

Chapter 4

The European Union – Viet Nam Free Trade Agreement: Process, Impacts, and Major Lessons

Thanh Tri Vo

November 2021

This chapter should be cited as
Vo, Thanh Tri (2021), 'The European Union-Viet Nam Free Trade Agreement: Process, Impacts, and Major Lessons', in Prakash, A. (eds.), *13th Asia-Europe Meeting (ASEM) Summit: Multilateral Cooperation for a Resilient, Sustainable and Rules-Based Future for ASEM*, Jakarta: ERIA, Phnom Penh: ASEM13 and The Royal Government of Cambodia, pp.57-74.

The European Union–Viet Nam Free Trade Agreement

PROCESS, IMPACTS, AND MAJOR LESSONS

THANH TRI VO

1. Introduction

Bilateral and regional trade agreements strengthen the economic connectivity and deepen the institutional integration within and between regions. Trade agreements between European and Asian countries are especially beneficial because they strengthen the international production networks within and between Asia and Europe. The increasing integration of the European Union (EU) with Asia's value chains have resulted in increased trade, investment, and economic cooperation. This EU–Vietnam Free Trade Agreement is a notable example.

Viet Nam has embarked on comprehensive economic reforms since the initiation of Doi Moi (Renovation) in 1986. Despite differences in the types of reforms and variations in the pace of implementation over time, such reforms have rested on three major pillars – (i) market-oriented reforms, (ii) macroeconomic stabilisation, and (iii) pro-active integration.¹ Notably, the integration process has closely interacted with domestic reforms, especially in terms of institutions for the market economy. According to various studies (e.g. Dinh et al. 2009, CIEM 2013), the periods with more meaningful efforts to liberalise trade and investment (i.e. 1989–1996, 2000–2007, and 2014–2019) have also been those with comprehensive reforms of domestic economic institutions.

Ensuring sustainable benefits from furthering economic integration remains an important priority for Viet Nam.² From the country's perspective, the degree of international integration remains low in many fields, particularly in terms of the harmonisation of standards, mutual recognition, and market economy reforms, etc. The deepening of integration in those areas is thus essential for inducing improvements in domestic capacity. From that perspective, high-standard free trade agreements (FTAs), particularly with more advanced partners, are instrumental for Viet Nam.

¹ For more details, see Dinh et al. (2009).

² This was reaffirmed in Resolution 06-NQ/TW by the Steering Committee of the Communist Party of Viet Nam in November 2016.

The context for trade and investment liberalisation has witnessed increasing uncertainty during 2016–2020, and this will continue. Despite imperfections, the new-generation FTAs have at least set out areas and the associated depth for trade and investment liberalisation, even at the behind-the-border level, where agreement can be reached. Following the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union–Viet Nam FTA (EVFTA) would be expected to further cement Viet Nam’s approach to trade and investment liberalisation as well as domestic economic reforms. While multilateral trade liberalisation remains far-reaching, the weakening momentum for liberalisation attempts in various markets and regions implies that any progress to renew plurilateral and regional trade liberalisation – such as via the EVFTA – could prove to be eventually meaningful. At the same time, coordinated efforts at the international/regional level would not suffice in the absence of an appropriately adapted strategy to effectively liberalise and promote trade and investment in each and every economy, and even more so for a developing economy like Viet Nam.

This chapter attempts to review the process and impacts of the EVFTA on Viet Nam’s economy. In doing so, it relies on a survey of literature on the EVFTA and its impacts and, on that basis, summarises the major lessons from the EVFTA.

The remainder of this chapter is structured as follows. Section 2 briefly describes the EVFTA process. Section 3 then surveys the literature on the impacts of the EVFTA on Viet Nam’s economy. Section 4 discusses the key lessons from the EVFTA. Section 5 offers some concluding remarks.

2. Key Milestones of the EVFTA

In October 2010, Viet Nam and the European Union (EU) agreed to kick off negotiations for a trade deal. In June 2012, the first negotiation round began. Until August 2015, Viet Nam and the EU completed 14 official negotiations and a number of mid-term negotiations. Viet Nam and the EU announced the end of negotiations on 4 August 2015, and negotiations were formally concluded on 1 December 2015.

On this basis, Viet Nam and the EU carried out preparations for signing and ratifying the EVFTA. On 1 February 2016, the full official text of the EVFTA was published. On 26 June 2018, the EVFTA was divided into two agreements, the EVFTA and the EU–Viet Nam Investment Protection Agreement (EVIPA).³ In the same month, the legal review of the EVFTA was

³ As noted by the European Parliament (n.d.), ‘The FTA and IPA were initially negotiated as a single text, but in 2018 the EU and Viet Nam decided to split them, following the approach chosen for the trade and investment agreements with Singapore. The FTA covers exclusive EU competences, and can therefore be ratified by the EU alone, without involving the Member States. The IPA covers non-direct (“portfolio”) investment and investor-state dispute settlement mechanisms: these are shared competences, on which the EU shares decision-making powers with Member States, meaning that the agreement must also be ratified by them.’

formally concluded, and the content of the EVIPA was agreed. In August 2018, the legal review of EVIPA was formally concluded. On 17 October 2018, the European Commission officially adopted the EVFTA and the EVIPA. On 25 June, 2019, the European Council approved the EVFTA and EVIPA and accepted for the EU to sign the agreements with Viet Nam. On 30 June 2019, the EVFTA and EVIPA were officially signed.

