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## Dimensions of Regional Processes in the Asia-Pacific Region

edited by

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## Introduction

Asia and Pacific's growing importance to the rest of the world is widely acknowledged today. The dynamics of Asian economic development have tremendously impacted global trade relationships and regional cooperation. Thus, it is with great pleasure that we deliver another volume of Research Papers on Asia-Pacific economic issues.

This year we present 19 papers by various authors who examine the Asia-Pacific region from different perspectives. We decided to group them into 3 Chapters:

- Cooperation and trade
- Economy and policy
- Risks & challenges

Papers grouped in the First Chapter describe newly emerging regional trade architecture. You will find there a few analyses of general nature and regional scope (J. Dudziński, A. H. Jankowiak, E. Majchrowska) and some studies on specific trade agreements (A. Klimek writes about Shanghai Free Trade Zone, A. McCaleb and G. Heiduk try to find out what motivates China's cities to establish partner agreements with cities in Asia, B. Michalski analysing U.S.-Republic of Korea Free Trade Agreement, while M. Maciejewski and W. Zysk look for opportunities for Polish exports in the trade agreement between EU and Vietnam).

The Second Chapter is the most diverse one. It is devoted mostly to economic policy issues (including financial sector). S. Bobowski, L. Zyblikiewicz and K. Żukrowska look at the main threads in Asian regionalism. P. Pasierbiak and K. Łopacińska analyse the movements of Chinese capital. M. Dziembała and S. Mazurek deal with the subject of innovation supporting growth and development.

Articles in the Third Chapter are focused on extraordinary events influencing economies and development of the Asia-Pacific region. J. Pera prepared an assessment of risk of APEC countries, based on the country risk classification method and selected indexes of internal stability. A. Kukułka and B. Totleben analyse the impact of natural disasters on gross capital formation in Southeastern Asia. Finally, T. Serwach and M. Grabowski and S. Wyciślak deal with synchronization of business cycles and contagion of crises.

We sincerely hope that all the articles will be of great value to those who want to understand the role of Asia-Pacific economies in the global economy. Through various interests of authors, our volume provides a valuable insight into the problems of this region.

All the papers were submitted for the 8th international scientific conference "Dimensions of Regional Processes in the Asia-Pacific Region" which took place in

November 2015 at Wrocław University of Economics, under the patronage of Polish Ministry of Foreign Affairs, Ministry of Science and Higher Education and the Ministry of Economy.

We appreciate your time and consideration, and we look forward to the submission of your own good work. We also appreciate the time and effort of our peer reviewers. Thank you!

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**EVFTA AGREEMENT (BETWEEN  
THE EU AND VIETNAM). AN OPPORTUNITY  
FOR THE DEVELOPMENT OF POLISH EXPORT**

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**UMOWA EVFTA (UE-WIETNAM)  
SZANSĄ ROZWOJU POLSKIEGO EKSPORTU**

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JEL Classification: F10, F14, F20

**Summary:** In 2006, the European Commission indicated a group of ASEAN countries to become a priority and a potential market within the program of mutual economic development. Following two years of negotiations which commenced in 2007, the EC resigned from further talks and it was decided to continue the process with individual countries in the bilateral format. The Socialist Republic of Vietnam (SRV) had moved to the forefront of other Asiatic countries with which the EC has been negotiating free trade agreements. On the 4<sup>th</sup> of August 2015, the EC officially informed about a political conclusion of negotiations with SRV on the agreement to create a free trade zone. Lifting the non-tariff barriers and simplifying the administrative procedures for bringing commodities into Vietnam, as stipulated by the EVFTA agreement, will undoubtedly facilitate conquering the attractive Vietnam's market by the EU exporters, including those from Poland.

