

# EU-Vietnam FTA: Implications for Thailand



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การเจรจาเขตการค้าเสรี สหภาพยุโรป-เวียดนาม: การถอดบทเรียนสำหรับประเทศไทย



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สหภาพยุโรปได้เริ่มเจรจาการค้าเสรีกับสมาคมประชาชาติแห่งเอเชียตะวันออกเฉียงใต้ หรือ ประชาคมอาเซียน ในปี พ.ศ. ๒๕๕๐ แต่การเจรจาดังกล่าวได้ถูกยุติลงเป็นการชั่วคราวในปี พ.ศ. ๒๕๕๒ และสหภาพยุโรปได้หันมาเจรจากับสมาชิกกลุ่มประเทศอาเซียนเป็นรายประเทศในเวลาต่อมา ประเทศไทยซึ่งเป็นประเทศที่มีการปกครองในระบอบประชาธิปไตยได้เริ่มเจรจาการค้าเสรีกับสหภาพยุโรปในปี พ.ศ. ๒๕๕๖ แต่การเจรจาครั้งนี้ได้ถูกขอยุติลงเป็นการชั่วคราวจากฝั่งสหภาพยุโรป เนื่องจากมีการทำรัฐประหารภายในประเทศไทยในปี พ.ศ. ๒๕๕๗ ในขณะที่เดียวกัน สหภาพยุโรปยังคงดำเนินการเจรจาการค้าเสรีกับสาธารณรัฐสังคมนิยมเวียดนาม แม้ว่าประเทศเวียดนามจะเป็นเพียงหนึ่งในห้าประเทศที่มีรูปแบบการปกครองในระบอบสังคมนิยม หรือ คอมมิวนิสต์ การกระทำของสหภาพยุโรปในครั้งนี้ได้สร้างข้อกังขาในวงวิชาการเกี่ยวกับค่านิยมที่สหภาพยุโรปยึดถือซึ่งขัดแย้งกับวิถีปฏิบัติ วิทยานิพนธ์ฉบับนี้มีวัตถุประสงค์ที่จะเข้าใจความคิดและค่านิยมที่สหภาพยุโรปเลือกที่จะเจรจการค้าเสรีกับประเทศเวียดนาม โดยวิเคราะห์ข้อมูลจากมุมมองทางด้านประวัติศาสตร์ ภูมิศาสตร์การเมือง และ เศรษฐกิจ ที่ครอบคลุมนโยบายการค้าและการลงทุนของสหภาพยุโรปหลังปี พ.ศ. ๒๕๕๕ และถอดบทเรียนสำหรับประเทศไทยในการเจรจาการค้าเสรีกับสหภาพยุโรปในอนาคต

ผลการศึกษาแสดงให้เห็นว่าประวัติศาสตร์ ภูมิศาสตร์การเมือง และ เศรษฐกิจ ล้วนแล้วแต่ส่งผลกระทบต่อตัดสินใจเจรจาการค้าเสรีระหว่างสหภาพยุโรปและเวียดนาม ผลการศึกษาเชิงประวัติศาสตร์ได้แสดงให้เห็นว่าประวัติศาสตร์ส่งผลต่อความสัมพันธ์ระหว่างสหภาพยุโรปและประเทศเวียดนาม โดยเฉพาะความสัมพันธ์ระหว่างเวียดนามกับประเทศฝรั่งเศส ผู้ทำหน้าที่เสมือนสะพานเชื่อมความสัมพันธ์ให้กับเวียดนามและสหภาพยุโรป และในทางกลับกันเวียดนามเปรียบเสมือนสะพานเชื่อมความสัมพันธ์ระหว่างฝรั่งเศสและสหภาพยุโรปกับประชาคมอาเซียนด้วยเช่นกัน ในเชิงภูมิศาสตร์การเมือง ตำแหน่งที่ตั้งของเวียดนามนั้นอยู่ในจุดยุทธศาสตร์ในเอเชียตะวันออกเฉียงใต้และการเมืองโลก ปัญหาข้อพิพาททะเลจีนใต้ระหว่างเวียดนามกับจีนนั้นทำให้เวียดนามเป็นจุดยุทธศาสตร์หนึ่งที่น่าสนใจสำหรับสหภาพยุโรปที่ต้องการเข้ามามีบทบาทและส่วนร่วมในการแก้ไขปัญหาข้อพิพาททะเลจีนใต้ และการเข้ามามีบทบาทในครั้งนี้ยังถือเป็นการถ่วงดุลอำนาจและอิทธิพลกับประเทศจีนในภูมิภาคเอเชียตะวันออกเฉียงใต้ได้อีกด้วย ในด้านการเมือง การที่สหภาพยุโรปได้นำหลักปฏิบัตินิยมมาใช้ในการดำเนินนโยบายระหว่างประเทศ และใช้การค้าเป็นหนึ่งในเครื่องมือในการดำเนินนโยบาย สองสิ่งนี้ก่อปรกกับความสัมพันธ์เชิงประวัติศาสตร์และภูมิศาสตร์ ได้ส่งเสริมหลักการและเหตุผลในด้านการเมืองสำหรับการเจรจาการค้าเสรีระหว่างสหภาพยุโรปและเวียดนาม ในด้านเศรษฐศาสตร์ การศึกษาเชิงเศรษฐศาสตร์แสดงให้เห็นว่าเวียดนามและไทยนั้นเป็นตัวเลือกที่ไม่แตกต่างกันมากสำหรับสหภาพยุโรป เพราะทั้งสองประเทศนี้ต่างนำเข้าและส่งออกสินค้าประเภทเดียวกันจากสหภาพยุโรปในปริมาณที่ใกล้เคียงกัน ดังนั้นการตัดสินใจในการเจรจาการค้าของสหภาพยุโรปกับประเทศคู่ค้าอย่างเวียดนามและไทยนั้นจึงเป็นการตัดสินใจที่ขึ้นอยู่กับเหตุผลทางการเมืองมากกว่าเหตุผลทางเศรษฐกิจ สำหรับการถอดบทเรียนสำหรับประเทศไทยนั้น การศึกษาในครั้งนี้ได้แสดงให้เห็นถึงความพยายามในด้านต่างๆของเวียดนามที่พยายามจะเจรจาการค้าเสรีกับสหภาพยุโรป นโยบายส่งเสริมการค้าภายในประเทศ การเมือง และความสัมพันธ์ระหว่างประเทศเป็นตัวแปรสำคัญในการเจรจาการค้าเสรีกับสหภาพยุโรป กระแสโลกที่กำลังเปลี่ยนแปลง เช่น นโยบาย Green Deal หรือ Friend Shoring ได้เพิ่มเงื่อนไขและตัวแปรในการเจรจาการค้าเสรีกับสหภาพยุโรป ซึ่งถือเป็นความท้าทายสำหรับประเทศไทย

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In 2007, the EU launched a region-to-region Free Trade Agreement (FTA) with the ASEAN; however, negotiations were suspended in 2009, and the EU subsequently decided to negotiate bilateral FTAs with individual ASEAN member states. Thailand, a parliamentary democratic country, launched the first round of trade negotiations with the EU in 2013, but they were put on hold due to the military coup in 2014. On the other hand, the EU still continued to negotiate and ultimately concluded the FTA with Vietnam in 2020 despite the fact that Vietnam is one of the world's five remaining communist states. This has raised skepticism among academics and cast doubt on the EU's values and its pragmatism. This study aims to find the reason why the EU preferred to negotiate an FTA with Vietnam. The study analyzes the data from historical, geopolitical, and economic perspectives, covering EU's trade and investment policy after 2012 and assess their implications for Thailand in any future FTA negotiation with the EU.

The findings of the study offer insight into how historical, geopolitical, and economic factors have all influenced the EU's decision-making processes in negotiating the FTA with Vietnam. From the historical standpoint, history shapes the relationship between EU and Vietnam, in particular the relations between Vietnam and France which acts as the bridge between Vietnam and the EU and vice versa. This also applies to ASEAN as a whole. From geopolitical standpoint, Vietnam's strategic location in the Southeast Asia and the engagement with Vietnam is an interesting policy option for the EU that wants to play a more proactive role in the region. This engagement would allow the EU to project its influence in the Southeast Asia region and balance against growing Chinese power. From political standpoint, the EU's adoption of "Principled Pragmatism" as a new guiding principle for its foreign policy and using trade as one of its foreign policy tools, coupled with historical and geopolitical contexts, have underpinned EU's efforts to conclude trade negotiations with Vietnam. As far as economy is concerned, the study reveals that Vietnam and Thailand share similar attributes to a certain extent as both countries mostly import and export the same type of products to the EU with only some slight differences. It can thus be concluded that the EU's decision to conclude trade negotiations with trading partners such as Vietnam and Thailand are largely attributed to political reasons as opposed to economic interests. In assessing the implications for Thailand, the study indicates Vietnam's efforts in negotiating FTA with the EU in various areas. Internal trade promotion policies, politics and international relations play an important role in determining trade negotiations with the EU. Rapidly changing global trends such as Green Deal and Friend-Shoring have amplified the complexity of conditions and factors that determine the pace of FTA negotiations with the EU, which could present a challenge for Thailand.

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# Chapter I

## Introduction

### 1.1. Statement of Problem

In an anarchical society where all states are sovereign, independent and have no authority over one another, wars are inevitable. States seek security by increasing their power in every aspect such as military capabilities, collecting weapons, etc. in order to make sure that they are strong enough to survive. Nowadays, Hard Power, like military and weapons, is not enough; Soft Power, like economics and norms, plays an important role in the international arena. The powerful ones are usually the rich.

The European Union (EU), Nobel Peace Prize winner, who is famous for its soft power through norms especially in Human Rights and Democracy which are rooted in their constitutional traditions. The EU has utilized these values as economic diplomacy in its trade negotiations by giving third countries preferential access to the EU market conditional on respect for those norms for example in the case of EU's FTA negotiations with Colombia and Peru, the European Parliament requires the improvement of human rights and labour standard by asking the two countries to present their plans to improve their standard and their commitment with the European External Action Service (EEAS) on an annual human rights dialogue.<sup>1</sup>

However, "principled pragmatism" was introduced in the 2016 Global Strategy as a new guiding principle for EU's foreign and security policy. It asserts that the EU's "interests and values go hand in hand. We have an interest in promoting our values in the world. At the same time, our fundamental values are embedded in our interests."

A decade earlier, in 2007, the EU launched a Free Trade Agreement (FTA) with ASEAN; however, negotiations were paused in 2009, and the EU subsequently

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<sup>1</sup> Lachlan Mckenzie and Katharina L Meissner, "Human rights conditionality in European Union trade negotiations: The case of the EU–Singapore FTA," *JCMS: Journal of Common Market Studies* 55, no. 4 (2017); Mckenzie and Meissner, "Human rights conditionality in European Union trade negotiations: The case of the EU–Singapore FTA."

decided to negotiate FTAs with the ASEAN countries individually. The fact that Vietnam is a non-democratic (communist) country did not stop EU from negotiating EU-Vietnam FTA. In fact, the negotiation process was undertaken quite rapidly. The FTA negotiation was initiated in 2012, concluded in August 2015, and entered into force in August 2020.

However, Thailand, a country with higher ranking of democratic index in comparison to Vietnam in the democracy index rating (2008 - 2020) by the Economist Intelligence Unit (EIU), first began trade negotiations with the EU in 2013 but these were put on hold due to the military takeover in 2014. Vietnam, on the other hand, is one of the five remaining communist states in the World. Nonetheless, the EU has continued to proceed to negotiate FTA with Vietnam. This raises concerns among the academics on the EU values and its pragmatism. How can we explain the EU's apparently contradictory tendencies? This may raise the concern that in free trade negotiations, under what conditions will the EU loosen the core values it claims to uphold and what are the key factors - on the EU side and on the Vietnam side - that led the bloc to compromise on its values.

This concern is significant: how much will the EU compromise its pursuit of values in order to achieve other kinds of gains (either geopolitical or economic for example) and extend the rationale of principled pragmatism. What's more, the findings can also offer valuable lessons to other countries whose FTA negotiations with the EU are ongoing or also been put on hold.

So far, there has been no literature comparing the FTA negotiations between the EU and these two countries, nor any that compares the EU's negotiation with a democratic country and a non-democratic one. This paper will fill the gap. Therefore, this topic is worthy of studying and will centre around the following research questions.

## 1.2. Research Questions

- Why did the EU prefer to negotiate an FTA with Vietnam from historical, geopolitical, and economic perspectives?
  - What are the trade and political advantages and disadvantages of Vietnam in comparison to Thailand?
  - What explains the EU's pragmatism over its own values in the EU-Vietnam FTA?
  - What can Thailand learn from the EU-Vietnam FTA?

## 1.3. Research Objectives

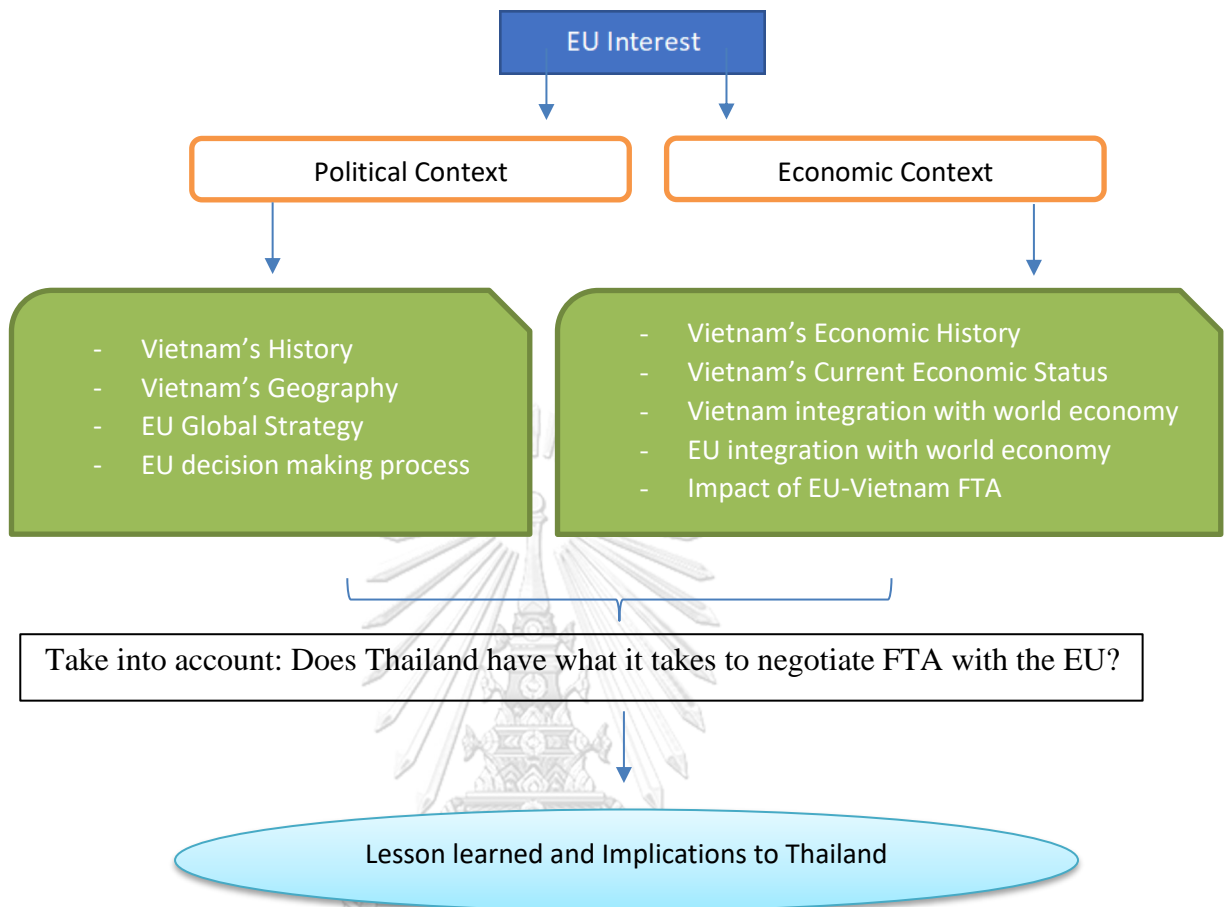
- To understand the EU decision to negotiate an FTA with Vietnam rather than Thailand
  - To find trade and political advantages and disadvantages of Vietnam in comparison to Thailand
  - To find the justifications for EU pragmatism in the EU-Vietnam FTA
  - To find lessons that Thailand can learn from the EU-Vietnam FTA process.