In February 2020, the European Parliament ratified the EVFTA and EVIPA. The EVIPA was passed with 407 votes for the agreement, 188 against the agreement, and 53 abstentions; and the EVFTA, with 401, 192, and 40 votes, respectively. To complete the ratification on the EU side, the EVIPA will have to be passed by all individual parliaments of EU Member States. On 30 March 2020, the European Council adopted the decision to conclude the EVFTA. In May 2020, the EVIPA and EVFTA were submitted to the National Assembly of Viet Nam for consideration and ratification. They were ratified by the National Assembly of Viet Nam in June 2020. Accordingly, the EVFTA will enter into force as early as August 2020, while the EVIPA will do so after ratification by the parliaments of all EU Member States.

As a final note, the negotiations for the EVFTA started about two years after Viet Nam joined the Trans-Pacific Partnership Agreement (TPP) negotiations. Accordingly, policymakers and the public were more open and accustomed to the debate on binding, even restrictive, commitments under new-generation FTAs (including the TPP). In this regard, the high standard of the EVFTA in various areas – such as regarding state-owned enterprises, sustainable development, and labour rights, etc. – appeared to be less of an issue. Conversely, the potential benefits from the EVFTA added to those of the TPP, which all together contributed to affirming Viet Nam’s determination to embrace high standards in FTAs. The subsequent section will survey the literature on the impacts of the EVFTA on Viet Nam’s economy.

3. Impacts of the EVFTA on Viet Nam’s Economy: Literature Survey

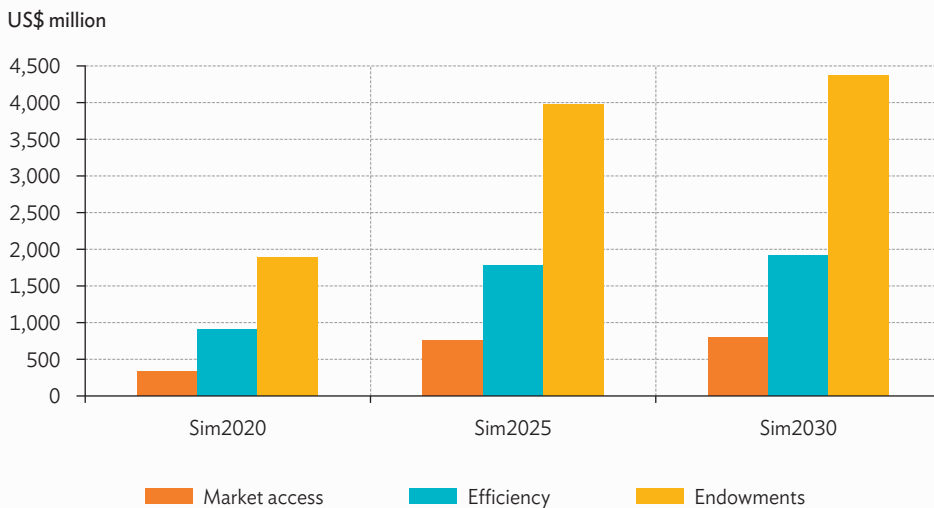
3.1 Impacts on gross domestic product

Various quantitative studies (e.g. Baker et al. [2014], Baker et al. [2017], and Ha [2020]) show that Viet Nam may potentially gain significantly from the EVFTA. According to Baker et al. (2017), compared with the business-as-usual baseline, the expected gains are US\$3.2 billion in 2020, US\$6.7 billion in 2025, and US\$7.2 billion in 2030. In terms of national income, the EVFTA may help expand Viet Nam’s economy by 2.5%, 4.6%, and 4.3% in 2020, 2025, and 2030. During 2017–2030, the EVFTA may help increase Viet Nam’s average annual GDP growth rate from 4.2% to 4.6%.

Using contextual updates until September 2019,⁴ the Ministry of Planning and Investment of Viet Nam (2019, cited in Ha [2020]) estimates that Viet Nam’s annual gross domestic product (GDP) may increase by 1.24%–2.02% during 2022–2024, by 3.53%–4.37% during 2025–2030, and by 4.65%–5.27% by 2030, depending on the scenarios.

The quantitative studies also attempt to explain the impacts on Viet Nam’s GDP. Baker et al. (2017) contends that Viet Nam has a high ratio of trade to GDP as well as a significant volume of trade with the EU, while the EU applies reasonably high protection level against Viet Nam’s major exports. In addition, the EVFTA may contribute substantially to abolishing Viet Nam’s significant protection across a wide range of industries. In particular, three main sources of gains for Viet Nam include: (i) improved market access, (ii) better use of resources at home, and (iii) the use of previously underemployed endowments of capital and labour (Figure 1). Ha (2020) adds that the phasing out of non-tariff barriers and surge in foreign direct investment inflows to Viet Nam may have significant impacts on GDP in the medium-to-long term, while the long term may also see the contribution of productivity improvement.

Figure 1: Decomposition of Gains in Income



Source: Baker et al. (2017).

⁴ Including the United States–China trade war and Brexit, etc.

The above projection of impacts may be of no surprise to Viet Nam. From joining the World Trade Organization (WTO), Vietnamese enterprises have had lower costs of accessing and expanding to international markets whilst enjoying more equal treatment in trade and dispute settlements. Such lower costs have resulted from the domestic economic reforms that have been parallel to the negotiations for WTO accession since 2000. This effect was seen beforehand in Roland-Holst et al. (2002), and was ex post confirmed in Vo and Nguyen (2009). Third, Viet Nam has continued to appeal to foreign investment thanks to sustained political and socio-economic stability (CIEM, 2010, 2013).