**Keywords:** free trade agreements, the European Union, foreign trade.

**Streszczenie:** W roku 2006 Komisja Europejska wskazała na Stowarzyszenie Narodów Azji Południowo-Wschodniej (ASEAN) jako priorytetowy i perspektywiczny rynek w rozwoju wzajemnej współpracy gospodarczej. Po dwóch latach negocjacji rozpoczętych w 2007 r. zrezygnowano z dalszych rozmów i postanowiono prowadzić je w formie bilateralnej z poszczególnymi krajami. Na tle innych azjatyckich krajów, z którymi UE negocjuje umowy o wolnym handlu zdecydowanie wyróżnia się Wietnam. Komisja Europejska poinformowała 4 sierpnia 2015 r. o politycznym zakończeniu negocjacji z tym krajem w sprawie umowy w zakresie utworzenia strefy wolnego handlu. Planowana w umowie EVFTA eliminacja barier pozataryfowych i uproszczenie procedur administracyjnych w przywozie do Wietnamu pomoże z pewnością unijnym, w tym polskim eksporterom na zdobycie atrakcyjnego wietnamskiego rynku.

**Słowa kluczowe:** umowy o wolnym handlu, Unia Europejska, Wietnam, handel międzynarodowy.

## 1. Introduction – the EU trade agreements

Being a subject of the international law, the European Union enters into all sorts of agreements with its economic partners. Trade policy of the EU has been functioning within two areas. In the first place, the EU engages in the formulation of principles of multilateral international trade with partners incorporated within the International Trade Organization. Then, it negotiates bilateral agreements with the third party countries and the selected regions. The agreements are poised to improve mutual trade relations, increase international trade, open new markets for commodities and services, increase the security of investment projects and investment activity, decrease the cost of trade by limiting duties and red tape, step up the pace of trade by facilitating customs procedures and launching compatible technical and sanitary standards, creating transparent regulations on the protection of intellectual property, competition and public tenders, as well as supporting sustainable development via advocating co-operation, transparency and dialogue on social and environmental issues.

By exercising its trade policy, the EU has been regulating trade relations between the European Union and the non-member states (the so-called third party countries) In particular, this policy pertains to customs and export issues, as well as the instruments affecting import (quotas, anti-dumping and anti-subsidy measures, technical regulations, norms, certification and compliance procedures, trade-marking and labelling, public tender and subcontracting issues, the principles of protection of intellectual property and geographic denominations, the issues of foreign property of companies, and others).

Hence, the EU trade policy is crucial for the economic relations of Poland with other EU member states. From the moment of its accession to the EU, Poland has become a party to the agreements and trade treaties signed at the EU level with the third party countries. In practical terms, this made the EU legal acts signed with those countries become the basic source of legal regulations within the area of Polish economic relations<sup>1</sup>. Our country, similarly to other EU member states, has no authority to implement an autonomous, independent trade policy. The negotiations pertaining to the agreements on economic or trade co-operation are within the competence of the European Commission, consulted by the special Committee for Trade Policy (before the Lisbon Treaty known as Article 133 Committee<sup>2</sup>).

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<sup>1</sup> To give an example, Russia and Ukraine entered into a Treaty on Partnership and Co-operation. The treaty was signed by Russia on the 24<sup>th</sup> of June 1994, and a special protocol of April 27<sup>th</sup>, 2004, extended it to include new member states, hence it also comprised Poland. Ukraine was a similar case; the treaty was signed on the 14<sup>th</sup> of June 1994, and it was enforced on the 1<sup>st</sup> of March 1998. On the 29<sup>th</sup> of April 2004, Ukraine signed the protocol extending the stipulations of the treaty to include new EU member states, also Poland.

<sup>2</sup> A group of experts drawn from the member states to assess the performance of the common trade policy (English; *133 Article Committee*).