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## 1.4. Scope

- This study will analyse the data from geopolitical, history and economic standpoint which included the EU trade and investment policy after 2012.
- The timeline of the study will start from 2007 when the EU first launched the negotiation with ASEAN up to the EU-Vietnam FTA implementation in 2020.

### 1.5. Conceptual Framework



### 1.6. Research Methodology

- The data collection will be based upon the primary source such as the EU position paper, EU trade policy, EU global strategy and secondary source of data through paper-based research from several types of information such as journals, articles, or research from international organisations and think tank.
- Case studies. The choice of the Vietnam and Thailand as case studies permits a comparative approach to be undertaken.

## **Chapter II**

### **Literature Review**

#### **2.1 The EU Goals and Values**

The European Union is well known for its values and been promoting its goals in the international arena through public diplomacy, trade, and many other avenues. In 2012, the Nobel Peace Prize was awarded to the EU for promoting peace, democracy, human rights and unity in Europe.<sup>2</sup> These goals and values are based on and written down in the Lisbon Treaty and the EU Charter of fundamental rights.<sup>3</sup> The main goals of the European Union are to “promote peace, its values and the well-being of its citizens ...”.<sup>4</sup> The EU values are common to the European way of life where Human Rights, Democracy, Equality, Human Dignity, Freedom, and Rule of Law are adhered.<sup>5</sup> However, these EU goals and values have been criticized by many scholars for their inconsistency and the misuse of its normative power in trade.<sup>6</sup>

#### **2.2 The Influence of Normative Power Europe in Trade**

As the EU has tried to promote its norms for decade; they have become widely recognised and influential and used and adapted worldwide. EU trade agreements have been used to promote its norms and standards not only with third countries but also within its member countries as well. Its success can be seen through examples such as the General Data Protection Regulation (GDPR), and the Markets in Financial Instruments Directive (MiFID).<sup>7</sup>

As the EU has set such a high standard of norms in general, as well as specifically trading norms, the expectations of consumers are raised as they have

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<sup>2</sup> European Commission, "EU-Vietnam Trade And Investment Agreement: Factsheets," news release, 2018, [https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc\\_157444.pdf](https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157444.pdf).

<sup>3</sup> Commission, "EU-Vietnam Trade And Investment Agreement: Factsheets."

<sup>4</sup> Commission, "EU-Vietnam Trade And Investment Agreement: Factsheets."

<sup>5</sup> Commission, "EU-Vietnam Trade And Investment Agreement: Factsheets."

<sup>6</sup> Commission, "EU-Vietnam Trade And Investment Agreement: Factsheets."

<sup>7</sup> "Europe In The World: From Soft Power To Rule-Maker – Teneo," Teneo, 2019, accessed 18 August, 2020, <https://www.teneo.com/europe-in-the-world-from-soft-power-to-rule-maker/>.

variety of choices and increases in the standard of international goods and services, and global norms.<sup>8</sup> This is “the reason why international companies should pay attention to the EU’s regulatory drive and its enforcement in international trade”.<sup>9</sup> Under the age of globalisation where news spreads easily, EU regulations are likely to increase the expectations of the consumers.<sup>10</sup>

According to Sicurelli, Arlo Poletti Daniela (2018), political-economy scholars think that EU trade policy influence EU preferences, and influence of organised social groups. They point out that the domestic political action of EU trading countries is triggered by the trade policy of the EU.<sup>11</sup> However, the EU chooses to use different norms and values as a condition to trade with different countries. Therefore, we could say that EU prioritises normative power in trade only when the trade “is compatible with the demands within its domestic group”.<sup>12</sup>

However, there are criticisms that the EU uses Normative Power to spread its norms across the world without considering differences in the norms of others.<sup>13</sup> So, “the EU responded to the new trade politics by advocating a ‘deep’ trade agenda: seeking multilateral agreements on the making of domestic rules.”<sup>14</sup>

From a different theoretical point of view, critical scholars suggest that the EU foreign policies should be inspired by its norms, Langan (2012) argue that the normative discourse of the EU helps to legitimize its geopolitical interest and commercial benefits.<sup>15</sup>

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<sup>8</sup> Nielsen, "Europe In The World: From Soft Power To Rule-Maker – Teneo."

<sup>9</sup> Nielsen, "Europe In The World: From Soft Power To Rule-Maker – Teneo."

<sup>10</sup> Nielsen, "Europe In The World: From Soft Power To Rule-Maker – Teneo."

<sup>11</sup> Arlo Poletti and Daniela Sicurelli, *The political economy of normative trade power Europe* (Springer, 2018).

<sup>12</sup> Kennet Lynggaard, Karl Löfgren, and Ian Manners, "Crossroads in European Union Studies," in *Research methods in European Union studies* (Springer, 2015).

<sup>13</sup> Médéric Martin-Mazé, "Unpacking interests in normative power Europe," *JCMS: Journal of Common Market Studies* 53, no. 6 (2015).

<sup>14</sup> Alasdair R Young and John Peterson, "The EU and the new trade politics," *Journal of European Public Policy* 13, no. 6 (2006).

<sup>15</sup> Mark Langan, "Normative power Europe and the moral economy of Africa—EU ties: a conceptual reorientation of ‘normative power’," *New Political Economy* 17, no. 3 (2012).



### 2.3 Market Power Europe

According to Damro (2012), the EU can be perceived as Market Power Europe (MPE). The conceptualization of the EU as market power Europe represents the understanding that the EU has a large impact on the international system through the externalization of its internal market-related policies and regulatory measures.<sup>16</sup> Externalization occurs for MPE when EU institutions and actors try to get other actors to commit to a degree of regulation equal to that in practice in the European single market or to behave in a way that is usually fulfilled by the EU.<sup>17</sup> The EU 2006 strategy, Global Europe, asserted the fact that the EU may be using the Market Power Europe in prioritizing a new generation of Free Trade Agreements (FTAs) based on the market capacity acknowledged by agreements must be extensive and allow for significant liberalization of all trade and beyond the WTO rules.<sup>18</sup>

### 2.4 Vietnam as a Unique Case

Aside from the fact that Vietnam is the only communist state that the EU has concluded the FTA with, according to the research on Norm Diffusion through trade: the case of EU-Vietnam Free Trade Agreement, the study shows that there has been an attempt of the EU to externalise its norms into trade agreement with Vietnam. The EU decided to use the trade opportunity to comply with the provisions of the normative values found in the first attempt of the EU-Vietnam trade negotiation (Agreement on Comprehensive Partnership and Cooperation) which aimed to include human rights, sustainability, and cooperation in anti-corruption.<sup>19</sup> However, Vietnam did not agree on some topic that concerns the national sovereignty such as the issue of government procurement and human rights.<sup>20</sup>

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<sup>16</sup> Chad Damro, "Market power Europe: exploring a dynamic conceptual framework," *Journal of European Public Policy* 22, no. 9 (2015).

<sup>17</sup> Ibid.,

<sup>18</sup> Global Europe, "A stronger partnership to deliver market access for European exporters," *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions*, Brussels 18 (2007).

<sup>19</sup> Hoang Hai Ha, "Norm Diffusion through Trade: The Case of the EU—Vietnam Free Trade Agreement," *Vietnam's Foreign Policy Under Doi Moi* (2018).

<sup>20</sup> Ha, "Norm Diffusion through Trade: The Case of the EU—Vietnam Free Trade Agreement."

Although in the preamble of the FTA of the two parties has mentioned the commitment on human rights, however, according to the international law, the preamble of the treaties is not legally binding.<sup>21</sup> On the other hand, when it comes to the issues regarding sustainable development and environment protection, Vietnam does not hesitate to comply with the EU norms on this topic.

The reason that Vietnam is an interesting case study is because, in many cases, there are empirical evidence that the EU has been using its norms as a condition to trade with many countries such as the case of EU's FTA negotiations with Colombia, Peru, and Singapore<sup>22</sup>. However, there are less evidence that the EU is using the same condition with Vietnam, and the fact that Vietnam is a communist state with a socialist-oriented market where state plays a major role, did not stop the EU, the democratic and free market believer, from negotiating and concluding the FTA with Vietnam.

## 2.5 EU-ASEAN Political Relations

In 1967, the Association of Southeast Asia Nations (ASEAN) was first established to consolidate the Southeast Asian nations as a bulwark against the expansion of communism in the region.<sup>23</sup> The relations between the EU and ASEAN began six years later when the association started cooperation with the European Community (EC) to engage in regional politics, and to enable the economic cooperation between its members, enhancing political and economic engagement.<sup>24</sup>

Over the past 10 years, the number of visits by top-level EU officials to ASEAN and its Member States have been increasing. The EU's accession to ASEAN's Treaty of Amity and Cooperation was signed and the EU is an active

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<sup>21</sup> Ha, "Norm Diffusion through Trade: The Case of the EU–Vietnam Free Trade Agreement."

<sup>22</sup> McKenzie and Meissner, "Human rights conditionality in European Union trade negotiations: The case of the EU–Singapore FTA."

<sup>23</sup> Nicole Alecu de Flers, "EU-ASEAN Relations: The Importance of Values, Norms and Culture. EU Centre, Singapore Working Paper No. 1, June 2010," (2010).

<sup>24</sup> Jürgen Rüländ, "ASEAN and the European Union: A Bumpy Interregional Relationship. ZEI Discussion Papers: 2001, C 95," (2001).

member of the ASEAN Regional Forum (ARF).<sup>25</sup> The EU supports the ASEAN Socio-Cultural Community, which is a relatively new yet increasing area of cooperation between the EU and ASEAN involving increasing the number of exchange students and scholars between the two regions.<sup>26</sup> The EU has promoted the EU-ASEAN Migration and Border Management Programme in the ASEAN political and security community to strengthen border management for fast and easy border-crossing for people and goods, while at the same time maintaining better control of transnational crime, illicit migration and trafficking of human beings.<sup>27</sup>

## 2.6 EU-ASEAN Trade Relations

ASEAN is the third largest trading partner of the EU, after China and United States, while the EU is ASEAN's second largest trading partner, accounted for 14% of ASEAN trade.<sup>28</sup> The European Union attempted to establish a trade relationship with ASEAN in 2007, however, the negotiation was suspended in 2009 by mutual agreement, and the EU then started negotiations individually with each ASEAN member.<sup>29</sup> The bilateral trade negotiations started with Singapore and Malaysia in 2010, followed by Vietnam in 2012, Thailand in 2013, the Philippines in 2015, and Indonesia in 2016.<sup>30</sup>

So far, the only two successful negotiations that have been concluded are with Singapore and Vietnam, while other negotiations have been put on hold.<sup>31</sup> The bilateral negotiations between the EU and ASEAN members have implications for the

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<sup>25</sup> Jakarta EU Delegation, "EU-ASEAN: Natural Partners," news release, 2013, [https://eeas.europa.eu/archives/docs/asean/docs/eu\\_asean\\_natural\\_partners\\_en.pdf](https://eeas.europa.eu/archives/docs/asean/docs/eu_asean_natural_partners_en.pdf); EU Delegation, "EU-ASEAN: Natural Partners."

<sup>26</sup> EU Delegation, "EU-ASEAN: Natural Partners."

<sup>27</sup> EU Delegation, "EU-ASEAN: Natural Partners."

<sup>28</sup> "East Asia/Southeast Asia: Vietnam — The World Factbook", Central Intelligence Agency, 2020, accessed 11 July, 2020, <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>.

<sup>29</sup> European Commission, "Overview of FTA and Other Trade Negotiations," news release, 2006, [https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf).

<sup>30</sup> Commission, "Overview of FTA and Other Trade Negotiations."

<sup>31</sup> Commission, "Overview of FTA and Other Trade Negotiations."

increased engagement between the EU and Southeast Asian countries where the EU's ultimate aim is to establish a building block of an EU-ASEAN agreement.<sup>32</sup>

## **2.7 Vietnam as an Interesting Choice for the EU**

### **2.7.1 EU-Vietnam Political Relations**

Vietnam had been previously colonized by France. However, the diplomatic relationship between Vietnam and the EU only started in 1990 and has flourished ever since covering political, global, trade, and development issues.<sup>33</sup> On the question of security, the signing of a Framework Participation Agreement (FPA) between Vietnam and the EU is indicative of the effort to establish bilateral Security and Defence Cooperation.<sup>34</sup> It helps promote Vietnam's contribution to the EU's Common Security and Defence policy (CSDP) operations.<sup>35</sup>

### **2.7.2 Vietnam Geography**

Vietnam or 'the Socialist Republic of Vietnam' is a communist country, located in Southeast Asia, bordering the Gulf of Tonkin, Gulf of Thailand and South China Sea.<sup>36</sup> Its land border is connected to Cambodia, China and Laos and Vietnam is one of ASEAN's 10 member countries. Its population is estimated to be around 98.7 million, ranked 16<sup>th</sup> most populated country in the world and the 3<sup>rd</sup> largest population in ASEAN after Indonesia and the Philippines.<sup>37</sup>

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<sup>32</sup> "Association Of South East Asian Nations (ASEAN) - Trade - European Commission," European Commission, 2020, accessed 20 August, 2021, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam/#:~:text=The%20European%20Union%20and%20Vietnam,Council%20on%2030%20March%202020>.

