

Developing Trade Relations between Vietnam-Germany

Duong Thi Tinh*

*University of Economics and Business Administration - Thai Nguyen University,
Tan Thinh Ward, Thai Nguyen City, Vietnam*

Received 21 July 2017

Revised 15 December 2017; Accepted 25 December 2017

Abstract: More than 40 years of establishing diplomatic relations and developing trade between Vietnam and Germany, it can be seen that Germany is the biggest trading partner of Vietnam in Europe and the largest importer of Vietnam's exports to the EU. Although the trade between the two countries has not reached expectations, and the results are still inferior to the potential, the prospects for trade between the two countries are great and need to be further developed due to the favorable context and the advantages of the free trade agreement between Vietnam and the EU. This paper analyzes the current state of trade relations between Vietnam and Germany, assesses the advantages and disadvantages, and suggests policy implications for developing trade relations between the two countries in the future.

Keywords: Vietnam-Germany, trade relations, development prospects, policy implications.

1. Introduction

Vietnam and Germany officially established diplomatic relations on September 23, 1975. After 42 years from the date of the establishment of official diplomatic relations, relations between the two countries in all fields have been constantly developing. It can be said that the German Federal Republic is now Vietnam's largest partner in Europe. Vietnam, and the Federal Republic of Germany, are both member countries in the process of regional integration. Although comparisons between the European Union (EU) and the ASEAN community are not adequate, the two sides have similarities in overall objectives, especially in the economic field with the emergence of the ASEAN Economic Community by the end of 2015. Germany not only helps Vietnam in the

process of economic transition but also supports Vietnam in the process of reforming the legal system within the framework of the German-Vietnamese Legal State Dialogue with about 70 seminars, professional exchanges, and field-trips each year. In addition, Germany also supports Vietnam's accession to international organizations and promotes the signing of the Vietnam-EU Free Trade Agreement. On the side of Vietnam, it has actively supported Germany in terms of regional cooperation in the Asia-Pacific region and EU-ASEAN.

In the commercial relations between Vietnam and Germany, since 1990 the two countries have signed many important agreements providing the legal basis for long-term bilateral cooperation, such as the Agreement on Investment Promotion and Protection signed in Hanoi on April 3, 1993. The Agreement on Maritime Transport was signed in 1993 and the Double Taxation Avoidance Agreement was signed in Hanoi on

* Tel.: 84-978875866.

Email: tinhvinh@gmail.com

<https://doi.org/10.25073/2588-1108/vnueab.4134>

November 16, 1995. The two countries agreed to establish a strategic partnership in October 2011 to boost closer cooperation in the future, especially in five key areas: strategic political cooperation, trade and investment, justice and law, development and protection of the environment, education, science, technology, culture and communication and society [3]. Even today, Vietnam and Germany both have the potential to develop trade and to the extent of adding large trade, trade relations between Germany and Vietnam has developed rapidly and dynamically in the EU. Import-export turnover between the two countries has increased annually. Germany is not only Vietnam's largest trading partner but also an important transit gateway for Vietnamese goods to other European countries. Germany is a large market, has sustainable development and an open trade policy. As a member of the EU, Germany also applies the EU common trade policy for Vietnam. In addition, Vietnam has created conditions for the German Chamber of Commerce and Industry to come into operation in Vietnam with the objective of creating a bridge for economic and trade cooperation between the two countries. Thus, Vietnam and Germany have a lot of prospects to fully exploit the potential for cooperation in developing trade relations between the two countries in the future.

2. Method of research

- Method of collecting information: Data and information on trade relations between Vietnam and Germany were collected and synthesized from legal documents, reports and officially published data of the General Statistics Office, Ministry of Trade and Industry in Vietnam and other documents related to the cooperative relationship between the two countries.

- Synthesis and processing of the information: All collected data and information is classified and divided into an entity to synthesize, build theoretical foundations and assess the actual situation of trade exchange

between the two countries Vietnam - Germany as the basis for giving the most accurate assessment.