## 2. Vietnam – the characteristics of the country

Vietnam (officially the Socialist Republic of Vietnam) is a socialist state ruled by the Communist Party of Vietnam which asserted the central role. However, the economy of that country is not secluded in the world. Vietnam is a member of numerous international organizations such as the UN, IMF, WTO or ASEAN, and it plays more and more active role in the international trade. It should be noted that Vietnam exemplifies a dynamically growing economy, and it has even been included within the ranks of Next Eleven group<sup>3</sup> – the rising world powers [O'Neill et al. 2005; Zysk 2015]. The selected indexes showing the position of Vietnam and the EU are shown in Table 1 to demonstrate how this country has developed over the past few years.

**Table 1.** Vietnam versus the EU – selected indexes

Index/Partner	EU	Vietnam
Real GDP (in million USD)	17 355 091	170 862
Export (in million USD)	6 076 451	132 033
Population (in million)	511	93
Rate of real GDP growth (1992 - 2010)	2.2	7.4
Rate of real GDP growth (2005 - 2013)	0.4	6
Rate of real GDP growth (2008 - 2013)	0.1	5.8
Share in the world export 2000	38	0.2
Share in the world export 2005	39	0.3
Share in the world export 2010	34	0.5
Share in the world export 2013	32	0.7
Share in the world import 2000	38	0.2
Share in the world import 2005	39	0.3
Share in the world import 2010	35	0.5
Share in the world import 2013	32	0.6
Increase in the export volume 2000	2 453 375	14 447
Increase in the export volume 2005	4 074 385	32 442
Increase in the export volume 2010	5 183 906	72 237
Increase in the export volume 2013	6 076 451	132 033
Increase in the import volume 2000	3 036 551	17 325
Increase in the import volume 2005	5 006 193	39 336
Increase in the import volume 2010	6 519 921	87 294
Increase in the import volume 2013	7 325 725	135 044
FDI growth rate 2000	2 352 811	14 739
FDI growth rate 2005	4 778 696	22 453
FDI growth rate 2010	7 313 818	56 915
FDI growth rate 2013	8 582 665	81 702

Source: UNCTAD [2015].

<sup>3</sup> The term *Next Eleven* was coined by J. O'Neill [O'Neill et al. 2005, p. 21], who also authored the BRICS acronym.

The table above demonstrates that the world economic crisis did not make a real impact on the statistics of Vietnam's economic growth. By comparison with the EU, Vietnam showed a higher real GDP growth rate, a growing share in the world exports and imports, a substantial increase in the volume of exports and the faster growth in the FDI volume.

### 3. EVFTA agreement – the negotiations and stipulations

The EU engaged in an intensive dialog on political and economic issues with Vietnam in 1995 which resulted in signing a “General agreement on co-operation” [European Union 2015], and in October 2010, an agreement was reached on the wording of “The agreement on partnership and co-operation” (signed in June 2010), which stipulated development of relations in various areas, including trade and investment [Sejm RP 2015]. In addition, signing by Vietnam of the WTO accession package and becoming a member of that organization improved the climate for business and brought about more intensive bilateral contacts. To make full use of the potential of both markets, negotiations commenced on a comprehensive free trade agreement in June 2012 (*EU-Vietnam Free Trade Agreement – EVFTA*) and they concluded in August 2015.

On the 4<sup>th</sup> of August 2015, The European Commission informed about the conclusion of the negotiations to form a free trade zone with this country. Pursuant to the agreement, almost all trade barriers are to be lifted in bilateral trade. A bilateral agreement will open new opportunities for both partners, increase the market for commodities and facilitate the flow of services and investment [European Commission 2015a]. Technical part of this deal is still under way and the final version of the text of agreement will need acceptance by the EU Council and the EU Parliament.