<sup>33</sup> "Vietnam And The EU," European Commission, 2020, accessed 21 August, 2021, [https://eeas.europa.eu/delegations/vietnam/1897/vietnam-and-eu\\_en](https://eeas.europa.eu/delegations/vietnam/1897/vietnam-and-eu_en).[https://eeas.europa.eu/delegations/vietnam/1897/vietnam-and-eu\\_en](https://eeas.europa.eu/delegations/vietnam/1897/vietnam-and-eu_en).

<sup>34</sup> Service, "Vietnam And The EU."

<sup>35</sup> Service, "Vietnam And The EU."

<sup>36</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>37</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".



**Figure 1 : Southeast Asia Map**

Source : <https://www.pinterest.com/pin/550002173218538973/>

In the South China Sea dispute, Vietnam claims the Paracel Islands and the Spratly Islands causing disputes between China, Taiwan, Malaysia, the Philippines, and Brunei who also claim the Paracel Islands and the Spratly Islands.<sup>38</sup>

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<sup>38</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".



Figure 2: South China Sea disputed area

Source : [https://commons.wikimedia.org/wiki/File:9\\_dotted\\_line.png](https://commons.wikimedia.org/wiki/File:9_dotted_line.png)

### 2.7.3 EU-Vietnam Trade Relations

With regard to Vietnam's competence in trade, Vietnam seemed to be content with the trade preferences with the EU under the Generalized Scheme of Preferences.<sup>39</sup> As Vietnam is the EU's 17<sup>th</sup> trading partner and the EU's second largest trading partner in ASEAN, the proportion of exports from the EU to Vietnam keeps soaring.<sup>40</sup> The exported products mostly include high tech products: electrical machinery and equipment, aircraft, vehicles, and pharmaceutical products, while the

<sup>39</sup> Service, "Vietnam And The EU."

<sup>40</sup> Service, "Vietnam And The EU."

main exported products from Vietnam to the EU are telephone sets, electronic products, footwear, textiles and clothing, coffee, rice, seafood, and furniture.<sup>41</sup>

Currently, one of the largest foreign investors in Vietnam is the EU whose main sector of investment revolves around industrial processing and manufacturing.<sup>42</sup> Vietnam and the EU further strengthened their trading relationship through signing a Trade Agreement and an Investment Protection Agreement on 30 June 2019.<sup>43</sup> Subsequently, both agreements were given consent by the European Parliament on 12 February 2020.<sup>44</sup> The Council also concluded the Free Trade Agreement on 30 March 2020 and the EU-Vietnam FTA entered into force as of 1 August 2020.<sup>45</sup>

#### 2.7.4 Vietnam's Economic Structure

Vietnam has high rate of middle-aged population: 25-45 years cohort stands at 45.7%, and the country's 54.8 million labour forced is ranked 11<sup>th</sup> in the world.<sup>46</sup> Vietnam has a stable political system and currency, low inflation rate, high FDI inflows, and a noteworthy manufacturing sector.<sup>47</sup> Vietnam has a remarkable record of economic development over the past 30 years in which the Đổi Mới Policy played a major role in economic and political reform since 1986.<sup>48</sup> The Đổi Mới policy has resulted in Vietnam's rapid economic growth, altering Vietnam's status as one of the poorest nations into a lower middle-income country.<sup>49</sup> Its GDP per capita between 2002 and 2018 had increased by 2.7 times.<sup>50</sup>

Vietnam is integrating into the global economy: it joined the WTO in 2007 and has joined 14 FTAs including the Comprehensive and Progressive Agreement for

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<sup>41</sup> Service, "Vietnam And The EU."

<sup>42</sup> Service, "Vietnam And The EU."

<sup>43</sup> Service, "Vietnam And The EU."

<sup>44</sup> Service, "Vietnam And The EU."

<sup>45</sup> Service, "Vietnam And The EU."

<sup>46</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook".

<sup>47</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook".

<sup>48</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook".

<sup>49</sup> "Overview," World Bank, 2020, accessed 23 August, 2020,

<https://www.worldbank.org/en/country/vietnam/overview>.

<sup>50</sup> Bank, "Overview."

Trans-Pacific Partnership (CPTPP).<sup>51</sup> To continue its strong economic growth, Vietnam's government is committed to the 'second wave' of reforms such as the reform of state-owned-enterprises, as well as increased business and financial sector transparency.<sup>52</sup>

### **2.7.5 Vietnam FTA partners versus Thailand**

In comparison to Thailand, Vietnam has fewer Free Trade Agreements: Thailand has 39, whereas Vietnam has 27 (both entered into force and under negotiation).<sup>53</sup> However, both countries have 22 FTAs that are with the same negotiating partner. Thailand's FTA partners that Vietnam does not have are Thailand-US FTA, India-Thailand FTA, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA, Thailand-MERCOSUR FTA, Australia-Thailand FTA, etc. While Vietnam FTA partners are fewer, the most significant FTA that Vietnam has signed and is in effect is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.<sup>54</sup>

### **2.7.6 The EU's expected benefit from EU-Vietnam FTA**

The EU has published a document on the main benefits to be derived from the EU-Vietnam FTA. Once the agreement is enforced there will be opportunities for the EU and Vietnam to increase trade and support employment and growth.<sup>55</sup> The benefits of the agreement are stated as follows.

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<sup>51</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>52</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>53</sup> Asia Regional Integration Center, "By Country/Economy - Free Trade Agreements," (Asia Regional Integration Center, 2020). <https://aric.adb.org/fta-country>.

<sup>54</sup> Center, "By Country/Economy - Free Trade Agreements."

<sup>55</sup> European Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets," news release, 2018, [https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc\\_157444.pdf](https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157444.pdf).



i. Removing Tariffs

Many of Vietnam's products enjoy trade preferences under the General Scheme of Preferences (GSP) offered by the EU.<sup>56</sup> The agreement allows Vietnam to maintain free access to the EU market although Vietnam may lose the qualification for receiving the GSP in the future.<sup>57</sup> Moreover, the tariff elimination will be done gradually for other remaining products.<sup>58</sup>

At the same time, the EU will also enjoy the 99% elimination of all tariffs on exports to Vietnam such as machinery and appliances, pharmaceuticals, cars, dairy, wine, chocolates and the duty will be zero-rated once the agreement is fully enforced.<sup>59</sup> However, the agreement considered the sensitive situation of some agricultural products of the EU such as rice, sweet corn, sugar, etc.<sup>60</sup> and allows the EU to limit the access of Vietnamese products to the EU market by using the tariff rate quota.<sup>61</sup>

ii. Reducing non-tariff barriers

Vietnam will increase the use of global standards in its regulations and has agreed to rules on animal and plant health.<sup>62</sup> Vietnam will recognize the EU car standards certificates and agricultural products of "Made in EU" origin.<sup>63</sup>

iii. Protecting Geographical Indications

Once the agreement is enforced, 169 traditional European products will be protected against imitation in the Vietnamese Market.<sup>64</sup> At the same time, Vietnamese products such as tea and coffee will also be protected in the EU.<sup>65</sup>

<sup>56</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>57</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>58</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>59</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>60</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>61</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>62</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>63</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>64</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>65</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

iv. Public procurement

The EU companies will be able to access Vietnam's public procurement more easily, including infrastructure projects in Vietnam, while the agreement allows each side to decide on how public services should be organized.<sup>66</sup>

v. Leveling the playing field for EU companies in Vietnam

The agreement tries to discipline the State-Owned Enterprises and state subsidies to protect the local companies from unfair treatment.<sup>67</sup> Also, the EU innovations, artworks, and brands will be protected from unlawful imitation.<sup>68</sup>

vi. Granting access for EU service providers

The EU service providers will be able to access Vietnamese services market more preferentially than any other Vietnam trading partner.<sup>69</sup> Access for the EU companies in the services sectors include postal and courier services, environmental services, banking and insurance, and maritime transport.<sup>70</sup>

vii. Promoting and protecting EU investments in manufacturing in Vietnam

Vietnam agreed to allow EU investment in key manufacturing sectors including food and beverage products, tubes and tyres, ceramics and construction materials.<sup>71</sup>

viii. Making rules effective and enforceable

The agreement sets up a formal state to state dispute settlement mechanism which is believed to be more efficient and time saving than the WTO dispute settlement mechanism.<sup>72</sup>

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<sup>66</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>67</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>68</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>69</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>70</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

<sup>71</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

### 2.7.7 Conclusion

The EU and ASEAN have had a long-standing friendship both politically and economically. Vietnam is a positive example for the EU to start a bilateral free trade agreement since Vietnam and the EU have had a good relations and Vietnam's economy is interesting for the EU, including its FTAs partners, and the geopolitics in ASEAN and South China Sea. However, since Vietnam is a communist country and stands in contradiction with the EU's norms, the Normative Power Europe and Market Power Europe are tested as explanations to analyse the EU's signing of an FTA with Vietnam while simultaneously suspending FTA negotiations with Thailand because of the 2014 coup d'état.



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<sup>72</sup> Commission, "EU-Vietnam Trade and Investment Agreement: Factsheets."

## Chapter III

### Historical, Geographical, and Political Context

This chapter will be divided into five main parts, the first part will be discussing the historical context between the European countries and Vietnam since the sixteenth century to present, followed by the geographical context of Vietnam, the EU strategy, the EU decision making process in negotiating FTA, and lastly, Conclusion.

#### 3.1 Historical Relations between the European Union and Vietnam

It is undeniable that history plays a role in many aspects of life when history is part of the person who we have become today, it reflects our thought, our action, and relations to our surroundings. This is also applicable to international relations when it comes to state behaviour. In this historical context, this chapter will analyse the historical relations between the European Union and Vietnam starting from the Arrival of European Imperialism in Vietnam, when the European countries started their journey, followed by Vietnam under the colonization, the decline of European power in Vietnam between 1954 to 1990, EU relations with Vietnam between 1990 to 2005, and EU relations with Vietnam from 2006 to the present.

##### 3.1.1. The Arrival of European Imperialism in Vietnam

The concept of “God, Glory, and Gold” inspired European imperialism to explore the world, and the Portuguese were the first Europeans that arrived in Vietnam in the 16<sup>th</sup> century<sup>73</sup>. Portugal’s major relations with Vietnam was trading; they dominated the trade with Vietnam as effectively as they dominated the Asian water, it was truly the century of Portugal’s maritime greatness.<sup>74</sup> However, Portugal’s domination was challenged by England and Holland when both countries reached Vietnam and established their industries in the beginning of the 17<sup>th</sup> century, followed by France in the late 17<sup>th</sup> century.<sup>75</sup>

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<sup>73</sup> Joseph Buttinger, *The smaller dragon: A political history of Vietnam* (Praeger, 1958).

<sup>74</sup> Buttinger, *The smaller dragon: A political history of Vietnam*.

<sup>75</sup> Buttinger, *The smaller dragon: A political history of Vietnam*.

Combined with over two centuries of France's entrepreneurs and missionaries, the dissemination of French influence in Vietnam was facilitated by the decline of Qing dynasty.<sup>76</sup> The arrival of missionaries had evangelized Catholic Christianity in Vietnam and some other aspects of French culture influenced many aspects of Vietnam such as the Vietnamese language, which was transcribed into Roman script by the French missionary, Alexandre de Rhodes.<sup>77</sup> The arrival of missionaries came along with French entrepreneurs who took part in helping Nguyen Anh who fought a successful 12-year war to unify Vietnam in 1802.<sup>78</sup>

The relations between Vietnam and the European Imperialism are long-standing. Since the 16<sup>th</sup> century many countries established trade relations with Vietnam along with other aspects such as religion and scientific knowledge especially from French missionaries who played a major role in advising Vietnam's emperor.

### 3.1.2. Vietnam under France colonization

For almost 20 years, the French advisors had been assisting the founder of the Nguyen empire, however, the later emperor, Ming Manh, did not appreciate the foreign influences nor the growing Catholic population in Vietnam as he was more sympathetic to Chinese Confucian.<sup>79</sup> Consequently, he expelled missionaries and persecuted Christians in Vietnam.<sup>80</sup>

The missionary's expulsion and Christian persecution in Vietnam was not appreciated by France. In 1858, France decided to invade Vietnam<sup>81</sup> under the justification of the French principle called "mission civilisatrice"<sup>82</sup> (civilizing mission)<sup>83</sup> which aimed to civilize the life of native peoples. The French invasion and

<sup>76</sup> R. Wong, *The Europeanization of French Foreign Policy*, XVI (Palgrave Macmillan UK, 2006), <https://doi.org/10.1057/9780230555013>; Reuben Wong, *The Europeanization of French foreign policy: France and the EU in East Asia* (Springer, 2005).

<sup>77</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>78</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>79</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>80</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>81</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>82</sup> Mathew Burrows, "'Mission civilisatrice': French cultural policy in the Middle East, 1860–1914," *The Historical Journal* 29, no. 1 (1986).

<sup>83</sup> "French colonisation in Vietnam," Alpha History, updated January 7, 2019, 2019, accessed July 21, 2021, <https://alphahistory.com/vietnamwar/french-colonisation-in-vietnam/>.

the French colonial rules struggled at first as a rebellious group of Vietnamese tried to fight back and compounded by the interruption of Japan's invasion during World War II.<sup>84</sup>

The conquest of Vietnam was finally completed by 1885 and it became part of French Indochina in 1887<sup>85</sup>, the colonization lasted over six decades from 1887 to 1954<sup>86</sup> before French rule was defeated by the communist forces.<sup>87</sup> Although, the relations between France and Vietnam did not end well and Vietnam is now independent from French colonization, France's influence in Vietnam did not fade away, many elements of French influence have been integrated into Vietnam's culture such as the Roman script in Vietnamese language, architecture, and food.<sup>88</sup>

### 3.1.3. Decline of European power in Vietnam (1954-1990)

As mentioned, Vietnam had been influenced by France in many ways through colonization. However, according to Infante-Amate and Krausmann in "Trade, Ecologically Unequal Exchange, and Colonial Legacy: The Case of France and its Former Colonies (1962-2015)", even after decolonization, colonial relationships had a profound influence on Ecologically Unequal Exchange relations. The legacy of the former colonial authority would fade over time especially with the emergence of new power relations that became more significant than the colonial relations.<sup>89</sup> In this case, the legacy of France in Vietnam has been replaced with the communist party.

Even though in the beginning of the 16<sup>th</sup> century, many European countries had established relationships with Vietnam, after the Cold War period the relationship between Vietnam and European countries faded as many European countries were

<sup>84</sup> Jennifer Llewellyn, "French colonisation in Vietnam."

<sup>84</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>85</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>86</sup> Savitri Aditiany, "The influence of French colonialism on Vietnam's culture," 14 (2016); Aditiany, "The influence of French colonialism on Vietnam's culture."

<sup>87</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>88</sup> Aditiany, "The influence of French colonialism on Vietnam's culture."