The studies using ex ante and ex post quantitative analyses of the impacts on Viet Nam's economy are subject to several limitations. These analyses have to assume that any agreement will be implemented as designed. Meanwhile, non-tariff measures may prevent further meaningful liberalisation as desired in implementing existing and future FTAs (Nguyen et al., 2015). Some tariff peaks may be prohibitive, which may cause the projected gains from tariff reform to be overstated. Finally, the ex post studies, however technically rigorous, cannot entirely separate the impacts of trade and liberalisation from those due to other policies within Viet Nam.

Nguyen et al. (2015) also identify several limitations with the computable general equilibrium class of model employed in various studies (such as Nguyen et al. [2015], World Bank [2018], and Baker et al. [2017]). First, some changes in production and consumption behaviours are assumed to be automatic in response to tariff changes (and thus relative prices), whilst some practical factors are ignored that may affect FTA utilisation instead. Second, these models can hardly incorporate the impacts of institutional improvement and foreign capital flows. Third, the scenarios are quite useful to the extent that they help focus on the impacts of various FTAs, but the actual non-trade policy settings may not be entirely consistent with such scenarios.

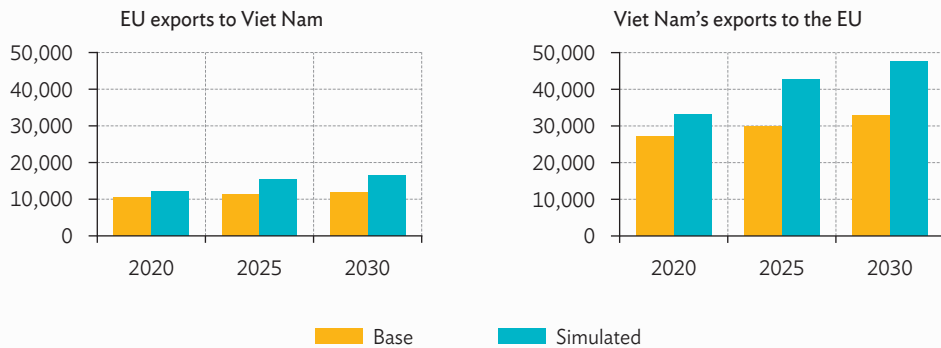
3.2 Impacts on trade

The quantitative studies explain Viet Nam's improvement in GDP by the trade expansion induced by the EVFTA. According to estimates by Baker et al. (2017), by 2030, Viet Nam's exports to the EU under the EVFTA may increase by 44% compared with the baseline, while EU exports to Viet Nam may rise by 37% (Figure 2). Of note, most of the tariff reductions will have been implemented by 2030.

Compared to the baseline, however, the EVFTA also shows a diversion effect on exports. According to Baker et al. (2017), this is explained by the relatively small scale of Viet Nam and its resources, which impose a constraint over supply. Accordingly, Viet Nam's overall export growth would be improved by a lesser extent than its export growth to the EU.

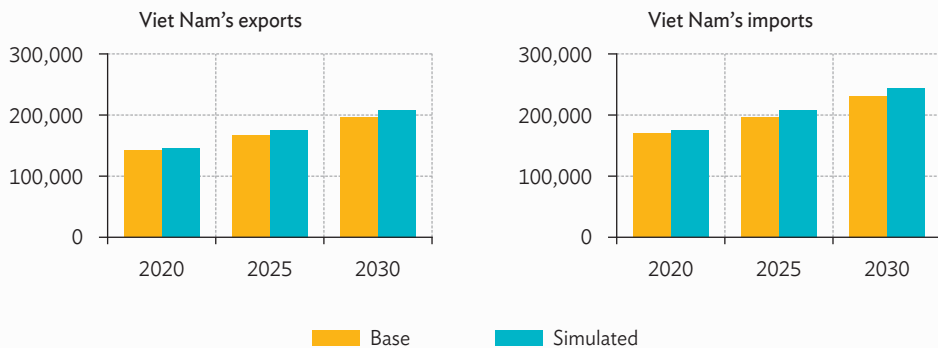
In the estimates by Baker et al. (2017), overall exports under the EVFTA in 2020, 2025 and 2030 will increase by 3.1%, 5.7%, and 5.6%, respectively, compared with the baseline (Figure 3). Meanwhile, the Ministry of Planning and Investment (2019, cited in Ha [2020]) estimates that the average annual increase in overall exports due to the EVFTA would range between 3.148% and 5.13% for 2022–2024, and between 10.518% and 19.74% for 2025–2030.

Figure 2: Bilateral Exports in 2020, 2025, and 2030 (US\$ million)



Source: Baker et al. (2017).

Figure 3: Viet Nam's Overall Exports and Imports in 2020, 2025, and 2030 (US\$ million)



Source: Baker et al. (2017).

Viet Nam's import structure will also witness a shift due to the impacts of the EVFTA. Baker et al. (2017) estimate that Viet Nam's overall imports under EVFTA will increase by 3.2% in 2020, 6.1% in 2025, and 5.94% in 2030 compared with the baseline. A more recent estimate by the Ministry of Planning and Investment (2019, cited in Ha [2020]) shows that the increase in overall imports may range between 2.72%–5.02% for 2022–2024, and between 10.08% and 14.7% for 2025–2030. For all the years, the import expansion under the EVFTA is mostly contributed by the increase in foreign direct investment, which could account for up to 76.8% of the import expansion.

It should be noted that Viet Nam's actual import growth depends on numerous factors, including the domestic capacity to conduct trade policy. In fact, amongst the key reasons for slower import growth since 2011 are the restructuring of the economy and control of public investment to help stabilise the macroeconomic environment, which all together reduced demand for imports (Nguyen et al., 2017). In addition, Viet Nam enhanced its capability to use more non-tariff measures, which effectively reduced imports (Nguyen et al., 2019).