Once the agreement has been enforced, Vietnam will liberalize almost 65% of its import duties from the EU countries, and the remaining stipulations will be enforced within 10-year transitory period. In turn, EU will observe 7-year transitory period. Detailed provisions are as follows (see: [European Commission 2015b]):

1. Import duties on machinery and equipment from the EU will be almost fully lifted once the agreement comes into force; other duties will be lifted within 5 years;
2. Import duties on motorcycles from the EU with engines of above 150 cc and cars will be liberalized after 7 and 10 years, respectively;
3. Import duties on pharmaceuticals from EU will be almost halved when the agreement comes into force, and the others over seven years;
4. Import duties on textiles from the EU will be liberalized on the day the agreement comes into force;
5. Import duties on almost 70% of chemical products from the EU will be liberalized on the day the agreement comes into force, and on the others in 3, 5 or 7 years;
6. Import duties on wine and alcoholic beverages from the EU will be liberalized in 7 years;

7. Import duties on frozen pork from the EU will be liberalized seven years after the agreement comes into force, beef after three years, dairy produce after five years, and poultry after seven years.

Most benefits for the EU companies, including those from Poland, will be brought about by lifting the non-tariff barriers and simplification of the administrative procedures involved in exporting to Vietnam, in particular all import limitations, customs procedures, delivery acceptance of some products and customs regulations. Once EVFTA has come into force, Polish exporters can operate on the farm and food market (dairy produce, meat, apples), pharmaceuticals and machines (farming, construction and mining) [Wnukowski 2015]). Yet, Polish companies must not forget about greater competition from the Vietnamese suppliers of garments, footwear or furniture, and the resultant lower prices on the domestic market.

The enforcement of the free trade agreement between the EU and Vietnam will become a milestone in their mutual economic relations. However, it ought to be remembered that the agreement must be ratified by the parliaments of all 28 European Union member states, which according to a pessimistic scenario may take as long as a few years.

#### **4. Polish and the EU exports to Vietnam**

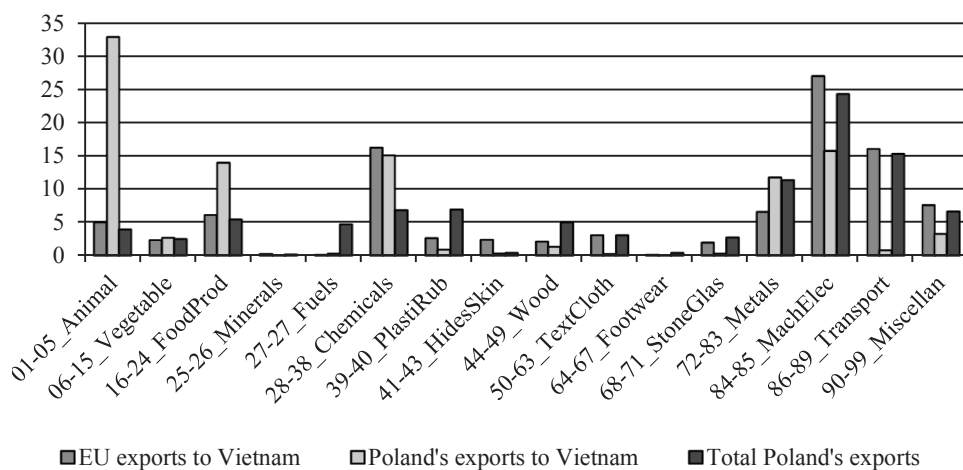
The supplies for the Vietnamese market are sourced primarily in the Asiatic countries, mostly China, the Democratic Republic of North Korea and Japan. The volume of imports from these three countries exceeded 50% of total Vietnam's imports. Since 2009, the EU countries have ranked fourth on the list of the main suppliers to the Vietnamese market, ahead of Thailand, Singapore and the USA. In 2013, 28 countries of the EU accounted for 7.1% of the total volume of Vietnam's imports, and the average annual growth rate of imports from the EU reached 10.6%. Considerably higher growth dynamics was recorded for the Republic of Korea (25.3%), the USA (20.6%) and China (19.4%). Singapore was the only major trade partner for Vietnam whose supplies to this market dropped; an average 4.8% p.a. Consequently, it lost the second position among the main suppliers which it had maintained till 2008.