<sup>89</sup> Juan Infante-Amate and Fridolin Krausmann, "Trade, ecologically unequal exchange and colonial legacy: the case of France and its former colonies (1962–2015)," *Ecological economics* 156 (2019).

supportive of the US action in the Vietnam War.<sup>90</sup> There was no official connection between Vietnam and any European country after the victory of the communist party in Vietnam until 1990. Guyomarch, Machin and Ritchie, n.d. have also pointed out that the trading relations between France and Vietnam (French Indochina) had been replaced by the US as a major trading partner after the Dien Bien Phu battle, and the economic ties between France and Vietnam were almost completely cut after the communist party took-over.<sup>91</sup>

Thus, the legacy of France in Vietnam has declined and came close to zero after the communists in Vietnam won and declared independence. However, according to Reuben Y. Wong in “The Europeanization of French Foreign Policy”, France had been trying to maintain a good relationship with Hanoi as its key influence in Indochina after 1954 by using a pragmatic policy towards Vietnam.<sup>92</sup> France tried to establish a special relationship with Vietnam during the Vietnam’s post-1945 isolation, and de Gaulle in 1966 made it clear in his speech in Phnom Penh that he did not agree with the US military escalation in Vietnam.<sup>93</sup> The special relationship between the two parties has been mutually recognized by their people, France acted as a bridge between Vietnam and the international community and the western world.<sup>94</sup>

### **3.1.4. The EU relations with Vietnam (1990-2005)**

Since the Doi Moi Policy (Policy Reform) launched in 1986, Vietnam’s new foreign policy had created opportunities for Vietnam in economic development and the country started to engage more with the world.<sup>95</sup> On the other hand, in the same year when Doi Moi Policy was launched, the European Community (EC) adopted the Single European Act which was intended to improve the EC’s economic and political

<sup>90</sup> Hang Thi Thuy Nguyen and Bruno Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017," *Australian and New Zealand Journal of European Studies* 9, no. 2 (2021).

<sup>91</sup> Alain Guyomarch, Howard Machin, and Ella Ritchie, *France in the European Union* (Springer, 1998).

<sup>92</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>93</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>94</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>95</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

integration.<sup>96</sup> The Single European Act aimed to increase transparency in the EC by allowing the Parliament to propose new laws and having the right to veto new member state admission.<sup>97</sup> Importantly, the Single European Act has included the provision on European co-operation in foreign policy and implementation of joint action.<sup>98</sup>

In the 1990s, Vietnam sought to establish a constructive relationship with various countries and the EC was actively looking for new partners in Southeast Asia, thus both countries were looking forward to trade and investment opportunities seeing each other as great potential partners for common achievements.<sup>99</sup> Both began diplomatic relations on October 22, 1990.<sup>100</sup>

The European Community and Vietnam relationship began with a humanitarian dimension regarding the problem of Vietnamese boat people (refugees who fled Vietnam by boat) which the European Commission considered to be a humanitarian and development problem. EU-Vietnam bilateral cooperation was launched in 1990 with 45 million € to assist Vietnamese refugees to reintegrate and resettle in Vietnam.<sup>101</sup> The programme was quite successful as more than 30,000 refugees repatriated voluntarily, also the programme provided the repatriates with a professional training to assist their employment or to establish small business.<sup>102</sup> Due to this programme, Vietnam's asylum seekers and poverty level have been greatly reduced.<sup>103</sup>

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<sup>96</sup> "Single European Act," European Parliament, 2021, accessed 19 June, 2021, <https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/single-european-act>.

<sup>97</sup> Parliament, "Single European Act."

<sup>98</sup> European Communities, "Single European Act," in *OJ L 169*, ed. European Communities (Brussels: European Communities, 1987). <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:11986U/TXT&from=EN>.

<sup>99</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>100</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>101</sup> "EU Projects with Vietnam," Delegation of the European Union to Vietnam, updated 27 July 2021, 2016, accessed 10 October, 2017, [https://www.eeas.europa.eu/vietnam/european-union-and-vietnam\\_en?s=184](https://www.eeas.europa.eu/vietnam/european-union-and-vietnam_en?s=184).

<sup>102</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>103</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."



The humanitarian programme in Vietnam was a milestone for the EC-Vietnam relations, the first meeting of the joint commission in 1996 led to signing of a Framework Cooperation Agreement which broadened their relations beyond the humanitarian dimension.<sup>104</sup> The agreement included economic cooperation and environmental protection; the European Community provided 102 million € for development projects in Vietnam from 1996 to 2001, followed by another 162 million € in 2002 to 2006 targeted at poverty reduction and supporting Vietnam to integrate into world economy - such as joining the World Trade Organization (WTO).<sup>105</sup>

### **3.1.5. EU relations with Vietnam (2006 – to the present)**

In the beginning, the European Community and Vietnam relationship began with a humanitarian dimension followed by economic and environmental dimensions, and it is quite clear that the EU has been an important aid donor to help Vietnam enhance their development and economy. The Vietnamese economy has grown rapidly which reflects the success of Doi Moi policy. Trade became more important than aid in the relationship between the European Union and Vietnam in this period.<sup>106</sup>

The EU had been trying to leverage Vietnam's trading system to meet a global standard; they started to implement the project called "EU Vietnam Multilateral Trade Assistance Project (MUTRAP)" in 1998.<sup>107</sup> The objective of the MUTRAP is to help Vietnam in implementing the Socio-Economic Development Plan (SEDP) and the Post-WTO Action Plan to achieve long-term pro-poor economic growth through deeper integration into the global trade system.<sup>108</sup> The project was actually considered successful as evidenced by the continuing series of MUTRAP I to MUTRAP III which ended in 2012, the same year the EU decided to start the FTA negotiation with Vietnam.

<sup>104</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>105</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>106</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>107</sup> Nguyen and Mascitelli, "From European Colony to a New Era: EU-Vietnam Relations-1990-2017."

<sup>108</sup> "EU Vietnam Multilateral Trade Assistance Project III – Mutrap III - DMI Associates," DMI Associates, 2022, accessed 10 June, 2022, <https://www.dmiassociates.com/eu-vietnam-multilateral-trade-assistance-project-iii-mutrap-iii/>.

In 2012, more than 18 billion US dollars from 20 out of 27 EU member countries was invested in more than 1,000 project in Vietnam; in comparison, Vietnam invested about 35.9 million dollars in 12 EU Member States.<sup>109</sup> In 2016, the EU was ranked Vietnam's 5<sup>th</sup> largest foreign investor, increasing trade revenue to over 45 billion dollars in 2000.<sup>110</sup> In 2019, the EU became one among the main foreign investors in Vietnam, with a total outward stock of 6.1 billion €. Industrial processing and manufacturing is the EU's largest investment sector.<sup>111</sup>

Since 2012, after 14 rounds of FTA negotiations, in 2015 the EU and Vietnam officially concluded the EU-Vietnam FTA (EVFTA); the final text was published in the later year and entered into force in 2020. The EVFTA is only the second FTA that the EU has concluded with countries in the Southeast Asia region.

Apart from trade, the EU pledged in the Multi-Annual Indicative Programme for Vietnam (2014-2020) to contribute more than 400 million € to assist Vietnam with its sustainable energy sector and to strengthen Vietnam's governance and rule of law.<sup>112</sup> As a result, *The Economist* reported that in 2021 Vietnam had become the leading producer of clean energy in Southeast Asia and ranked the tenth-biggest producer of solar power in the world.<sup>113</sup>

The two countries have been working hard in building strong relations to be where they are today. They have also been working with each other through many different

<sup>109</sup> United Nations Conference on Trade and Development, "The EU and Vietnam," news release, 2012, <http://investmentpolicyhub.unctad.org/Download/TreatyFile/3244>.

<sup>110</sup> "New Impulse for Vietnam-EU Relations," Nhan Dan Online, 2017, accessed 10 June, 2022, <https://en.nhandan.org.vn/business/item/5315002-environmental-protection-prerequisite-for-cement-production.html>.

<sup>111</sup> European Commission, "Vietnam," news release, 2022, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/vietnam\\_en#trade-goods\\_fig](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/vietnam_en#trade-goods_fig).

<sup>112</sup> European Union, "EU Cooperation in Viet Nam: An enhanced response to the development challenges: The Multiannual Indicative Programme for Viet Nam 2014 – 2020," news release, 2014, [http://eeas.europa.eu/delegations/vietnam/documents/eu\\_vietnam/2014113\\_mip\\_en.pdf](http://eeas.europa.eu/delegations/vietnam/documents/eu_vietnam/2014113_mip_en.pdf).

<sup>113</sup> "Vietnam Is Leading The Transition To Clean Energy In South-East Asia," *The Economist*, 2022, accessed 11 July, 2022, <https://www.economist.com/asia/2022/06/02/vietnam-is-leading-the-transition-to-clean-energy-in-south-east-asia>.

regional dialogues as well, such as the United Nations, WHO, WTO, Asia-Europe Meeting (ASEM), ASEAN-EU dialogue, etc.

### 3.2 Geographical Context

Vietnam is located in Southeast Asia, bordering the Gulf of Tonkin, Gulf of Thailand and South China Sea.<sup>114</sup> Its land border connects with Cambodia, China and Laos and Vietnam is one of ASEAN's 10 member countries.

In the past, Vietnam has always held a strategic position in Southeast Asia in world politics; France has benefited from Vietnam as a colonial trading base in Southeast Asia region, Vietnam was a battlefield for Japan in their struggle against the European colonies, and the US portrayed Vietnam as a starting point of communism in the Southeast Asia region.<sup>115</sup> It is undeniable that Vietnamese geography might have been taken to account when the EU considered to conclude an FTA with Vietnam as a second country in Southeast Asia region.

#### 3.2.1 Vietnam's Geography

Studies have pointed out that France's main reason in colonizing Vietnam was because the river that flows from China to the Mekhong Delta and South China Sea could be an economic gateway to China.<sup>116 117 118</sup> Vietnam has rich natural resources from sea, forest, and mining such as oil and gas, rubber, tin, coal, copper, gold, and rice.<sup>119 120</sup> Though the real reason for colonization was economic, from a French political point of view, Vietnam's importance was based on a long-term evaluation of the country's geostrategic and economic significance as a buffer state connecting China to Southeast Asia.<sup>121</sup> Based on Vietnam's strategic location, population, natural

<sup>114</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>115</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>116</sup> Francis Garnier, *The French in Indo-China: with a narrative of Garnier's explorations in Cochinchina, Annam and Tonquin* (White Lotus Company, Limited (Thailand), 1994).

<sup>117</sup> Milton Osborne, "The Mekong: Turbulent Past," *Uncertain Future (New York)* (2000).

<sup>118</sup> Pham Lan Huong and Gerald W Fry, "Education and economic, political, and social change in Vietnam," *Educational Research for Policy and Practice* 3, no. 3 (2004).

<sup>119</sup> Huong and Fry, "Education and economic, political, and social change in Vietnam."

<sup>120</sup> Australian Trade and Investment Commission, *Mining - Vietnam - For Australian Exporters*, (Sydney: Australian Government, 2022).

<sup>121</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

resources and economic potential, Vietnam has been a key state in Indochina since the French colonial days.<sup>122</sup>

Jean-Claude Pomonti, *Le Monde's* Southeast Asia correspondent has pointed out that Vietnam is destined to be the gateway to France within ASEAN just as France will be the gateway to Vietnam within the European Union.<sup>123</sup> In Southeast Asia, France sees Vietnam as a strategic country to project French influence, the French have been using a strategic cultural policy to promote the French language, they also set up broadcasting facility for Radio France Internationale (RFI) in Vietnam, they also offer French government scholarships for Vietnamese students to study in French universities.<sup>124</sup> As mentioned, France sees that apart from their shared history, Vietnam would be good strategically as they are constantly using a soft power Vietnam. France also found it more useful to leverage the EU to extend their relationship with Vietnam. It is undeniable that France has a significant influence on EU-Vietnam relations.

In the case of South China Sea, Vietnam is involved with the South China Sea dispute and claims the Paracel Islands and Spratly Islands, conflicting with China and other ASEAN member countries. From a global politics point of view, the EU can exercise their close relationship with Vietnam to have a say in this dispute in order to balance Chinese's power in Southeast Asia. Moreover, since the US has been using the Philippines to link themselves with the South China Sea dispute, Vietnam, on the other hand, provides a perfect link for the EU to involve themselves in a balance of power playing field. Indeed, the EU took this opportunity in 2021, the *EU Strategy for Cooperation in the Indo-Pacific* calls for a "meaningful European naval presence in the region" which is a code for by expanding maritime activities in the South China Sea.<sup>125</sup>

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<sup>122</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>123</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>124</sup> Wong, *The Europeanization of French foreign policy: France and the EU in East Asia*.

<sup>125</sup> Giulio Pugliese, "Europe's Naval Engagement in the South China Sea," *Istituto Affairi Internazionali (IAI)*, Rome, IAI (2021).

### 3.3 The EU Strategy

In 2016, the EU has published ‘*a Global Strategy for the European Union's Foreign and Security Policy*’ (EUGS), which represents the EU’s vision, direction, and position in world politics. In order to understand the EU’s decision in negotiating EU-Vietnam FTA, it is important to examine the EU Global Strategy, and the EU Strategy for Cooperation in the Indo-Pacific as these are what shape and reflects the EU’s vision in international relations, knowing the EU vision would help explaining the EU action.

#### 3.3.1 EU Global Strategy

The ‘*Global Strategy for the European Union's Foreign and Security Policy*’ or the EU Global Strategy (EUGS) is a doctrine of the EU that sets out interests, principles, and priorities of the EU. It was adopted on 28<sup>th</sup> June 2016 to replace the European Security Strategy 2003. The text is divided into four main parts which are a global strategy to promote its citizens’ interests, the principles guiding its external action, the priorities of its external action, and lastly, from vision to action. However, this study will be focusing on the EU’s principles that guide the EU’s external action and the priorities of the EU’s external action which assumed to be the most relevant to this study.

##### 3.3.1.1 The Principle Guiding EU’s External Action

The EUGS mentioned that the ‘*Principled Pragmatism*’ will be the new EU strategy in its foreign policy and external action. Principled pragmatism could be considered as an insert of political realism into the EU’s foreign policy while continuing to hold the EU values. The word ‘Pragmatic’ itself meaning the realistic and practical way to deal with things rather than theoretical considerations, this could be implied that the EU external action in the years ahead will be handled and considered case-by-case.

The EU also aims to engage with the world in both economics and political dimension. As for the economics dimension, the EU will fully participate in the global

marketplace and the Global Value Chains (GVCs).<sup>126</sup> While in the political dimension, the EU aims to engage in the wider world and take responsibility to solve crises in Europe and its surrounding regions as the EU perceives that external matter outside the region can later affect their internal policies as they usually have to deal with the consequences of external dynamics.<sup>127</sup>

Apart from the EU engagement to the world in pursuing its goal, the EUGS made clear that in terms of partnership, "... the EU will partner selectively with players whose cooperation is necessary to deliver global public goods and address common challenged..."<sup>128</sup>.