3.3 Sectoral impacts

The impacts of the EVFTA, nevertheless, vary across sectors. Baker et al. (2017) estimates that for most sectors, the change in output relative to the baseline in Viet Nam is between 0.5% and 2% in any particular year. The increase in output is most significant for the textile, apparel, and footwear (leather) industries when EU tariffs on these items of 12%–17% are removed. The largest impacts occur in 2025, by which time most of the tariffs will be removed. There are contractions in 'other crops', forestry, resources, electronics, wood products, machinery and equipment, and ferrous metal products. Most of the contractions in output in a specific sector are less than 3%.

Baker et al. (2017) suggest that the overall trade impacts may be more considerable for some sectors. The most significant changes may be for apparel (US\$4.3 billion) and footwear (US\$2.1 billion), equivalent to 15% and 33% from the 2025 base of these sectors. Other sectors with significant changes in trade are textiles (US\$349 million) and 'other food products' (US\$169 million). Meanwhile, services trade may significantly increase in air transport and business services not elsewhere classified (i.e. excluding finance and insurance).

However, Viet Nam's exports to the EU are expected to increase significantly for some sectors (Baker et al., 2017). Consistent with the pattern of overall trade across sectors, the most significant increases in exports to the EU may be textiles, apparel, and footwear. In addition, rice and fish products may contribute significantly to exports to the EU in both relative and absolute terms. The export increase pattern will not linear over time; instead, most of the increase is expected to accrue during the first seven years when the EU phases in its reforms.

In terms of overall imports, the largest surge may be with textiles, which serve as inputs for export production (Baker et al., 2017). Similarly, a large increase in leather imports will support the manufacture of footwear. Imports of certain products from the EU may go up more drastically as Viet Nam’s existing high tariffs are phased out. In percentage terms, the most significant increases in imports are expected to occur for pork and poultry, beef, other crops, forestry, dairy products, other processed foods, and leather. The services sectors with significant import growth will be finance and insurance, and air and sea transport.

3.4 Income and social impacts

Baker et al. (2017) is the only study that documents the simulation results of how the EVFTA affects the income of wage earners across sectors and genders (Table 1). The authors treat income from several activities (if any) as if such income was generated from the main economic activity, which also indicates the sector/occupation of the worker.⁵ For such sectors as electronics, wood products, machinery and equipment not elsewhere classified (n.e.c.), and ferrous metals, labour income is projected to decrease relative to the baseline for both men and women. The adverse impact is smallest in 2020, perhaps due to the phasing in of commitments over time. The income reduction may be larger for women than men in the electronics and machinery and equipment sectors.

Table 1: Changes in the Labour Income of Wage Earners by Gender and Sector (% EVFTA vs base)

Sector	2020		2025		2030	
	Male	Female	Male	Female	Male	Female
Rice	1.40	0.48	2.65	1.17	2.44	1.00
Vegetables, fruits, nuts	2.64	1.69	4.68	3.85	4.60	3.68
Sugar	-0.42	4.08	0.90	5.46	0.67	5.22
Other crops	0.90	4.01	2.10	5.13	2.12	5.05
Forestry	1.62	1.46	3.14	3.06	3.17	3.05
Fishing	3.63	1.49	6.81	4.62	6.59	4.24
Resources	1.71	1.56	3.30	2.96	3.12	2.77
Minerals	2.46	2.60	4.56	4.92	4.20	4.58

continued next page

⁵ Some workers may have more than one economic activity, and the one generating the most income is statistically considered as the main activity.

Table 1: Continued

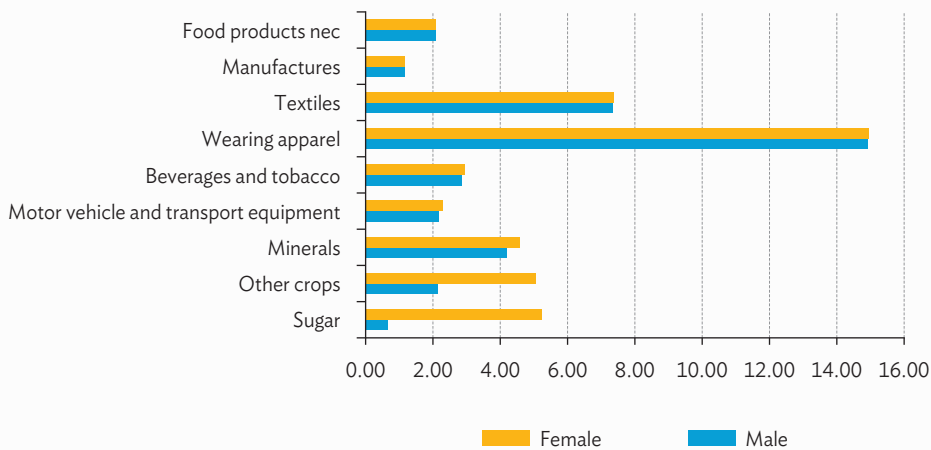
Sector	2020		2025		2030	
	Male	Female	Male	Female	Male	Female
Beef and veal	6.64	n.a.	7.02	n.a.	5.88	n.a.
Pork and poultry	3.12	2.06	5.85	3.77	5.53	3.51
Food products n.e.c.	0.76	0.76	1.86	1.86	2.10	2.11
Beverages and tobacco	1.86	1.90	3.20	3.27	2.86	2.94
Textiles	3.71	3.70	7.31	7.34	7.33	7.36
Wearing apparel	5.05	5.08	14.48	14.54	14.88	14.94
Leather	22.92	22.90	32.63	32.58	31.56	31.53
Electronics	-0.71	-0.79	-1.30	-1.43	-1.10	-1.22
Petroleum, coal products	n.a.	2.24	n.a.	4.52	n.a.	4.12
Motor vehicles and transport equipment	1.24	1.28	2.31	2.43	2.18	2.32
Wood products	-0.86	-0.84	-1.61	-1.61	-1.43	-1.42
Paper products, publishing	1.63	1.57	2.78	2.66	2.76	2.64
Chemical, rubber, and plastics	1.91	1.90	2.78	2.77	2.84	2.83
Machinery and equipment n.e.c.	-0.86	-0.90	-1.58	-1.63	-1.37	-1.43
Mineral products n.e.c.	1.72	1.70	3.22	3.18	3.12	3.08
Ferrous metals	-1.24	-1.22	-2.28	-2.21	-2.00	-1.93
Manufactures	0.73	0.76	0.99	1.02	1.16	1.18
Utilities	1.75	1.75	3.24	3.22	3.08	3.07
Sea transport	2.06	n.a.	6.61	n.a.	3.97	n.a.
Air transport	1.65	0.89	11.87	10.32	8.49	7.11
Other transport	0.79	0.71	5.03	4.85	3.91	3.75
Communication	2.30	1.96	6.96	6.23	6.66	5.95
Retail and wholesale trade	3.17	3.14	5.71	5.67	5.32	5.28
Finance and insurance	1.74	1.64	6.25	6.07	6.06	5.88
Recreation and other services	2.35	2.30	4.16	4.06	3.79	3.70
Business services n.e.c.	2.48	2.46	7.79	7.75	7.40	7.37
Other services	3.11	3.10	5.90	5.88	5.64	5.62

