International corporations are under increasing popular pressure to look deep into their supply chains to ensure that every step meets global standards on environmental, social and corporate governance (ESG). If Vietnamese companies are to fulfil their full potential within global supply chains, the government needs to assist the adoption of global standards by supporting industry, guiding businesses on the new regulatory framework and the commitments of Vietnam in the EVFTA (in terms of environment, copyright, country of origin, etc.).

Vietnam has benefited as a backup location for multinational corporations forced by trade tensions to relocate their supply chains. Today, we have the opportunity to make Vietnam the first choice for

[1] https://www.research.hsbc.com/R/10/RhwqncNkbihZ

companies looking for a cost-effective Asian manufacturing base. The country's effective management of the pandemic has enhanced its reputation and ensured that it is open for business before its competitors. Vietnam is one ASEAN economy where HSBC continues to forecast positive growth in 2020, making it an attractive destination for companies looking to tap into local and regional consumption; and now the new trade agreement gives them privileged access to 450 million consumers in the European Union.

Vietnam has been preparing for decades for the moment when it can take its proper place among the world's leading nations, as a manufacturer, as a trading nation and as a nation of consumers. If we are determined, if we collaborate, and if we can make the changes that will allow us to maximize the benefits of the new trade agreement, we have an opportunity to realise that dream.

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Notes for Editors:

HSBC Bank (Vietnam) Ltd.
HSBC has been in Vietnam for 150 years – the bank first opened an office in Saigon (now Ho Chi Minh City) in 1870. HSBC was the first foreign bank to launch its locally incorporated entity on 1 January 2009 as HSBC Bank (Vietnam) Ltd. The bank's current network includes two branches and five transaction offices in Ho Chi Minh City, one branch and four transaction offices in Hanoi, and two full-service branches in Binh Duong and Da Nang. HSBC is one of the largest foreign banks in the country in terms of investment capital, product range, and customer base.

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