In this case, the EU's principles together with the EU's engagement in Global Value Chains and Vietnam as the EU's supply chain. Vietnam could be considered as perfect partner for the EU in the economic sense. Even though Vietnam is one of the five remaining communist countries in the world, yet the first communist country that the EU has concluded the Free Trade Agreement with (EU-Vietnam FTA) while other communist countries have a different form of trade relations and agreement with the EU. Not to mention the political dimension that Vietnam is in the South China Sea dispute which the EU could considered as an external crisis.

### **3.3.1.2 The Priorities of the EU External Action**

There are five priorities of the EU external action stated in the EUGS which are security of its union, states, and societal resilience to its east and south, an integrated approach to conflict and crises, cooperative regional orders, and global governance for the 21<sup>st</sup> century. The relevant part of each priority is being discussed as follows

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<sup>126</sup> European External Action Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy* (Publications Office, 2017).

<sup>127</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy*.

<sup>128</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy*.

i. *Security of the EU*

Other than being responsible for its own security, the EU aims to assist its partners' security, as mentioned earlier that the external crises could later affects the EU, therefore, it is important for the EU to mutual assistance and solidarity with external dimension such as terrorism, organised crime, and external border management.<sup>129</sup>

In Southeast Asia, the South China Sea dispute could affect the security of the EU in terms of economic as many of import and export goods are being transported through South China Sea. In this context, the EU made clear that the external crises affect the EU internal policy, it could be assumed that the EU is keeping an eye on the dispute that might occurs and is willing to assist to keep the sea open for its sake.

ii. *Resilience of its surrounding regions*

To build a secure, prosperous, and inclusive society, the EU will pursue an individualised policy to support good governance which would be important to fight against terrorism, corruption, organised crime, and protection of human rights.<sup>130</sup>

The EU will promote human rights through dialogue and will always seek to advance the human rights protection.<sup>131</sup>

States are resilient when they are better of and have hope for a better future, the EU will adopt the SDGs approach to its policies such as in humanitarian, trade, investment, infrastructure, education, health, and research to increase public private partnership, driving sustainable growth,

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<sup>129</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>130</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>131</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

job creation, etc.<sup>132</sup> The EU will use trade agreements to underpin human rights protection and rules-based governance.<sup>133</sup>

In this context, the individualised policy and the used of trade agreements to underpin human rights protection and rules-based governance had been used with Thailand during the military takeover (coup d'état) in 2014. While Vietnam, on the other hand, has always been a communist country, the EU uses a different approach to promote human rights and rules-based governance. Trade agreement is still being use as a tool in this context, however, Vietnamese government is very open and eager to enact any law relevant to improve human rights and rules-based governance.

iii. *An Integrated Approach to Conflicts and Crises*

The EU aims to engage in a peacebuilding in its surrounding regions in both practical and principled way, consider that the engagement will be decided on case-by-case basis.<sup>134</sup> The EU will adopt a multi-level strategy for resolving disputes that operates at the local, national, regional, and international levels; a multi-lateral strategy involves all participants in a dispute who are required for the dispute's resolution.<sup>135</sup>

Restrictive measures and diplomacy will be used to create peace, which can be used as a tool in deterrence, conflict prevention and resolution.<sup>136</sup>

Smart sanctions in compliance with the EU and international law will be used to support legitimate economy and avoid harming local societies.<sup>137</sup>

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<sup>132</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>133</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>134</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>135</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>136</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>137</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*



This part of the priorities is a good support to the previous part, the EU understand that each conflict and crise has a different condition, to be more realistic, the EU aims to handle each case in a practical and principled way which will be decided case-by-case. Therefore, it is understandable why the EU handled Thailand and Vietnam's case differently.

iv. *Cooperative Regional Orders*

Focusing on Asia, European economic growth and Asian security are strongly connected.<sup>138</sup> Peace and stability in Asia are essential for the EU's success given the economic importance of the region for the EU and vice versa.<sup>139</sup> The EU will expand its security involvement in Asia and deepen economic diplomacy towards ambitious free trade agreements with strategic partners including ASEAN member states with the ultimate goal of building the EU-ASEAN Free Trade Agreement.<sup>140</sup>

In order to contribute more practically to the security of Asia, the EU will also establish a more comprehensive political strategy for the region.<sup>141</sup> In the case of South China Sea dispute, the EU will uphold freedom of navigation in Southeast Asia, and insist to respect for international law, particularly the Law of the Sea and its arbitration procedures and promote amicable resolution of maritime conflicts.<sup>142</sup> The EU will support an ASEAN regional security architecture and help develop

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<sup>138</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>139</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>140</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>141</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>142</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

ASEAN's maritime capabilities.<sup>143</sup> The EU will also promote human rights and support democratic transition throughout the Indo-Pacific and East Asian regions.<sup>144</sup>

In this context, the EU has stated clearly that South China Sea dispute is in its focus, knowing the dispute can disrupt the economic relations between ASEAN countries and the EU. The EU is willing to be involve in this crisis stating that it would like to assist the ASEAN regional security and maritime capabilities. In order to be involve and be able to take more action, the EU needs to establish an economic tie with countries that are involve in this dispute, part from Singapore, Vietnam's geography makes a perfect partner as it is involve in the South China Sea dispute and connected to the ASEAN mainland.

v. *Global Governance for the 21<sup>st</sup> Century*

As the world's largest economy, the EU is an important player in international trade and investment, areas where rules can be deepened further.<sup>145</sup> The EU prosperity depends on an open, rules based economic system which its economic diplomacy will further promote.<sup>146</sup> The EU will continue to pursue comprehensive free trade agreement with all partners and promote international regulatory standards, consumer protection and other norms with the highest intention to link all agreement to global with the World Trade Organization (WTO) as the center of global negotiation.<sup>147</sup>

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<sup>143</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>144</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>145</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>146</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>147</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

Connected to the EU's interest in an open and fair economic system, ensuring open and protected maritime, and sea routes in South China Sea is essential for trade and access to natural resources.<sup>148</sup> As a global maritime security provider, the EU will continue to build the maritime security in South China sea and seek for further implementation on the Law of Sea and the dispute settlement mechanism.<sup>149</sup>

After the General Agreement Tariffs and Trade (GATT) failed, many countries started to establish bilateral, regional, multilateral trade agreement to the supreme aim of having international free trade. The EU wish to make the WTO the center of trade negotiation as once and for all with an interest to promote international regulatory standard, which is why the EU vows to continue to pursue trade agreement with all partners. Once again, the South China Sea is being mentioned in this priority, which could be implied that South China Sea dispute has caught the EU attention in the sense of economic security.

### **3.3.2 EU Strategy for Cooperation in the Indo-Pacific**

EU Strategy for Cooperation in the Indo-Pacific was endorsed by the European Council in October 2021, although it is endorsed a year after the EVFTA entered into force, it is important to note that the EU started to be interested in and shifting its focus more in the Indo-Pacific region as a matter of fact that this region holds 60 percent of global wealth, and the EU has been its top trading partner, investor and top development assistant provider for this region.<sup>150</sup>

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<sup>148</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>149</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy.*

<sup>150</sup> European External Action Service, "European External Action Service, EU Strategy on the Indo-Pacific," news release, 2022, [https://www.eeas.europa.eu/sites/default/files/eu-indo-pacific\\_factsheet\\_2022-02\\_0.pdf](https://www.eeas.europa.eu/sites/default/files/eu-indo-pacific_factsheet_2022-02_0.pdf).

The factsheet of EU Strategy for Cooperation in the Indo-Pacific shows that around 40 percent of the EU's foreign trade passes through the South China Sea which the stability of the region and the area of cooperation is very much concerned by the EU.<sup>151</sup>

According to the EU Strategy for Cooperation in the Indo-Pacific factsheet, the EU priorities is to enhance the following area: sustainable and inclusive prosperity, green transition (combating climate change), Ocean Governance (compliance with international law and fight against IUU fishing), Digital Governance and Partnership, Digital Connectivity, Security and Defense (maritime and cybercrime), and lastly, Human Security. Therefore, the most important focus of this strategy is to promote cooperation, rule of law, and regional security especially in maritime.

Once again, these priorities are driven by the French presidency of the Council of the European Union who which to initiate dialogue with Indo-Pacific partner<sup>152</sup>, therefore, it is undeniable that French play role in shaping the EU's strategy which may also be assumed that there might be a hidden driven force by the French and its former colony like Vietnam behind the EVFTA negotiation.

### **3.3.3 EU Decision Making Process in negotiating FTA**

To understand the EU decision in negotiating FTA with Vietnam, it is important to examine the EU decision making process in negotiating FTA. As we all know that EU has three bodies which are, the European Commission, the Council of the EU, and the European Parliament, each bodies has different task in negotiating EU trade agreement. In a big picture, the European Commission will be doing most of the work which are prepares, negotiates, and proposes the EU's international trade agreements, while the Council of the EU and the European Parliament decide jointly whether to approve the EU trade agreements. According to the EU, there are eight big steps in the EU trade negotiations starting from

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<sup>151</sup> Service, "European External Action Service, EU Strategy on the Indo-Pacific."

<sup>152</sup> French Presidency Of The Council Of The European Union, "Ministerial Forum For Cooperation In The Indo-Pacific - French Presidency Of The Council Of The European Union 2022," news release, 2022, <https://presidence-francaise.consilium.europa.eu/en/news/ministerial-forum-for-cooperation-in-the-indo-pacific/>.

## 1) Preparing

- In this process, the commission will start to analyse the impact of an agreement and consult with the public on what they want from the agreement then set out the areas of negotiation on what both parties want to negotiate.<sup>153</sup>
- At the same time, the commission should recommend the council to open negotiations, then inform the parliament and sent directives to the Council, the Parliament, and EU national parliaments.<sup>154</sup>
- Once the council adopts a decision to authorise the Commission to Open trade negotiation, the EU's Chief Negotiator in the Commission's Directorate-General for Trade (DG Trade) may establish a negotiating team which must include experts from across the commission in the topic that will be negotiated.<sup>155</sup>

## 2) Negotiating

The negotiation takes the longest time in all steps as there might be several rounds of discussion and takes time for both parties to come to agreement.

- The negotiating team from both parties start the negotiation which may cover everything being negotiated or only certain areas.<sup>156</sup> After each negotiation rounds, the commission is expected to report the key points of negotiations to the Council and the European Parliament, and every time the commission plan to table negotiating with its counterparts, the commission must consult with the council and inform the European Parliament about them.<sup>157</sup>

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<sup>153</sup> European External Action Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal," news release, 2012, [https://trade.ec.europa.eu/doclib/docs/2012/june/tradoc\\_149616.pdf](https://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149616.pdf).

<sup>154</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>155</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>156</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>157</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

- The Commission is expected to consult with the Council's Trade Policy Committee (TPC) which be assisting the Commission in its negotiation tasks, the commission must inform the European Parliament at every stage of the negotiation about its latest development.<sup>158</sup> The Council is also expected to discuss the trade negotiation with the TPC regularly.<sup>159</sup>
- The Parliament consults with International Trade Committee (INTA) which the Parliament may also make resolutions about trade negotiation to position the Committee's takes on trade negotiation.<sup>160</sup> National government ministers or the whole European Parliament may discuss the negotiations throughout the process.<sup>161</sup>

### 3) Finalising

- Once the negotiating process is done, the lawyers of the Commission and the Council's jointly review and correct the text of the agreement to ensure that the agreement uses clear terms consistently and make sure that the agreement detail is clear for both parties and other to have the same understanding when reading the text.<sup>162</sup>
- The Commission sends the text of agreement to the Council and Parliament, the lawyer-linguists from the council format the text so it's ready for signature, the Council then, sends the newly formatted text back to the Commission.<sup>163</sup>

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<sup>158</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>159</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>160</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>161</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>162</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>163</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

#### 4) Signing

- The commission draft the proposals for Council decisions on the signature, provisional application, and conclusion of the agreement.<sup>164</sup>
- The commission is expected to translate the proposal into all the EU languages, the DG Trade then sends the proposal to other commission department for review and comments.<sup>165</sup>
- Once the 28 Commissioners adopted the proposal, the Commission may propose the signature, provisional application, and conclusion of the agreement to the Council. The commission usually propose that a part of agreement is provisionally applied but provisional application is also possible.<sup>166</sup>

#### 5) Decision-making (by Council and Parliament)

- Once the Council received the proposal from the Commission and makes decision to sign, once the decision has been made, the Commission must immediately proceed with the signing agreement.<sup>167</sup>
- The two parties formally sign the agreement, the council will appoint the person who will be signing on behalf of the EU which is often a government minister who is current holding the Council presidency or the EU Trade Commissioner.<sup>168</sup>
- Once the Council agrees to provisionally apply the agreement, the EU can notify the depositories of the agreement, after both sides sign, the

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<sup>164</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>165</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>166</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>167</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>168</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

Council is expected to submit the proposal of conclusion and sends the agreement to the Parliament for its approval.<sup>169</sup>

- The Parliament, then, consult with INTA and representative of industry, trade union, environmental group, and outside expert about the agreement.<sup>170</sup> At the same time, the committee of the Parliament is expected to write a report on agreement which will serves as formal advice for the whole Parliament. The whole Parliament then votes whether to give approval to the agreement.<sup>171</sup>

#### 6) Full or provisional application

- There are two types of EU trade agreement, one that are ‘EU-only’ and other agreement are ‘mixed’, the ‘EU-only’ means that all policy areas fall under the sole responsibility of the EU institution, while ‘mixed’ agreement have only some parts that share the responsibility of the EU institutions and individual EU countries.<sup>172</sup>
- In this part, if the agreement is for ‘EU-only’, once the Parliament gives its consent and other party has notified its ratification, the agreement will enter into force.<sup>173</sup>
- However, if the agreement is ‘mixed’ agreements, not only that the Parliament gives its consent, the EU member state governments and the Council also need to sign the agreement in order to enter into force.<sup>174</sup> As for the EU member states’ vote, the decision of the member states usually involve votes by national and sometimes regional parliaments depends on their own national procedure.<sup>175</sup>

<sup>169</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>170</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>171</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>172</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>173</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>174</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>175</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."



## 7) Conclusion

- After the partner country signs the agreement, it goes on to ratify it. The EU Member States and partner country notify the depositories (formal keeper of the final signed texts) of the agreement.<sup>176</sup> The Council adopts the decision to approve the agreement and is expected to publish its decision in the Official Journal of the EU.<sup>177</sup>

## 8) Entry into force

- Once both parties ratify and inform the depositories about the ratification, the agreement is fully entered into force.<sup>178</sup>

As explained above about the process in FTA negotiation of the EU, there are many actors and institutions that are involve in trade negotiations, each of the EU bodies plays different important role in the negotiation. Most of the task in initiating and negotiating is the responsibility of the Commission, while the decision making is handled by the Council and the Parliament which are the politics part of the EU bodies. The EVFTA negotiation was concluded in December 2015, but ratification process was done five years later in 2020, while it only took almost 3 years for the Commission to conclude the negotiations since the beginning of EVFTA negotiation in 2013. As the decision making in ratification is up to the political part of the EU bodies, this could be implied that politics plays a very important role in the EU-Vietnam Free Trade Agreement.