n.a. = data not available, n.e.c. = not elsewhere classified.

Source: Baker et al. (2017).

Consistent with the above discussion of the sectoral impacts, the largest increases in income due to the EVFTA are expected for both female and male workers in the leather, textile and apparel, other business services, and air transport sectors, which benefit most from the implementation of the EVFTA. The sectors with more income gain for women than men are food products n.e.c., manufactures, textiles, wearing apparel, beverages and tobacco, motor vehicles and transport equipment, minerals, other crops, and sugar (Figure 4).

Figure 4: Sectors with a More Favourable Impact on Female Wage Earners
(comparison with male wage earners in 2030, % change of EVFTA vs baseline)



Note: The listed sectors from top to bottom are: Food products not elsewhere classified; manufactures; textiles; wearing apparel; beverages and tobacco; motor vehicles and transport equipment; minerals; other crops; and sugar.

Source: Baker et al. (2017).

Baker et al. (2017) show that income earners in all occupations may benefit from the implementation of the EVFTA (Table 2). Agricultural and unskilled workers have the largest increases in income, at 5.5% for male workers and 4.7% for female workers in 2030 (under the EVFTA vs the baseline). Male officials and managers, and agricultural and unskilled workers are expected to benefit more from the EVFTA than female workers. Meanwhile, women holding jobs as technicians, clerks, and service workers may have a higher income increase than their male counterparts.

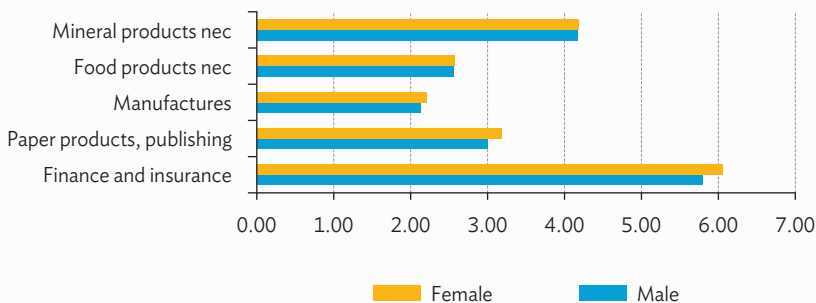
Table 2: Impacts of the EVFTA on the Income of Wage Earners by Gender and Occupation (%)

Occupation	2020		2025		2030	
	Male	Female	Male	Female	Male	Female
Officials and managers	2.3	1.4	5.1	4.1	4.8	3.6
Technicians	2.4	3.6	4.8	6.5	4.6	6.4
Clerks	1.9	3.3	4.5	6.3	4.4	6.2
Service workers	2.5	2.6	4.8	5.3	4.7	5.2
Agricultural and unskilled workers	2.9	2.5	6.0	4.9	5.5	4.7

Source: Baker et al. (2017).

Baker et al. (2017) also document the potential impacts of the EVFTA on the income of self-employed people by sector and gender. Compared to wage earners, self-employed people are expected to enjoy smaller income increases in agricultural activities and other mining; and a greater income gain in the remaining sectors. The sectors in which self-employed women have larger income increases than men include mineral products n.e.c., food products n.e.c., manufactures, paper products and publishing, and finance and insurance (Figure 5).

Figure 5: Sectors with a More Favourable Impact on Self-Employed Women (comparison with self-employed men in 2030, % change of EVFTA vs base)



Note: The listed sectors from top to bottom are: Mineral products not elsewhere classified; food products not elsewhere classified; manufactures; paper products, publishing; finance and insurance.

Source: Baker et al. (2017).

4. Major Lessons from the EVFTA Process

Viet Nam's engagement in the EVFTA process presents some major lessons.

First, any ambitious trade agreement needs to fit in with the broader strategy of economic integration of the country.