Vietnam's imports from the EU are based mostly on the supplies from Germany. In 2013, Germany contributed 25.8% to total Vietnam's imports from EU28. Other countries' contributions were substantially smaller; Italy 10.2%, France 8.7%, Ireland 8.4%. Poland took a distant 13<sup>th</sup> position on the list of the European sources of supply, contributing 1.3% to the overall Vietnam's imports from the EU28. Within years 2007-2013, Ireland recorded the fastest growth rate of exports to Vietnam, with the annual average of 69.1%. The imports from the Slovak Republic and Romania also maintained high dynamics at 30%. Over this timeframe, imports from Poland reached an average annual growth rate of 5.4%<sup>4</sup>.

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<sup>4</sup> Computed by the author on the basis of [World Bank 2015]

In terms of their structure, the range of commodities exported by the EU to the Vietnamese market resembles the overall structure of the EU exports. According to the average figures for 2010-2013, exports were dominated by the electrical and machine equipment, chemicals, vehicles and transportation equipment. Within that period, overall Polish exports displayed similar characteristics, yet a relatively greater importance was attributed to the exports of plastics and rubber products. Nonetheless, the structure of Polish exports to Vietnam was different. Products of animal origin dominated, only to be followed by the electrical and machine equipment, and chemicals. Food products and metals also were a significant part of Polish exports, while vehicles and transportation equipment played a negligible role. Consequently, the commodity structure of Polish exports to Vietnam differed, not only from the structure of EU exports to that country, but also from the overall structure of Polish exports.



**Fig. 1.** The structure of commodity exports of the EU and Poland to Vietnam, and the overall structure of Polish exports by HS categories, based on the average volume of exports for 2010-2013 (in %)

Source: Own study, based on [World Bank 2015]

Similarity of the structure of Polish exports to the overall EU exports to Vietnam was measured with Clark coefficient of divergence<sup>5</sup> [Zeliaś (ed.) 1988].

The analysis comprised all the commodity groups listed in Fig.1. The measure assumes values 0 – 1; the value of 0 means that the compared structures are identical,

$$^5 \text{ Computed with the formula } d_{it} = \sqrt{\frac{1}{m} \sum_{j=1}^m \left( \frac{q_{ij} - q_{tj}}{q_{ij} + q_{tj}} \right)^2},$$

where:  $m$  – the number of commodity groups specified for the analysis;  $i$  – direction of export;  $j$  – particular commodity groups;  $q$  – share of products from a given group within the structure of exports to a given market.

while the value of 1 means that they are completely different. The computation results were presented in Table 2 and they prove that the earlier observations on the resemblance of Polish and EU structure of exports were well founded (coefficient 0.197), while they varied for exports to the Vietnamese market (0.560). Substantial differences were noted between the overall Polish exports, and Polish exports to Vietnam (0.629). Across the EU, disparity between the overall exports and exports to Vietnam is substantially lower (0.372), which allows to assert that in line with the increasing number of Polish exporters on this market, the structure of Polish exports to Vietnam will come close to the overall structure of Polish exports.

**Table 2.** Differences in the structure of Poland's and EU exports, overall and to Vietnam's market, based on the average volume of exports within 2010-2013

Compared structures		Clark coefficient of divergence
Total EU exports	Total Poland's exports	0.197
Total EU exports	EU exports to Vietnam	0.372
EU exports to Vietnam	Poland's exports to Vietnam	0.560
Total Poland's exports	Poland's exports to Vietnam	0.629

Source: Own study, based on [World Bank 2015].

For this reason, the subsequent parts of this paper focus on the detailed differentiation of these structures and the opportunities for Poland's exports on Vietnamese market from the perspective of the overall structure of Poland's exports and the leading commodities within Vietnam's imports. The most popular products exported by Poland to Vietnam were those listed as 03 – HS (fish and crustaceans). Within 2010-2013, the average volume of these products exported to the Vietnamese market amounted to 26.8 million USD, which translated into 19.8% of average exports to Vietnam.