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<sup>176</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>177</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

<sup>178</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."

## **Chapter IV**

### **Economics Context**

It is undeniable that many decisions made in International Relations are based upon not only political but also economic reasons. Therefore, it is as important as history, geography, and politics to emphasize the economics matters between the EU and Vietnam, and Vietnam's economic status in global politics. This study assumes that the reasons that EU chooses to conclude FTA with Vietnam before Thailand are decided based on Vietnam's Economic History, Vietnam's Current Economic Status, Vietnam integration with world economy, EU integration with world economy, and Impact of EU-Vietnam FTA. Therefore, this chapter will examine these assumptions in this regard accordingly followed by a discussion of an opportunity for EU-Thailand FTA, and Conclusion.

#### **4.1 Vietnam's Economic History**

##### **4.1.1 Economic History**

Vietnam's economics has always struggled as they had been unable to take full control of their economy; since the beginning of the colonial period in the fifteen centuries, Vietnam had always been under the influence of colonization and war until 30<sup>th</sup> April 1975, the reunification day of Vietnam. At the time that Vietnam declared their independence, after years of wars, Vietnam's economic structure had already been destroyed by colonisation: few Vietnamese gained some advantages from the colonization, while most of the population were workers very poor.<sup>179</sup> Therefore, when Vietnam declared their independence, most of the population, which were mostly labour, chose the communist path.

However, the chosen path did not make it easy for Vietnam, the civil war and the collapse of the Soviet Union and the communist bloc had left Vietnam isolated in the international community. Vietnam's economy at that time was a socialist economy

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<sup>179</sup> Service, "Negotiating EU trade agreements: Who does what and how we reach the final deal."; Alexander Woodside, "History, structure, and revolution in Vietnam," *International Political Science Review* 10, no. 2 (1989).

where no private sector was allowed, and the government in full control of the market. It was hard for Vietnam to restart their economy and to renew their relationship with an international community. In 1986, the government developed the idea of social, political, and economic reforms called Doi Moi (meaning renovation), this, has uplifted Vietnam's economic status to be where they are today.

#### 4.1.2 Doi Moi: A Policy Reform

Doi Moi was launched by the Sixth Party Congress in December 1986, when the government realized that they had made mistakes due to the leftist socio-economic idealism, which were reflected in heavy industry and the state control mechanism of economic management that overburdened the infrastructure.<sup>180</sup> As the state usually controlled the price of goods and services, Vietnam had a high inflation rate of almost 700 percent, the value of exports was less than half of that for imports, most of the government revenue were used for military expenditure and subsidies to lossmaking state enterprises.<sup>181</sup> Foreign direct investment was closed and the technology gap compared to its neighbouring countries was growing which was not a good sign for Vietnam.<sup>182</sup>

The aim of the policy reform was to increase macroeconomic stability and expedite economic growth and all the economic tools were used to complete the objectives.<sup>183</sup> The Sixth Party Congress agreed to terminate the centralized management mechanism and move towards a market-oriented economy with the involvement of the private sector.<sup>184</sup> With the limited resources in investment, the focus of the government was narrowed to three main objectives, first, the development of agriculture, second, the expansion of consumer goods production, and lastly, the expansion of trade and foreign investment relations.<sup>185</sup>

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<sup>180</sup> Brian Van Arkadie and Raymond Mallon, *Viet Nam-a transition tiger?* (ANU Press, 2004).

<sup>181</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>182</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>183</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>184</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>185</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

In 1986, the major reform focused on the transformation from state management to private economy and business in agriculture.<sup>186</sup> The law on Foreign Investment was issued in the following years, land law was established for private use, devaluation of the exchange rate undertaken, a decrease in restrictions on foreign trade, etc.<sup>187</sup> Since the launch of the policy reform, many laws have been established and some have been abolished to facilitate the reforms and to attract foreign direct investment.<sup>188</sup> Vietnam has reestablished relations with foreign countries and the international community along with foreign trade relations.<sup>189</sup>

Van and Mallon pointed out that Vietnam's outstanding characteristic was its 'pragmatic flexibility' which Vietnam was willing to experiment with changes when there was evidence that the old system was not functioning.<sup>190</sup> However, the pragmatic flexibility of Vietnam was not new to the communist system and politics as they struggled in the creation of Vietnam for more than three decades.<sup>191</sup> The Vietnamese government was eager to learn from relevant international experience would lead Vietnam to modernization which has always been the theme of the Communist Party.<sup>192</sup> This reform policy and Vietnam's eagerness to reform may be one of the factors to catch the eyes of foreign traders including the European Union to build trade relations with Vietnam.

## 4.2 Vietnam's Current Economic Status

### 4.2.1 Economic Status

After the launched of Doi Moi (Policy Reforms), Vietnam's economy was no longer a socialist market but a socialist-oriented market, the official title given to a special market economy model led by the Communist Party of Vietnam where the

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<sup>186</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>187</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>188</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>189</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>190</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>191</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

<sup>192</sup> Van Arkadie and Mallon, *Viet Nam-a transition tiger?*

state plays a major role under the market mechanism.<sup>193</sup> Therefore, the socialist-oriented market economy is the operation of the modern market economy under the political concept of the communist government.

Over the past 30 years of reform, Vietnam's economic status has completely changed. Vietnamese living standard has been improved through its high economic growth which turned Vietnam into a middle-income country in 2010.<sup>194</sup> However, to become a modern industrial country, Vietnam needs to sustain its innovative reform mindset to further advance its achievement.<sup>195</sup> Ever since the reform has been implemented, Vietnam's GDP continues to grow rapidly even through the ongoing COVID-19 pandemic: its GDP still grew by 2.9 percent in 2020, which was a very rare case in this ongoing pandemic situation.<sup>196</sup>

Vietnam is going through a significant demographic and socioeconomic transformation. Its population is expected to expand each year with 0.69 of human capital index, which implies that 69 percent of new-born will enjoy complete education and full health.<sup>197</sup> The current population is estimate at 96.5 million ranking number 15<sup>th</sup> in the world with 45% percent of the population of working-age.<sup>198</sup> 199 Vietnam's middle class population accounts for 13 percent of the population and is expected to grow in the following years.<sup>200</sup> With the improvement of health along with the rise of living standards, the infant mortality rate has decreased.<sup>201</sup> Vietnam's

<sup>193</sup> Xuan Hoan Dang, "Socialist-Oriented Market Economy and the Management of the State in Vietnam During the Era of Industrial Revolution 4.0," *International Journal of Innovation and Research in Educational Sciences* 6, no. 5 (2019).

<sup>194</sup> World Bank, "Vietnam Economic Policy Framework," news release, 2018, <https://documents1.worldbank.org/curated/en/273291547113069740/pdf/133583-VINANOMICS-20181128-EN.pdf>.

<sup>195</sup> Bank, "Vietnam Economic Policy Framework."

<sup>196</sup> "The World Bank in Vietnam," World Bank, 2021, accessed 19 June, 2021, <https://www.worldbank.org/en/country/vietnam/overview>.

<sup>197</sup> Bank, "The World Bank in Vietnam."

<sup>198</sup> World Bank, "Age Dependency Ratio (% Of Working-Age Population) - Vietnam | Data," (World Bank, 19 June 2021 2021). <https://data.worldbank.org/indicator/SP.POP.DPND?locations=VN>.

<sup>199</sup> "Vietnam Population (2021) - Worldometer". 2021. Worldometers.Info. Accessed June 19.

Worldometers, "Vietnam Population (2021)," (Worldometers, 19 June 2021 2021).

[https://www.worldometers.info/world-population/vietnam-population/#:~:text=Vietnam%202020%20population%20is%20estimated,\(and%20dependencies\)%20by%20population](https://www.worldometers.info/world-population/vietnam-population/#:~:text=Vietnam%202020%20population%20is%20estimated,(and%20dependencies)%20by%20population).

<sup>200</sup> Bank, "The World Bank in Vietnam."

<sup>201</sup> Bank, "The World Bank in Vietnam."

universal health coverage index is higher than global and regional averages.<sup>202</sup> The better life quality of Vietnamese population guaranteed the basic effectiveness of Vietnamese labour force. However, notwithstanding, the population is aging rapidly.<sup>203</sup>

Over the past 30 years, households' access to infrastructure services has increased.<sup>204</sup> As the infrastructure is accessible and is improving the population's living standard, industrialization and investment has resulted in Vietnam's rapid economic growth.

The economic growth of Vietnam is led by the service sector and industrial activity.<sup>205</sup> In 2018, Vietnam's public debt declined to 55.6 percent of GDP due to better revenue administration.<sup>206</sup> The government issued a limited number of government guarantees, and the slower public investment helped contain government spending and stabilize the state budget.<sup>207</sup> The growth of the private sector improves the business climate.<sup>208</sup> The regulatory quality and ease of doing business in Vietnam have improved over the years.<sup>209</sup>

In recent years, the Vietnamese government made attempts to combat corruption.<sup>210</sup> Since 2016, the government has been tackling corruption in several high-level case.<sup>211</sup> This has boosted the credibility and public trust of anti-corruption action.<sup>212</sup> This anti-corruption action helped attract foreign direct investment and guarantee the credibility in of Vietnamese government in international trade as well.

Vietnam is integrating into the global economy: Vietnam joined the ASEAN community in 1995, APEC in 1997, and WTO in 2007. Vietnam has concluded 14

<sup>202</sup> Bank, "The World Bank in Vietnam."

<sup>203</sup> Bank, "The World Bank in Vietnam."

<sup>204</sup> Bank, "The World Bank in Vietnam."

<sup>205</sup> "Five Charts Explain Vietnam's Economic Outlook," 2019, accessed 23 October, 2020, <https://www.imf.org/en/News/Articles/2019/07/11/na071619-five-charts-explain-vietnams-economic-outlook>.

<sup>206</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>207</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>208</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>209</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>210</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>211</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

<sup>212</sup> Fund, "Five Charts Explain Vietnam's Economic Outlook."

FTAs including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).<sup>213</sup> To continue its strong economic growth, Vietnam's government is committed to the 'second wave' of reforms such as the reform of state-owned-enterprises, as well as increased business and financial sector transparency.<sup>214</sup>

Apart from Vietnam's fast-growing economy, Vietnam is enthusiast to integrate with world economy, its readiness in infrastructure, labour, and its open policy to investment has attracted more investors and trading partners to do business in the country.

#### 4.2.2 Infrastructure

Vietnam is one of the ASEAN nations with the fastest-growing economies, it has a long list of infrastructure improvements.<sup>215</sup> To increase connectivity within large cities, a number of highway projects are planned, and some are already under progress.<sup>216</sup> Infrastructure has played a major role in the rapid economic development of Vietnam. The infrastructure in Vietnam is, nevertheless, pressured increasingly from its fast economic growth.<sup>217</sup> With this regard, the Vietnamese government has prioritized transportation infrastructure and plan to develop further, power and toll way are likely to be the main areas for expansion and quality improvement along with other infrastructure such as ports and railways.<sup>218</sup> Around 20% of the nation's major highways are now paved, and a newly approved plan to construct a 1,372 km north-south motorway by 2030.<sup>219</sup> It is undeniable that the better infrastructure would attract more foreign direct investment into the country because connectivity is a key factor that makes trading more convenient.

<sup>213</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>214</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>215</sup> "Infrastructure Vietnam 2019," Infrastructure Vietnam, 2019, accessed 25 January, 2022, <https://infrastructurevietnam.com/#:~:text=Infrastructure%20Vietnam%202019&text=As%20one%20of%20the%20fastest,estimated%20to%20cost%20%2414bn>.

<sup>216</sup> Vietnam, "Infrastructure Vietnam 2019."

<sup>217</sup> "Infrastructure sector in Vietnam - Growth, Trends, and Forecast (2020 - 2025)," Research and Markets, 2020, accessed 25 January, 2022, <https://www.researchandmarkets.com/reports/5175641/infrastructure-sector-in-vietnam-growth>.

<sup>218</sup> Markets, "Infrastructure sector in Vietnam - Growth, Trends, and Forecast (2020 - 2025)."

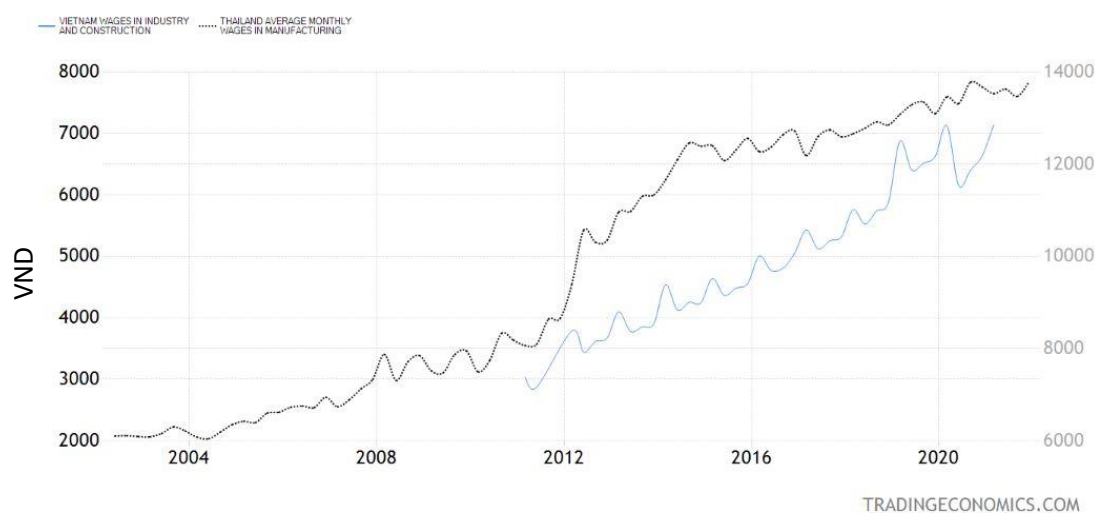
<sup>219</sup> Markets, "Infrastructure sector in Vietnam - Growth, Trends, and Forecast (2020 - 2025)."

### 4.2.3 Labour

Labour is an important factor in production, the labour cost affects the total cost of production whether to be high or low, labour quality also affects the production as a healthy, young, and educated labour would deliver better amount of physical, mental, and social effort to produce goods and services in an economy. The cheap, young, and educated labour shows Vietnam's readiness to be integrated with the world economy, and to show that Vietnam is ready for investment and production.

#### 4.2.3.1 Wages

Wage is important factor for all investors when cheap labours mean lower cost of production and higher profit. Vietnam's wage is comparatively low when compares to Thailand.