The EVFTA is not a standalone integration attempt by Viet Nam. In fact, since Doi Moi (Renovation) in 1986, Viet Nam has gradually opened its economy to foreign trade and investment. Its economic integration process since then has had four milestones.

First, Viet Nam joined the Association of Southeast Asian Nations (ASEAN) in 1995 and the ASEAN Free Trade Area in 1996. By May 2020, Viet Nam was a signatory to an array of FTAs under the ASEAN Plus framework. At the end of 2015, Viet Nam joined the ASEAN Community. As of May 2020, the country was working with ASEAN and its partners to conclude the Regional Comprehensive Economic Partnership (RCEP) between ASEAN, China, the Republic of Korea (hereafter, Korea), Japan, Australia, New Zealand, and India.

Second, Viet Nam negotiated and signed the Viet Nam–United States (US) bilateral trade agreement in 2000, which induced Viet Nam to prepare for regional FTA-based integration and the WTO process and gave Viet Nam better access to the US, its largest export market, implying improved competitiveness relative to other major exporters.

Third, Viet Nam became a member of the WTO in January 2007. The greatest pressures under the WTO are related to institutional reforms and the service sector (CIEM, 2013). To fulfil its WTO commitments, Viet Nam had to amend or promulgate many laws, ordinances, and decrees related to domestic institutional regulations.

Fourth, since 2008, Viet Nam has focused on bilateral and plurilateral FTAs. Even the WTO accession did not mark the end of the country's economic integration process. It negotiated and/or signed, amongst others, the Economic Partnership Agreement with Japan and FTAs with the EU, Chile, Korea, and the Eurasian Economic Union. Whilst the TPP, signed in 2016, could not proceed due to the withdrawal by the US, Viet Nam signed the CPTPP in March 2018 and ratified it in November 2018.

The above integration phases and attempts have enabled Viet Nam to gradually adapt to a rules-based system of trade and investment under international agreements. In light of this, participation in the EVFTA presents a natural attempt that is in line with Viet Nam's economic integration process. Without that long and consistent process, it would have been hard to imagine Viet Nam engaged in such a high-quality FTA as the EVFTA. As noted above, the added benefits from coordinating the TPP and EVFTA negotiations concurrently have been essential in helping to convince domestic stakeholders.

At the same time, the engagement in the FTA with the EU was consistent with the various proposals in the literature (e.g. Truong et al. [2011] and CIEM [2013]) that the selection of partners must be based upon such criteria as general political strategic benefits and national economic benefits.

Second, FTA-based economic integration needs to contribute to enhancing strategic partnership economically.

For decades, Viet Nam's relations with the EU have been strengthened and become increasingly important. Viet Nam and the EU officially established diplomatic relations on 28 November 1990. It was only in 1995 that the two sides signed a framework cooperation agreement, the same year that Viet Nam joined ASEAN and one year after the US embargo on Viet Nam was lifted. In 1996, diplomatic representation of the European Commission was established in Hanoi. In 2004, the first summit between Viet Nam and the EU took place in Hanoi. In 2005, Viet Nam adopted a Master Plan and Action Plan for developing relations with the EU towards 2010 and orientation towards 2015. In 2007, Viet Nam and the EU announced they would start negotiations on a comprehensive partnership and cooperation agreement (PCA). On 4 October 2010, the PCA was initialled by the Prime Minister of Viet Nam and the President of the European Commission. The PCA was officially signed in 2012.

Accordingly, the EVFTA contributes to enhancing the strategic partnership between Viet Nam and the EU. The EU has been the second-largest market for Viet Nam for years, accounting for around 20% of Viet Nam's exports. Various studies (e.g. Truong et al. [2011]; Nguyen et al. [2014]; Nguyen et al. [2017]; and Dinh et al. [2020]) show that Viet Nam and the EU have attained high and increasing complementarity in terms of trade. The EU also ranked higher in terms of technology, which may match the needs of Viet Nam in innovation and the promotion of technology transfer from foreign stakeholders.

Third, the new FTA needs to adhere to new international norms on sustainable development.

Since the end of the global financial crisis, the global economy has undergone a process of slow recovery. Growth patterns have been less predictable and more uneven across different groups of economies. It is becoming more apparent that manipulating macroeconomic policies to achieve growth is hardly viable in various parts of the world, including both the EU and Viet Nam. Fiscal space has become narrower after a prolonged period of stimulus to combat economic downturn. In this context emerges the need for efforts to identify more broad-based sources of growth. Such efforts should target not only high and sustainable economic growth but also wider participation by various groups, such as women, young people, the elderly, and ethnic minorities. More importantly, such efforts should incorporate international collaboration to facilitate shared experiences and promote action for sustainable development.

The EVFTA helps promote sustainable development in that it provides for various chapters and commitments related to trade and sustainability, renewable energy, and labour rights, etc. A number of these issues are still new and not yet fully understood by Viet Nam. For instance, some provisions under the Trade and Sustainable Development chapter may not have common interpretation by Viet Nam and the EU. Although the EVFTA was signed after the CPTPP, the idea of having a report on the Sustainability Impact Assessment of an FTA was introduced under the EVFTA process, reflected by the reports by Baker et al. (2014) and Baker et al. (2017). That is, impact assessment of the EVFTA is no longer restricted to economic and trade aspects but also encompasses other selected areas related to sustainable development, such as income distribution and the environment, etc.

While these new (and perceivably demanding) requirements may impose adjustment costs and weaken Viet Nam's export competitiveness at least in the short-to-medium term, they may support the country in pursuing its committed Sustainable Development Goals to 2030. However, the EVFTA does not simply incorporate Viet Nam's commitments. The agreement also incorporates provisions on cooperation and capacity building, which Viet Nam may resort to in its implementation of sustainable development.