- Descriptive statistics methodology, which is intended for statistical analysis of data and descriptive characteristics of data and collected data through export and import activities. The method of comparative analysis, clarification of differences or comparison between years to assess the current status, is used as the basis for proposing solutions to develop trade between the two countries in the future.

3. Results of the current situation of trade relations between Vietnam - Germany

After 42 years of establishing diplomatic relations, trade relations between Vietnam and Germany have been strengthened and developed. Although the import-export turnover with Vietnam only accounts for a small part of Germany's total foreign turnover value, Germany still regards Vietnam as a potential market and an important trading partner at the moment and in the future. In the period 2011-2016, Vietnam's export turnover to Germany has increased annually, accounting for an average proportion of 20.4% of Vietnam's total export turnover to the EU and 3.7% of export turnover to the world. Germany remains Vietnam's largest export market in the EU, the sixth largest market in the world.

In the period 2011-2016, Vietnam's trade balance for the market in Germany has always been in a state of trade surplus and has been increasing over the years. This is a great success for Vietnam. However, export growth is more stable than imports, and the growth rate of Vietnam's exports to Germany is showing signs of slowing down compared to other EU markets and other markets in Vietnam. In 2016, export turnover reached the largest value with a trade surplus of 3,154,762 thousand USD, which is the highest in the period but with the lowest growth rate of 4.5% compared with 2015.

Table 1. Import-export turnover between Vietnam - Germany

Unit: \$1000

Content	2011	2012	2013	2014	2015	2016
Vietnam export	2,372,736	3,366,901	4,736,996	5,174,944	5,705,257	5,959,381
Vietnam import	1,742,399	2,198,556	2,954,013	2,606,560	3,147,720	2,804,619
Balance	630,337	1,168,345	1,782,983	2,568,384	2,557,537	3,154,762

Source: General Statistics Office Yearbook [4].

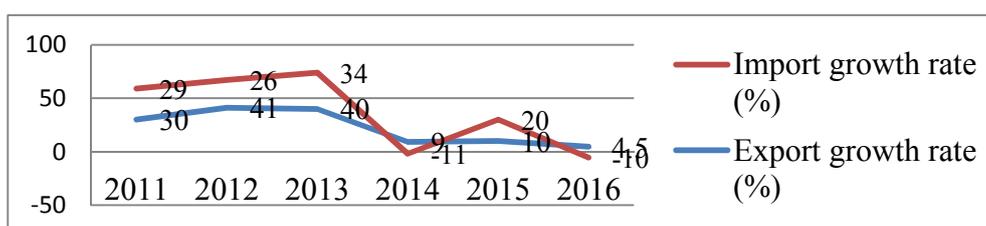


Figure 1. Vietnam's export-import growth rate to Germany [4].

In 2011, Vietnam's main exports to Germany in the order of total value were footwear, textiles, coffee beans, furniture, seafood, leather products, etc., and Vietnam's main imports from Germany were machinery, technical equipment, automobiles, textile machinery, pharmaceuticals, and chemicals. In 2014, Germany continued to hold the position of Vietnam's largest trading partner in the European Union with a total trade volume of 7.8 billion USD. Vietnam's exports to Germany are textiles, footwear and agricultural products, such as coffee, pepper, seafood, furniture, and electronics. Vietnam mainly imports from Germany machinery, automobiles, spare parts and machinery equipment as well as products of the chemical industry. By the end of 2015 with the 40th anniversary of establishing diplomatic relations with Germany, Vietnam exported 29 items to Germany and earned over 5.7 billion USD, an increase of 10% compared to 2014. Among the items which were exported to the market in Germany in 2015, phones and components reached the highest turnover, accounting for 30.9% of total turnover, reaching 1.7 billion USD, up 30.12%. In the second rank in terms of turnover was footwear, reaching

705.5 million USD, up 17.52%. Contributing to the growth rate of exports to the German market in 2015 were transport means and spare parts, with a remarkable growth rate, an increase of 103.77%, although the turnover only reached 85.2 million USD. At the same time, in 2015, exports to Germany had a positive growth rate of 53.3%. A number of commodities had good growth rates including cashew nuts, which increased 59.27%, reaching 68.9 million USD and pepper increased 36.66%, reaching 45.9 million USD. On the contrary, the negative growth rate was only 46.4%, of which the export of chemical products showed the greatest decrease, at 43.33%, and cameras and components decreased 36.28%, equivalent to 3.3 million USD and 6.4 million USD respectively.