**Figure 3:** Vietnam and Thailand Wage from 2000 to 2022

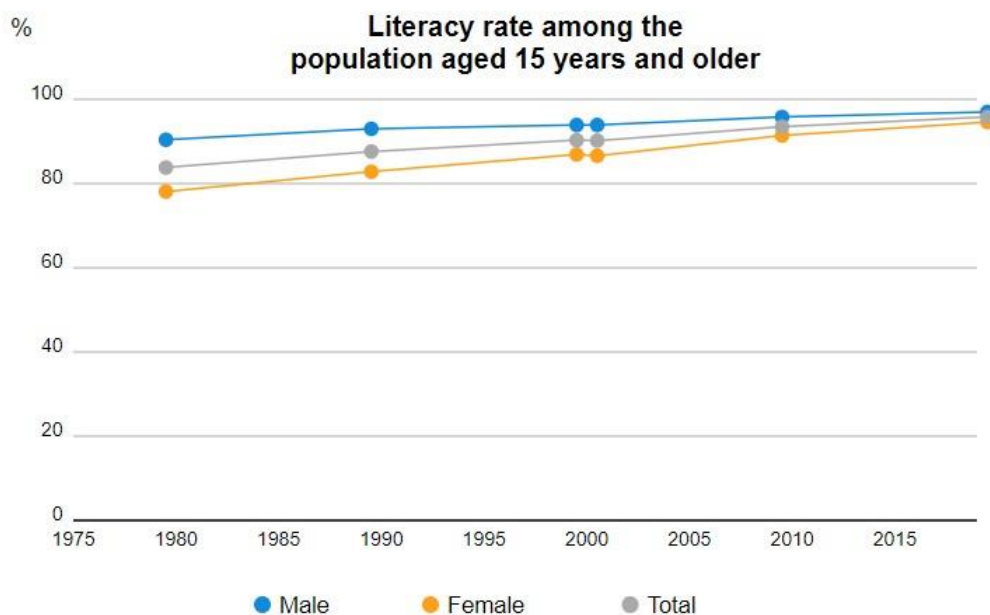
Source: Tradingeconomics.com

According to figure 3, this graph shows the average monthly wages of Vietnam in comparison to Thailand from 2002 to 2022 and shows that Thai wages have been comparatively higher than Vietnam's for decades. The fact that Vietnamese wages are comparatively lower than Thailand's makes Vietnam an interesting choice for Foreign Direct Investment. This might also be something that the EU took into consideration when they decided to negotiate an FTA with Vietnam.



#### 4.2.2.1 Education and age

According to UNESCO Institute for Statistics, Vietnam's Literacy rate of people ages 15 and above since 1999 to present has always been higher than 90 percent. (See figure 4)



**Figure 4:** Vietnam's literacy rate among the population aged 15 years and older

Source: <http://uis.unesco.org/en/country/vn>

According to Akin and Vlad, the study shows that FDI level is higher in a country with high literacy rate.<sup>220</sup> The high literacy of Vietnam's population could be implied that most of Vietnamese labour are skilled labour. Apart from skilled labour, according to CIA World Factbook, more than two third of population is working age (15-64).<sup>221</sup> Vietnam's labour is accounted for 70 percent of its population, population age between 25 to 54 years old are the highest group accounted for 45 percent of its

<sup>220</sup> Mustafa Seref Akin and Valerica Vlad, "The relationship between education and foreign direct investment: testing the inverse U shape," *European Journal of Economic and Political Studies* 4, no. 1 (2011).

<sup>221</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

population.<sup>222</sup> The young and educated labour are essential factor for investors because these factors are indicators of labour quality.

### 4.2.3 Open Policy for Investment

One of the objectives of Doi Moi policy reform was to open its economy to the world. In 1987 after Doi Moi was launch, a new Foreign Investment Law was introduced by the government to increase the attractiveness of Vietnam for Foreign Direct Investment.<sup>223</sup> The increasing liberalization of trade and a gradual privatization has attracted foreign investors, the government accommodate foreign investors in many possible ways such as a “one-stop agency” which would be an intermediary between investors and authorities, no restriction on the share of ownership for foreign investors, no minimal capital investment requirement, the government also guarantees not to nationalize foreign asset or place restriction.<sup>224</sup> Moreover, to attract more FDI, the Vietnamese government offers zero tax for two years followed by another two following years of half tax rate, the companies with foreign capital do not have to pay import duties on raw materials or components used for manufacturing of exports.<sup>225</sup> With such open policy for investment, Vietnam remains one of an attractive destination for all foreign investors.

### 4.3 Vietnam integration with world economy

As mentioned earlier, that Vietnam is enthusiast to integrate with world economy, to do so, apart from the policy reform in both economic and political, Vietnam has involved itself in free trade agreement, and regional and global value chain, as will be discussed as follows.

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<sup>222</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>223</sup> Tran Dinh Lam, "Foreign direct investment in Vietnam," *Center for Vietnamese and Southeast Asian Studies, University of Social Sciences and Humanities, Vietnam National University* (2014).

<sup>224</sup> Lam, "Foreign direct investment in Vietnam."

<sup>225</sup> Lam, "Foreign direct investment in Vietnam."

### 4.3.1 Free Trade Agreement

#### 4.3.1.1 Definition of Free Trade Agreement

According to the General Agreement on Trade and Tariff 1994 (GATT 1994) article XIIV, the Free Trade Agreement is the voluntary contract between two or more contracting parties<sup>226</sup>, where "... a free-trade area shall be understood to mean a group of two or more customs territories..."<sup>227</sup>. The purpose of the agreement is to eliminate "... duties and other restrictive regulations of commerce ... with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories"<sup>228</sup>. As the agreement between the contracting parties are being made as a kind of treaty, it could be considered as a written international law which is binding to the contracting parties. The World Trade Organization plays role in Free Trade Agreement by assisting trade agreements, provide forum for trade negotiation and settling trade dispute.<sup>229</sup>

#### 4.3.1.2 The importance of Free Trade

David Ricardo introduced the theory of comparative advantage, in which the two countries produce good that they specialize in and have the comparative advantage, both countries will gain from trade, even if one country might have an absolute gain in both goods.<sup>230</sup> The Factor Proportion Theory by Heckscher-Ohlin highlighted that the comparative advantage also depends on the revenue of the production factors.<sup>231</sup> If goods are produced at its source, the producers will be able to produce a large amount of product and able to conserve the transportation cost on the imports of production factors. The theory is also applied to labour and labour-

<sup>226</sup> World Trade Organization, "The WTO Agreement Series- General Agreement on Tariffs and Trade," ed. World Trade Organization (Geneva: World Trade Organization, 1998).  
[https://www.wto.org/english/res\\_e/booksp\\_e/agrmntseries2\\_gatt\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/agrmntseries2_gatt_e.pdf).

<sup>227</sup> Organization, "The WTO Agreement Series- General Agreement on Tariffs and Trade."

<sup>228</sup> Organization, "The WTO Agreement Series- General Agreement on Tariffs and Trade."

<sup>229</sup> Agency, "East Asia/Southeast Asia: Vietnam — The World Factbook ".

<sup>230</sup> Gabrielle Marceau, *The WTO: Legal Underpinnings*, World Trade Organization (World Trade Organization, 2013).

<sup>231</sup> Marceau, *The WTO: Legal Underpinnings*.

intensive goods as well.<sup>232</sup> Moreover, with economies of scale, which the producer produces the large amount of product will likely decrease the cost of the product.<sup>233</sup>

As mentioned above, with trade, one can be able to access to all the goods at the cheapest price, and since each country has different specialization, production capabilities, and resources, therefore, it will be mutually beneficial to all countries with an open economy to access to all the goods at the cheapest price, which “prices will be the same across the countries”<sup>234</sup> if there is no trade barrier or so called “Free Trade”. Likewise, free trade will lead to knowledge sharing, job creation, and many more. Finally, people’s living standard will be improved, the whole world will be better off and prosperous.<sup>235</sup>

However, while highlighting the importance of economics motivation in free trade, regardless the economics motivation, the political matter usually dominates.<sup>236</sup> In fact, political motivations often play a major role in free trade agreement even if the economic rationale is still dubious.<sup>237</sup>

#### **4.3.1.3 Vietnam Participation in Free Trade Agreements**

Vietnam started to liberalize its economy and integrated with the global economy since the beginning of the Doi Moi initiative in 1986. However, Vietnam’s first move was in 1995 when they joined ASEAN Free Trade Agreement (AFTA), applied for World Trade Organization (WTO) membership, and initiating a Bilateral Trade Agreement with the US, all these within the same year. Since Vietnam joined ASEAN FTA in 1995, Vietnam import/export tariff has been greatly reduced to almost 0.

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<sup>232</sup> Marceau, *The WTO: Legal Underpinnings*.

<sup>233</sup> Marceau, *The WTO: Legal Underpinnings*.

<sup>234</sup> Marceau, *The WTO: Legal Underpinnings*.

<sup>235</sup> Asian Development Bank, *How to Design, Negotiate, and Implement a Free Trade Agreement in Asia: Office of Regional Economic Integration* (Mandaluyong City: Asian Development Bank, 2008). <http://hdl.handle.net/11540/209>.

<sup>236</sup> Bank, *How to Design, Negotiate, and Implement a Free Trade Agreement in Asia: Office of Regional Economic Integration*.

<sup>237</sup> Bank, *How to Design, Negotiate, and Implement a Free Trade Agreement in Asia: Office of Regional Economic Integration*.

Although from 2001-2006 Vietnam relied on ASEAN for progress on regional integration, since 2007 with the success of becoming WTO member, Vietnam has become more active toward global economic integration. The Vietnam-Chile FTA was signed in 2012 followed by negotiation of Vietnam-EU FTA in 2013, Vietnam-Eurasian Economic Union FTA and Vietnam-Korea FTA in 2015, The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018, and 2019 when EU-Vietnam FTA was signed and enter into force in 2020. As of now, Vietnam has participated in 14 Free Trade Agreements in total including those FTAs that were negotiated on behalf of ASEAN. (See figure 1)

Partners and numbers of the negotiating parties are important, the Free Trade Agreement does not only help access negotiating parties' market but also their FTA partners' market as well. Therefore, to understand the EU's decision in choosing Vietnam over Thailand, we shall also examine Thailand and Vietnam's FTA partners.

According to Thailand's department of trade negotiations, Thailand has concluded 14 FTAs<sup>238</sup>. Vietnam, on the other hand, according to Vietnam's Trade Information Portal, Vietnam has also concluded 14 FTAs<sup>239</sup>, but with 5 different trade partners including EVFTA. The list of Thailand and Vietnam's FTA partners is shown in table 1.

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<sup>238</sup> "FTAs," Department of Trade Negotiations, 2021, accessed 23 August, 2021, <https://www.dtn.go.th/th/negotiation/categories/5cff753c1ac9ee073b7bd27b>.

<sup>239</sup> "Free Trade Agreement," Vietnam Trade Portal, 2022, accessed 25 January, 2022, <https://www.vietnamtradeportal.gov.vn/?r=site/display&id=298>.

**Table 1:** List of Thailand and Vietnam's FTA partners

<b>List of Thailand and Vietnam's FTA partners</b>		
No.	Thailand	Vietnam
1	ASEAN Free Trade Area (AFTA)	
2	ASEAN - Australia - New Zealand Free Trade Area (AANZFTA)	
3	ASEAN - China Free Trade Agreement (ACFTA)	
4	ASEAN - Hong Kong Free Trade Agreement (AHKFTA)	
5	ASEAN - India Free Trade Agreement (AIFTA)	
6	ASEAN - Japan Comprehensive Economic Partnership (AJCEP)	
7	ASEAN - Korea Free Trade Agreement (AKFTA)	
8	Regional Comprehensive Economic Partnership (RCEP)	
9	Thailand - Australia	Vietnam - Eurasian Economic Union Free Trade Agreement
10	Thailand - Chile	Vietnam - Chile
11	Thailand - India	Vietnam - Korea
12	Thailand - Japan	Vietnam - Japan Economic Partnership Agreement
13	Thailand - New Zealand	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
14	Thailand - Peru	EU- Vietnam (EVFTA)

Source: compile by authors

According to Thailand's department of trade negotiations, Thailand has concluded 14 FTAs<sup>240</sup>. Vietnam, on the other hand, according to Vietnam's Trade Information Portal, Vietnam has also concluded 14 FTAs<sup>241</sup>, but with 5 different trade partners including EVFTA. The list of Thailand and Vietnam's FTA partners is shown in table 1.

<sup>240</sup> Negotiations, "FTAs."

<sup>241</sup> Portal, "Free Trade Agreement."

According to table 1, it is obvious that Thailand and Vietnam have the same number of FTA partners which 10 out of 14 are the same, while eight agreements are made on behalf of ASEAN, Chile and Japan economic agreements are made bilaterally. The interesting agreements that make Vietnam FTA partners outstanding are Vietnam - Eurasian Economic Union Free Trade Agreement and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which are multilateral agreements, while others Thailand's FTAs are made bilaterally.

The Eurasian Economic Union (EAEU) contains of five member countries - Armenia, Belarus, Kazakhstan, the Kyrgyzstan and the Russian Federation – with a combined population of 184.3 million, 3.2% of the World GDP, 2.2% of the global industrial production, and roughly 3% of the world exports and 1.7% of the world imports.<sup>242</sup>

As for the s CPTPP, it has eleven signatories across the Pacific - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.<sup>243</sup> Joining CPTPP gives Vietnam leverage due to its large market with total of 500 million consumers with 13.5% of global GDP, and market access to Asia and Latin America.<sup>244</sup>

The fact that Thailand and Vietnam have the same number of FTA partners with 70 percent being mutual partners makes Vietnam and Thailand compatible and led to the question why the EU chooses to conclude a trade agreement with Vietnam before Thailand.

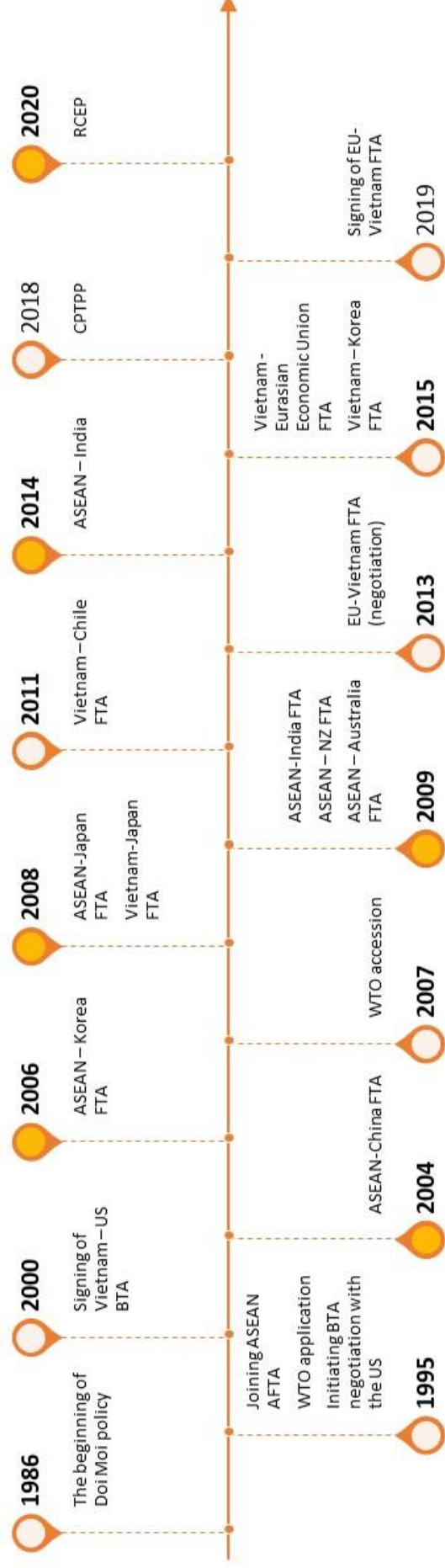
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<sup>242</sup> "About the Union," 2021, accessed 3 March, 2021, <http://www.eaeunion.org/?lang=en#about>.