Fourth, the key principle of a high-quality EVFTA needs to be retained. In doing so, flexibility may be required.

Promoting a high-quality FTA such as the EVFTA is no easy task. However experienced, the efforts made by Viet Nam (and the EU) in the negotiation and ratification processes cannot be fully articulated. Neither the time from the conclusion of negotiations (December 2015) to the ratification by the EU (February–March 2020) nor the split of the agreement into the EVFTA and EVIPA could describe in full the challenges encountered by both sides to promote the deal, including its high quality. Meanwhile, such factors provided the flexibility needed for the EVFTA process. In this regard, the high quality of the CPTPP could offer a benchmark and share the burden of acquiring consensus in Viet Nam for the EVFTA process. Nevertheless, one cannot underestimate the endeavour and commitments of both sides to promote a high-quality agreement.

Fifth, the high-quality FTAs must be consistent with domestic reforms.

As noted previously, the integration process has closely interacted with domestic reforms, especially in terms of institutions for a market economy. According to various studies, the periods with more meaningful efforts to liberalise trade and investment (i.e. 1989–1996, 2000–2007, and 2014–2019) were also those with comprehensive reforms of domestic economic institutions. As part of Viet Nam's integration attempts, the EVFTA also incorporates consistency with Viet Nam's domestic reforms.

The content on sustainable development, as previously elaborated, may support Viet Nam in pursuing the Sustainable Development Goals to 2030. Besides, the EVFTA covers the discipline of state-owned enterprises (SOEs), and this complements Viet Nam's state-owned enterprise reforms and restructuring. Another area involves competition policy, for which Viet Nam has been improving its institutions and practices.

Over the past decade, Viet Nam has substantially improved its domestic economic and policymaking capacity. The momentum for domestic reforms has been sustained, at least since 2014 with the introduction of Resolution 19 (during 2014–2018) and Resolution 02 (during 2019–2020) on business environment reforms and national competitiveness. In particular, the reduction of market entry conditions and unnecessary regulatory burdens on businesses have also contributed to streamlining non-tariff measures (Artuso and Nguyen, 2019). The question that naturally arises in this context is whether Viet Nam can promote reforms on a self-induced basis and whether the doctrine of FTAs as external pressures for domestic reforms still holds for Viet Nam. The answer is perhaps both yes and no. That is, Viet Nam could, as per its capacity, adopt good practices for reforming various areas of its domestic economy and policymaking process, but it also needs the high-quality EVFTA to bring the reforms in line with international best practices.

Finally, advocacy for the EVFTA was accompanied by an appropriate communication strategy that helps solidify social consensus.

Consulting relevant stakeholders, including the business community and foreign investors, is an important component of major economic reforms. Notwithstanding the top-down approach towards formulating reforms in past decades, Viet Nam has more recently endeavoured to consult stakeholders as part of the process of implementing its regional economic integration commitments and domestic reforms. The scope of consultation has gradually been expanding. Various workshops and dialogues have been organised to consult the business community about various integration roadmaps and other related issues. This practice of consultation was formalised in 2010 after the prime minister made consultations with stakeholders mandatory when formulating major economic reforms.

Regarding the EVFTA, the views of stakeholders on such major issues as tariff reductions, rules of origin, sustainable development, and intellectual property rights, etc. were collected. Various consultation workshops on the EVFTA contributed to raising awareness of the ASEAN Economic Community ahead of any potential changes. These were consistent with the instructions of the Politburo and the government on raising awareness of the economic integration process. Viet Nam did not refrain from engaging in frank and open dialogues on such sensitive issues as investor-state dispute settlement mechanisms and intellectual property rights, etc. In this regard, the documented impacts on household income and income by gender could be useful. Through such efforts, the EVFTA (as well as the CPTPP) did not receive adverse comments within Viet Nam to the extent that could have reversed the process.

5. Concluding Remarks

This chapter attempts to review the process and impacts of the EVFTA on Viet Nam's economy, as well as the major lessons from the EVFTA process. Following years of negotiations and follow-up efforts, the ratification process for the EVFTA was completed in June 2020. The agreement will enter into force as early as August 2020, while the EVIPA will enter into force following ratification by the parliaments of all the EU Member States. The negotiations of the EVFTA were conducted in parallel with the TPP negotiations, which helped to manage a domestic consensus and retain the high quality of the agreements. The EVFTA is expected to benefit Viet Nam's economy in terms of GDP and trade, though some diversion effects will potentially take place. A distributive effect of the EVFTA may be a concern for some sectors and/or for women.

The EVFTA process presents some major lessons. First, the trade agreement should fit in with the national strategy for economic integration. Second, the agreement needs to contribute to enhancing strategic partnerships economically. Third, the EVFTA needs to incorporate new international norms on sustainable development. Fourth, the agreement needs to maintain a high quality, although some flexibility may be allowed. Fifth, the agreement must be consistent with domestic reforms. Finally, managing a domestic consensus, including via an appropriate communications strategy, plays an essential role.

The above discussion has some implications for ASEAN. *First*, each ASEAN Member State (AMS) needs to strive to implement, conclude, or start negotiations for an FTA with the EU, acknowledging the importance of such deals in terms of enhancing market access with complementarity to domestic reforms, etc. This process may be fast or take a bit more time depending on individual AMS in line with the 'ASEAN way', yet should be promoted for enhanced regional economic linkages and open regionalism that ASEAN as a whole supports.