In 2016, Vietnam's exports to Germany were 5.9 billion USD, up 4.5%, and imports from Germany were 2.8 billion USD, down 11.9% compared to 2015. Thus, Vietnam had in 2016 a positive balance of trade with Germany of 3.1 billion USD. Vietnam mainly exports to Germany items such as phones and components, footwear, textiles, coffee, seafood, machinery and equipment. Of these, cellular

phones and accessories are the main items with the highest turnover of 1.7 billion USD, accounting for 29.2% of total turnover. However, there was a slight decrease of 1.12% compared to 2015. The second highest turnover was footwear, reaching 764.6 million USD, up 8.38%, followed by textiles and garments, up 3.96% to 726.2 million USD. Overall, by 2016, exports to Germany had a positive growth rate of 55.1%, of which iron and steel had a strong growth, up 156.59%. By contrast, the number of goods with a negative growth rate accounted for 44.8% and tea had the sharpest decrease of 64.05%.

In general, it can be seen that the bright spot in trade exchange between Vietnam and Germany in the period 2011-2016 is that Vietnam always exports more than it imports and Vietnam's export growth rate to Germany is always higher than the growth rate of import of German goods into Vietnam. This result shows that Vietnam is quite successful in terms of exporting to the German market and keeps

its market share in this market. However, the growth rate has slowed down. Therefore, Vietnam needs new strategies to understand the needs of the German market, thereby penetrating and promoting exports to the German market, taking advantage of the increase in German import demand as well as developing trade relations between the two countries in the future.

4. Advantages and drawbacks of trade relations between Vietnam and Germany

The picture of trade between Vietnam and Germany shows many advantages and prospects to thrive in the future.

Firstly, the import-export turnover between Vietnam and Germany tended to increase between 2011 and 2016, even after the global financial crisis, the difficult context of the EU debt crisis and the picture and the influence of the world economy in the context of integration.

Table 2. List of Vietnamese goods exported to Germany in 2016

No.	List	2016 (1,000 USD)	2016/2015 (%)
	Total	5,959,381	4,5
1	Phones of all kinds and components	1,743,415	-1,12
2	Footwear of all kinds	764,676	8,38
3	Textiles and garments	726,200	3,96
4	Coffee	493,812	37,62
5	Computers, electronic products and components	417,283	-10,88
6	Machinery, equipment, spare parts	283,387	31,60
7	Seafood	176,324	-6,62
8	Handbags, purses, suitcases, hats and umbrellas	136,892	-9,39
9	Plastic products	113,530	-3,32
10	Wood and products	110,946	-12,80
11	Cashew	103,404	50,07
12	Transport means and spare parts	96,843	13,65
13	Products from iron and steel	82,826	-8,72
14	Pepper	65,930	4,98
15	Rubber	48,606	13,06
16	Toys, sports equipment and parts	46,416	17,73
17	Rattan products, bamboo, rush carpet	32,015	-2,60
18	Rubber products	27,565	12,22
19	Raw materials for textiles and leather footwear	16,016	-2,54

Source: General Department of Customs Vietnam [4].

This is a solid foundation for trade between Vietnam and Germany to continue and develop future trade when the EVFTA is signed [2].

Secondly, Germany is the biggest export and import market of Vietnam in the EU. Germany's trade with Vietnam has a great influence on trade between the EU and Vietnam. As a result, as the leader of the EU economy, trade between Germany and Vietnam will continue to grow and promote Vietnam's trade with the whole of the EU.