Other two major HS categories of Poland's exports to the Vietnamese market included food products derivatives (section 23 HS) and dairy produce (section 04 HS). In line with the four-digit HS classification, major Poland's exports to Vietnam included fish fillets (0304 HS), flours, meals and pellets, of meat (2301 HS) and medicaments (3004 HS). Among the ten leading products exported by Poland to Vietnam, only one match was found with the ten leading products of the overall Poland's exports. The match was found for the refined copper and copper alloys (7403 HS); 10<sup>th</sup> position on the list of the overall Poland's exports and 6<sup>th</sup> on the list of exports to Vietnam. It might be ascertained that many staple products of the overall Poland's exports were either found in distant positions, or were not in demand on the Vietnamese market.

Those items include mostly parts and accessories of the motor (8708 HS), (number one overall Poland's exports and 154<sup>th</sup> position in exports to Vietnam), motor cars and other motor vehicles (8703 HS), (second on the list of overall Poland's

exports and 282 position in exports to Vietnam), monitors and projectors (8528 HS) (3 and 196 position, respectively), seats (9401 HS), (4 and 148 position, respectively), petroleum oils and oils (2701 HS) (5 and 36 position, respectively).

## 5. Conclusion – prospects for Poland’s exports to the Vietnamese market

A list was compiled presenting a comparison of 100 major items from Poland’s exports to 100 major Vietnam’s imports, on the basis of average figures for 2010 – 2013. The list was prepared in the anticipation of changes within the structure of Poland’s exports to Vietnam, to make them compatible with the structure of the overall Poland’s exports. Consequently, 36 commodity items consistent with HS classification were put on both lists (Table 3, Column 1 and 3). One half (18) of items were left beyond the 100 major Poland’s exports to Vietnam. That seems to suggest that, despite the demand in Vietnam, Poland’s major export commodities cannot find buyers in this country.

In such case, geographic distance is not an issue, since other EU countries deliver more items found on the lists presented below. These countries frequently belong to the group of the top ten exporters to this market (Table 3, Column 6). This pertains especially to Germany, the Netherlands, France and Belgium.

Within the group of the 13 listed commodities, most EU states enjoyed a comparative advantage of the world exporters in the area of supplies to the Vietnamese market<sup>6</sup> [Mongialo 2007] (Table 3, Column 4). It is interesting to note that Poland recorded a strong advantage over other EU states in exports of three items from the list (8708 – parts and accessories of the motor, 8408 – compression – internal combustion engines, 7326 – other articles of iron and steel) to the world markets. These items are most promising in terms of increasing Poland’s exports to Vietnam, particularly in view of the fact that currently they occupy a distant position on the list of major exports to Vietnam (Table 3, Column 2).

What is more, Poland is not currently considered a major supplier of these commodities to the Vietnamese market (Table 3, Column 7). It is worth noting that Vietnam levies high custom duties upon Poland’s staple exports which are also sent to the world markets (Table 3, Column 8). The products which allow Poland to reach a comparative advantage in exports to the world markets over other EU states include transport vehicles (8707 HS, duty 23.8%), paper (4811 HS, duty 15%), car parts

<sup>6</sup> RCA coefficient calculated with  $RCA_j^A = \frac{x_j^A / X^A}{x_j^{ref} / X^{ref}}$ ,

where:  $RCA_j^A$  – coefficient of revealed comparative advantage of country A in sector j of supplies to the market;  $x_j^A$  – volume of sector j of country A exports to a market;  $X^A$  – total exports of country A to a market;  $x_j^{ref}$  – volume of exports to a market of sector j of a group of countries used as reference;  $X^{ref}$  – total exports to a market by a group of countries used as reference.