Second, AMSs need to continue to promote domestic reforms to prepare for and embrace high-quality FTAs with the EU. Leveraging FTAs with the EU as a driver for domestic reforms is still relevant, but this driver should not be the only one. To complement this effort, AMS need both rigorous impact assessment of the FTAs as well as consultations with stakeholders.

Third, AMS should review the need for cooperation and capacity building for the effective preparation and implementation of FTAs with the EU. Such a need may be directly incorporated in the FTAs with the EU themselves. In addition, AMS may foster relevant programmes and efforts for cooperation and capacity building amongst themselves. Eventually, this will forge cooperation within ASEAN processes as well as the sense of an ASEAN community.

REFERENCES

- Artuso, F. and A.D. Nguyen (2019), ‘Good Practices in Dealing with NTMs in the CLMV: How Can They Be Leveraged?’, *Manuscript for Economic Research Institute for ASEAN and East Asia*.
- Baker, P., D. Vanzetti, T.L.H. Pham, T.X.T. Nguyen, and M.T. Nguyen (2014), ‘Impact Assessment: EU-Vietnam FTA’, *Report for Multilateral Trade and Investment Project (MUTRAP)*.
- Baker, P., D. Vanzetti, T.L.H. Pham, C.T. Tran, T.X.T. Nguyen, and A.D. Nguyen (2017), ‘Impact Assessment: EU-Vietnam FTA’, *Report for Multilateral Trade and Investment Project (MUTRAP)*.
- Central Institute for Economic Management (CIEM) (2010), *Comprehensive Evaluations of Vietnam’s Socio-Economic Performance 3 Years After Accession to the WTO*. Hanoi: Financial Publishing House.
- CIEM (2013), *Comprehensive Evaluations of Vietnam’s Socio-Economic Performance 5 Years After Accession to the WTO*. Hanoi: Financial Publishing House.
- Dinh, H.M., Q.L. Trinh, and A.D. Nguyen (2009), ‘Trade, Growth, Employment, and Wages in Vietnam’, *Research Project: Globalization, Adjustment and the Challenge of Inclusive Growth: Furthering Inclusive Growth and Industrial Upgrading in Indonesia, the Philippines and Vietnam*.
- Dinh, T.H., A.D. Nguyen, B.M. Tran, T.H. Pham, T.N.T. Do, P.N. Le, and T.H. Dang (2020), *Implementing CPTPP as a Part of Economic Integration Roadmap in Vietnam: Requirement for Structural Reforms and Firms’ Preparedness*. Hanoi: Dan Tri Publishing House.
- European Parliament (n.d.), *Legislative Train Schedule: A Balanced and Progressive Trade Policy to Harness Globalisation. EU-Vietnam Free Trade Agreement (EVFTA)*. <https://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-eu-vietnam-fta> (accessed 16 May 2020).
- Ha, T.T.T. (2020), ‘Assessing Impacts of EU-Vietnam Free Trade Agreement on Viet Nam’s Economy in 2020–2030’, *Ministerial-level Project, Ministry of Planning and Investment of Viet Nam*. In Vietnamese.
- Nguyen, A.D., T.H. Dinh, T.N.T. Do, and T.T. Vo (2019), ‘Non-tariff Measures in Viet Nam’, in H.T.T. Doan and S. Rosenow (eds.), *Non-tariff measures in ASEAN – An Update*. Jakarta: ERIA, pp. 207–233.
- Nguyen, A.D., D.C. Nguyen, T.T. Vo, B.M. Tran, T.H. Pham, and H.L. Le (2017), *Việt Nam tham gia các hiệp định thương mại tự do mới: Một số yêu cầu cải cách thể chế thương mại và đầu tư [Impacts of New-Generation FTAs and Institutional Reforms in Vietnam]*, funded by the Australian Department for Foreign Affairs and Trade project, Restructuring for a Competitive Vietnam. In Vietnamese.

Nguyen, A.D., D. Vanzetti, R. Trewin, T.H. Dinh, T.H. Vu, and X.S. Le (2014), *Assessing the Impacts of the Regional Comprehensive Economic Partnership on Vietnam’s Economy Multilateral Trade and Investment Project*. Activity code: ICB-8.

Roland-Holst, D., F. Tarp, V.A. Dinh, T.T. Vo, L.H. Pham, and H.M. Dinh (2002), *Vietnam’s Accession to the World Trade Organization: Economic Projections to 2020*. <https://mpr.ub.uni-muenchen.de/29417/> (accessed 17 August 2018).

Truong, D.T., T.T. Vo, T.G. Bui, V.C. Phan, T.D. Le, A.D. Nguyen, and S.A. Pham (2011), *Tác động của cam kết mở cửa thị trường trong WTO và các hiệp định thương mại tự do đến hoạt động sản xuất, thương mại của Việt Nam và các cơ chế hoàn thiện cơ chế điều hành xuất nhập khẩu của Bộ Công Thương giai đoạn 2011–2015* [Impacts of Commitments on Opening the Market under WTO and other Free Trade Agreements on Vietnam’s Production and Trade Activities and Mechanism to Improve Import and Export Management Scheme of the Ministry of Industry and Trade in 2011–2015], report for Multilateral Trade Assistance Project (MUTRAP). In Vietnamese.

Vo, T.T. and A.D. Nguyen (2009), ‘Vietnam after Two Years of WTO Accession: What Lessons Can Be Learnt’, *ASEAN Economic Bulletin*, 26(1), pp. 115–135.

World Bank (2018), *Economic and Income Distribution Impacts of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership: The Case of Viet Nam*. Hanoi: World Bank. English and Vietnamese.