Thirdly, the import and export items between Vietnam and Germany are complementary, and supportive so it is less competitive. Vietnam has a comparative advantage in agricultural commodities such as coffee, fisheries, timber and labor-intensive goods such as textiles, footwear, telephones and components while Germany has the advantage with technology-intensive items and transportation vehicles, chemicals, pharmaceuticals, machinery and equipment. Thus, trade between Vietnam and Germany has been based on complementary trade and will continue to benefit both countries, especially when the EVFTA is signed, facilitating trade barriers between the two sides to be reduced and eliminated. Vietnam will be an attractive market for EU goods and services because Vietnam is a country that has had an impressive growth in exports over the last several years and has great consumption [1]. In contrast, Germany is also a potential market for the traditional, key export items of Vietnam.

However, Vietnam also has to face drawbacks when building trade relations with Germany.

Firstly, Vietnam attained a trade surplus in 2011-2016 but the growth rate of exports to Germany has slowed down compared to other EU export markets in the EU. In this context, in order to maintain this market in the long run, Vietnam needs to recognize and evaluate the causes and develop a strategy to penetrate and develop its exports to Germany.

Secondly, Vietnam's advantageous products are exported to Germany every year, mainly

goods which are derived from abundant natural resources and human resources, are cheap in price, and are raw items in structure. Therefore, Vietnam should have a strategy in production as well as in export, of the effective application of science and technology, modern production lines, raising the added value of export goods and ensuring harmony between increasing exports to Germany and balancing domestic natural resources and protecting the environment.

Thirdly, Germany has strict requirements in terms of financial services, distribution services and technical, environmental and food hygiene and safety requirements when importing goods into the German market. The free trade agreement between the EU and Vietnam will help reduce and eliminate tariff barriers, but Germany's requirements for imported goods are almost unchanged. Therefore, Vietnam needs to learn experience from German companies in developing and enhancing the efficiency of their services in order to improve their competitiveness not only in Germany but in other markets in the world. At the same time, catching and having solutions to adapt to trade barriers is still a requirement if Vietnamese enterprises want to penetrate the market in general and the German market in particular.

5. Conclusion and implication for the development of trade relations between Vietnam and Germany

It can be said that the good relationship between the two countries - Vietnam and Germany are growing both in width and depth. And despite the evaluation from many sides that the economic relationship between Vietnam and Germany is not exactly commensurate with political-cultural cooperation, the achieved results in the field of trade remain modest compared to the potential and desire of both parties. In order to strengthen trade cooperation and create a breakthrough in the future, Vietnam should take the initiative in maximizing advantages of the Vietnam-EU free

trade agreement in the future. Especially, enterprises must pay attention to the quality of export goods to the potential but difficult market. Vietnamese products must meet all requirements to enter the German market in particular and the EU in general, including: (1) Legal requirements that export products must meet to enter the market; (2) Additional requirements for distributors to demonstrate compliance with consumer hobby, abide by environmental and food safety standards such as food laws, labeling, packaging and container requirements, requirements to meet food additives' regulations, pesticide regulations and contaminants. Therefore, Vietnamese businesses are required to know about international trade expertise, to innovate their business strategies, to focus on export of specialized and quality goods and to create large sources of goods at competitive prices [3].

The German market as well as other European markets are very strict in terms of quality and transparency. Therefore, Vietnamese businesses should pay close attention to the quality of their trade with Germany. If Vietnamese firms are able to meet strict Germany's regulations, access to other European markets is in hand. Vietnam also needs to be prepared to implement its commitments, propagandize to businesses, and support vulnerable people in the process of opening up and improving the business environment, improving production capacity in water production, technology innovation,

quality improvement, environmental protection and to raise awareness of the process, procedures and conditions of export to meet the standards which are required by Germany.

Vietnamese companies also need to consider and develop strategies to produce and market their products through wholesale and retail distribution channels and participate in international trade fairs to penetrate the market. Vietnam needs to consider pricing, customer demand and the marketing policy or business strategy of other enterprises as well as promoting the image and brand of Vietnam's products in the international market, taking part at a higher level in the global value chain step by step.

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