**Table 3.** Items HS 2007 found in the group of 100 major items within overall Poland's exports and 100 major items within overall imports of Vietnam, compiled on the basis of the average turnover for 2010-2013

Item	1	2	3	4	5	6	7	8	Item	1	2	3	4	5	6	7	8
8708	1	154	15	2.28	1.48	The Netherlands (5)	20	12.9	8414	43	23	70	1.92	0.62	Germany (6)	33	11.0
8703	2	282	83	1.24	0.75	Germany (2)	-	56.2	8418	45	230	88	0.92	1.83	France (10)	21	15.1
8528	3	196	55	0.07	5.43	Belgium (10)	29	3.7	7204	47	4	9	3.24	1.09	Belgium (6)	11	0.0
2710	5	36	1	0.02	0.43	Sweden (13)	46	6.6	8481	52	71	68	2.29	0.66	Germany (6)	33	5.7
8471	8	18	11	0.33	1.51	Ireland (9)	32	0.0	4811	53	270	86	0.71	2.11	Italy (8)	29	15.0
8408	9	-	82	1.42	2.95	The Netherlands (4)	-	5.6	3920	65	83	60	0.2	0.90	Germany (10)	35	7.0
7403	10	6	20	0.18	6.57	Germany (11)	12	0.0	8421	71	40	87	2.55	0.70	Germany (7)	32	2.2
8544	11	93	22	0.77	2.25	The Netherlands (9)	23	12.0	8507	72	260	63	0.06	2.14	Germany (11)	24	11.5
3004	13	3	5	6.59	0.31	France (2)	23	2.1	8483	73	19	93	1.44	0.68	Germany (6)	31	11.9
8704	15	-	71	0.12	1.45	The Netherlands (10)	-	23.8	8537	76	124	80	1.29	0.86	Germany (5)	11	6.4
7308	16	42	72	0.56	2.73	The Netherlands (7)	23	10.0	8479	77	10	19	2.54	0.54	Germany (4)	25	0.0
8517	17	51	3	0.43	0.71	Sweden (3)	20	0.6	4002	78	60	56	0.58	2.11	France (6)	22	0.2
8529	19	210	54	0.61	4.32	France (14)	29	1.3	3102	80	181	37	0.06	0.20	Belgium (12)	21	0.0
3926	22	153	21	0.73	1.53	Germany (7)	18	10.9	8473	84	278	43	0.36	0.67	Belgium (10)	-	3.0
3923	28	177	98	0.28	1.81	Germany (10)	27	10.8	3907	85	377	13	0.28	0.74	The Netherlands (10)	28	0.0
7326	30	114	50	1.26	1.72	Germany (6)	27	10.8	7208	86	203	4	0.16	0.75	The Netherlands (12)	-	0.0
8536	34	28	16	0.69	0.91	Germany (7)	28	11.7	9018	95	75	78	3.67	0.32	Germany (2)	30	0.0
8504	40	95	25	0.74	0.99	Germany (9)	34	0.4	3901	100	333	6	0.25	0.56	Spain (13)	-	5.0

Note: Column 1 – ranking of the commodity on the list of major products within Poland's overall exports; Column 2 – ranking of the commodity on the list of major Poland's exports to Vietnam; Column 3 – ranking on the list of major Vietnam's overall imports; Column 4 – RCA of EU countries in exporting an item to Vietnam's market; Column 5 – RCA of total Poland's exports of an item in comparison to other EU states; Column 6 – highest ranking of the EU state on the list of Vietnam's imports of that item; Column 7 – ranking of Poland on the list of Vietnam's imports of that item; Column 8 – equivalent of Vietnamese customs charges expressed with ad valorem rate according to UNCTAD methodology.

Source: Own study, based on World Bank [2015] and United Nations [2015].



(8708 HS, duty 12.9%), insulated wire (8544 HS, duty 12%), batteries (8507 HS, duty 11.5%) and construction structures (7308 HS, duty 10%). Reduction of duties with a special focus on those items would be a strong argument in favor of the increasing Poland's exports to the Vietnamese markets.

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