<sup>243</sup> "CPTPP explained," Government of Canada, 2022, accessed 4 April, 2022, [https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/cptpp\\_explained-ptpgp\\_apercu.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/cptpp_explained-ptpgp_apercu.aspx?lang=eng).

<sup>244</sup> Canada, "CPTPP explained."

# The Economic Integration Process of Vietnam



Source: <https://aric.adb.org/blog/viet-nams-participation-in-free-trade-agreements-history-and-the-way-forward> accessed on 29 July 2022

**Figure 5:** Economic Integration process of Vietnam



### 4.3.2 Global Value Chains

Global value chains (GVCs) is a phenomenon that describes the division of production into activities and tasks carried out in different countries. In GVCs, the operation take place across national borders where each division is responsible for a different task. The liberalization of trade and investment has reduced transportation costs, the advance of information, technology, and innovation in logistic help made cross-border production possible.

#### 4.3.2.1 Vietnam in GVCs

Vietnam is part of the supply chain, for quite some time Vietnam has prepare itself to be ready to play role in the supply chain, since the Doi Moi reform, the government issued several supported policies, infrastructure, connectivity and cheap labour has made Vietnam a compatible partner in Global / Regional Value Chain.

The role of integration into GVCs increases Vietnam's export competitiveness.<sup>245</sup> However, Vietnam's advances in export competitiveness were solely driven by improvements in export performance on the supply side.<sup>246</sup> In Asia, its exports are still heavily regionalized, and its export performance is limited by the export product specialization, which is still low in value added.<sup>247</sup>

Since 2005, Vietnam's growth in export competitiveness have been largely driven by supply-side improvements in export performance, such as efficiency gains and the accumulation of production factors.<sup>248</sup> According to Hollweg et. al in “Vietnam at a Crossroads: Engaging in the Next Generation of Global Value Chains”, a study of export and import upstream positions reveals numerous opportunities to increase value creation by broadening the scope of activity in production stages where

<sup>245</sup> Claire Hollweg, Tanya Smith, and Daria Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains* (World Bank Publications, 2017).

<sup>246</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

<sup>247</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

<sup>248</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

Vietnam is currently present and has a competitive advantage.<sup>249</sup> Vietnam's imports are mainly upstream, whilst its export basket is closer to final demand.<sup>250</sup> This gap indicates that several production steps are performed domestically, and that could be an opportunity to increase domestic value added along the chain.<sup>251</sup>

According to Chae-Deug Yi's study on the economic effects of the UK-Korea-Japan FTA on Trade and Welfare in the UK and East Asia the benefit of FTA between UK-Korea-Japan FTA would give a similar benefit using the same model by signing the EU-Vietnam Free Trade Agreement, the EVFTA would lead to better welfare for the Vietnamese, increase of employment rate and economic growth, and will boost Vietnam's export although it will only be beneficial to some industry. The study of Viet Nam Ministry of Industry and Trade also shows that the EVFTA will significantly improve Vietnam's exports; calculations show that compared to no agreement, EVFTA will increase Vietnam's export to the EU by about 42.7 percent in 2025 and 44.37 percent in 2030.<sup>252</sup>

In conclusion, Vietnam has been playing an active role in the GVC and the EU is also a major player in the GVC, therefore, it is important to examine the EU how the is integrating with world economy by look at the EU external policy, the EU in the GVC, and a trade fact about the Importance of export of EU to Vietnam and vice-versa.

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<sup>249</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

<sup>250</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

<sup>251</sup> Hollweg, Smith, and Taglioni, *Vietnam at a crossroads: Engaging in the next generation of global value chains*.

<sup>252</sup> "The Effective Impacts Of The EVFTA On Labor, Employment And Social Security," Ministry of Trade, 2022, <http://evfta.moit.gov.vn>.

## 4.4 EU integration with world economy

### 4.4.1 EU External Trade Policy

The European Union uses trade policy as a tool to manage its trade relations with non-EU countries.<sup>253</sup> EU members enjoy the benefit of trade agreements, which resulted in economic growth, job creation and greater choice of consumption for the consumers.<sup>254</sup> Trade agreements help European business to access lower prices of raw material and other resources more easily.<sup>255</sup> This helps EU businesses stay competitive in the world market.<sup>256</sup> Also, a trade agreement would facilitate and promote EU export to more regions and countries outside the EU.<sup>257</sup> In addition, the EU uses trade agreements to promote its values to shape globalization in its way, especially on issues of human rights, working conditions and environmental protection.<sup>258</sup>

Trade outside the EU is an exclusive competency of the EU: the EU can make laws on trade matters, negotiate, and conclude international trade agreements.<sup>259</sup> In the case of EU trade and development policy, the EU aim is explained in its trade growth and trade development communication.<sup>260</sup> In 2012, the EU published a Communication 'Trade, Growth and Development: Tailoring trade and investment policy for those countries most in need'<sup>261</sup> designed to help the least-developed countries and others to enhance their production, economy, infrastructure, and improve their governance.<sup>262</sup>

The EU's trade and development policy encourages its trading partners to come up with their own development strategies. They must establish strong domestic policies and undertake necessary domestic reforms to boost trade and investment, ensure trade

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<sup>253</sup> "Making Trade Policy," European Commission, 2021, accessed 19 June, 2021, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/making-trade-policy\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/making-trade-policy_en).

<sup>254</sup> Commission, "Making Trade Policy."

<sup>255</sup> Commission, "Making Trade Policy."

<sup>256</sup> Commission, "Making Trade Policy."

<sup>257</sup> Commission, "Making Trade Policy."

<sup>258</sup> Commission, "Making Trade Policy."

<sup>259</sup> Commission, "Making Trade Policy."

<sup>260</sup> "Support For Developing Countries," European Commission, 2022, accessed 2 June, 2022, [https://policy.trade.ec.europa.eu/development-and-sustainability/support-developing-countries\\_en](https://policy.trade.ec.europa.eu/development-and-sustainability/support-developing-countries_en).

<sup>261</sup> Commission, "Making Trade Policy."

<sup>262</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union's foreign and security policy*.

growth, and secure long-term development.<sup>263</sup> In response, to the 2012 EU trade strategy, in the following month, the EU Council issued its commitment to promote a multilateral agenda for trade and development, provide market access for developing countries, focus on sustainable development, and target Aid for Trade<sup>264</sup> Also, the EU is committed to use its trade agreements to build sustainable development, human rights protection and rules-based governance.<sup>265</sup>

“The EU trade strategy 2015; Trade for All”, is committed to promoting participation in global value chains. The EU was willing to sign trade deals, but only GSP would be an exception for one-way preferential deals. The EU had begun tentatively pursuing WTO trade agreements and bilateral trade agreements with small trading partners.<sup>266</sup> The EU also works closely with the World Trade Organization to ensure that the global economy is open and based on fair rules.<sup>267</sup>

As for Vietnam, when EU-Vietnam FTA negotiations first began in line with the EU 2012 trade strategy, Vietnam met the criteria of least developing country in which the EU aimed to enhance their production, economy, infrastructure, and improve governance. Moreover, Vietnam was enthusiastic to establish strong domestic policies and undertake necessary domestic reforms to boost trade and investment as these conditions were in accordance with Vietnam’s Doi Moi Policy. Thus, it could be concluded that one of the factors why the EU chose to negotiate with Vietnam in 2012 was because Vietnam’s economic status was in line with the 2012 trade policy. The EU trade strategy 2015 had also complemented Vietnam’s status as a compatible trading partner with the EU.

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<sup>263</sup> Commission, "Support For Developing Countries."

<sup>264</sup> DW te Velde, "The Next Decade of EU Trade Policy: Confronting Global Challenges," *London: Overseas Development Institute. Watson, L.(2018) Systemic Epistemic Rights Violations in the Media: A Brexit Case Study. Social Epistemology* 32, no. 2 (2012).

<sup>265</sup> Service, *Shared vision, common action : a stronger Europe : a global strategy for the European Union’s foreign and security policy.*

<sup>266</sup> Richard Pomfret, "Different paths to economic integration in Europe and Asia," (2019).

<sup>267</sup> Commission, "Making Trade Policy."

#### 4.4.2 European Union in Global Value Chains

Since Thailand and Vietnam have 70 percent of in common partners, the remaining 30 percent difference may be a factor in the EU's decision in choosing Vietnam before Thailand. According to the World Bank Group, the participation in global value chains can increase job creation and economic growth, and with the right trade and investment policies, a country can greatly benefit from this system.<sup>268</sup>

The EU also sees the benefit of the unbundling process that it uses the benefit of its geopolitics and the single market along with the pattern of global value chains and turns it into the form of regional value chain (RVC), also known as the European Single Market today. The European Union has been an active player in global value chains. According to Eurostat, for international trade in goods in 2018 the European Union stand among the top three leading countries (EU, China, USA) with high imports and exports.

It could be implied that it is because the EU plays a big role in the upstream and downstream of the smiling curve of production value, the high rate of import and export could be seen as the backward and forward linkage of the EU products in a global value chain.

According to OECD Trade and Agriculture Directorate, the value added made by the EU in the global agriculture value chain by unbundling the value added are made in different countries before the products are sold. If the European Union choose the right partner in the GVC, the EU may be able to maximize the advantages.

In the case of the EU-Vietnam FTA, the European Union has been an active player in Foreign Direct Investment (FDI) in many countries and especially in Vietnam since official relations have been established. Through greater FDI activity and increasing bilateral trade in intermediate goods and services between the EU and Vietnam, the EU-Vietnam FTA provides the opportunity to enhance value chain integration

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<sup>268</sup> "Global Value Chain," World Bank, 2021, accessed 25 June, 2021, <https://www.worldbank.org/en/topic/global-value-chains>.

between the two countries.<sup>269</sup> This will give the EU better access to a developing manufacturing hub in the ASEAN and larger Asia area.<sup>270</sup> Since many would realize that the conditions are right to establishing operations in Vietnam to integrate into their supply chains, EU businesses are expected to take the lead in this process. This may be important to their strategy of entering the booming wider Asian market.<sup>271</sup>

Although, Thailand and Vietnam have also been an active player in Global Value Chain, the fact that the EU has more investment in Vietnam, has made Vietnam a good choice for the EU. This is because products that the EU produced and investment by EU firms in Vietnam helped access to key markets in various countries and continent including Asia, Eurasia, and Latin America, while Thailand market accession are less in terms of countries and continent according to Table 1.

#### 4.4.3 Importance of Trade between the EU and Vietnam

The examination of the importance of trade will consider; first, the importance of Vietnam to the EU, followed by the importance of the EU to Vietnam to see whether the importance matches, and if so, it is reasonable that trade negotiation is considered. The importance of a country to its trading partner can be estimated through the proportion between the import/export of the home country to its specific trading and the import/export of the home country to the world. For example, the importance of the EU to Vietnam in goods exports is measured through the EU's Merchandise exported to Vietnam, over the EU's goods exported to the world, as illustrated in the below equation.

$$\text{Importance of EU to Vietnam in Merchandise Trade}_{\text{export}} = \frac{\text{Vietnam's Merchandise exported to EU}}{\text{Vietnam's Merchandise exported to World}} \times 100 \quad (1)$$

All the equations are used for year-by-year calculation with the timeframe from 2002 to 2019 which all data are collected from Global Trade Atlas in US Dollar.

The importance of merchandise trade between EU and Vietnam shows the whole picture of trade in goods, its importance is measured by the ratio between EU and

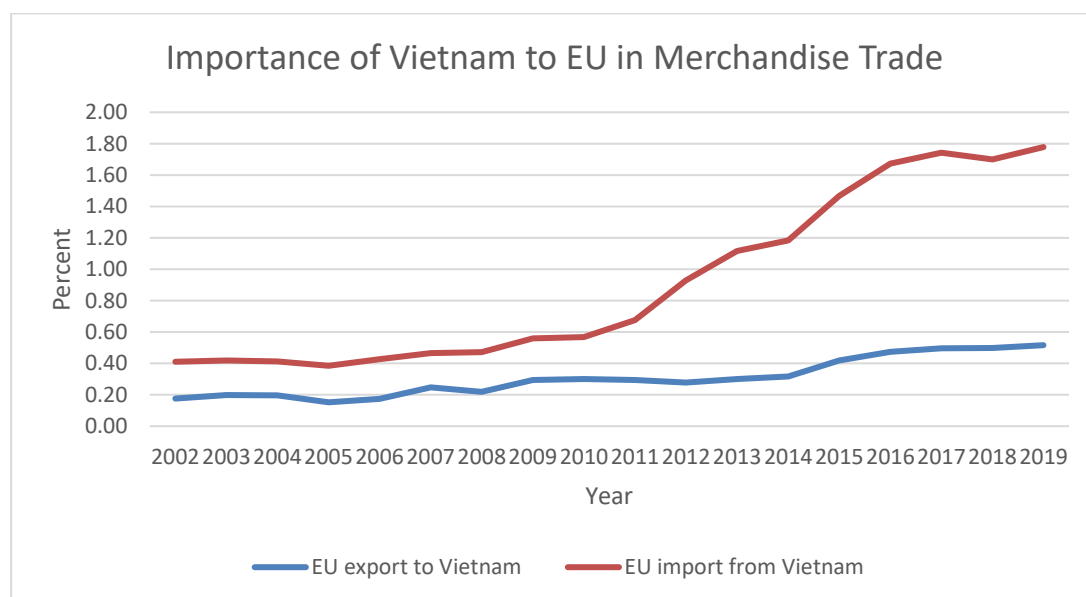
<sup>269</sup> European Commission and Directorate-General for Trade, *The economic impact of the EU - Vietnam free trade agreement* (Publications Office, 2019).

<sup>270</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement*.

<sup>271</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement*.

Vietnam which has been illustrated into two following figures; Figure 6: Importance of Vietnam to EU in Merchandise Trade and Figure 7: Importance of EU to Vietnam in Merchandise Trade.

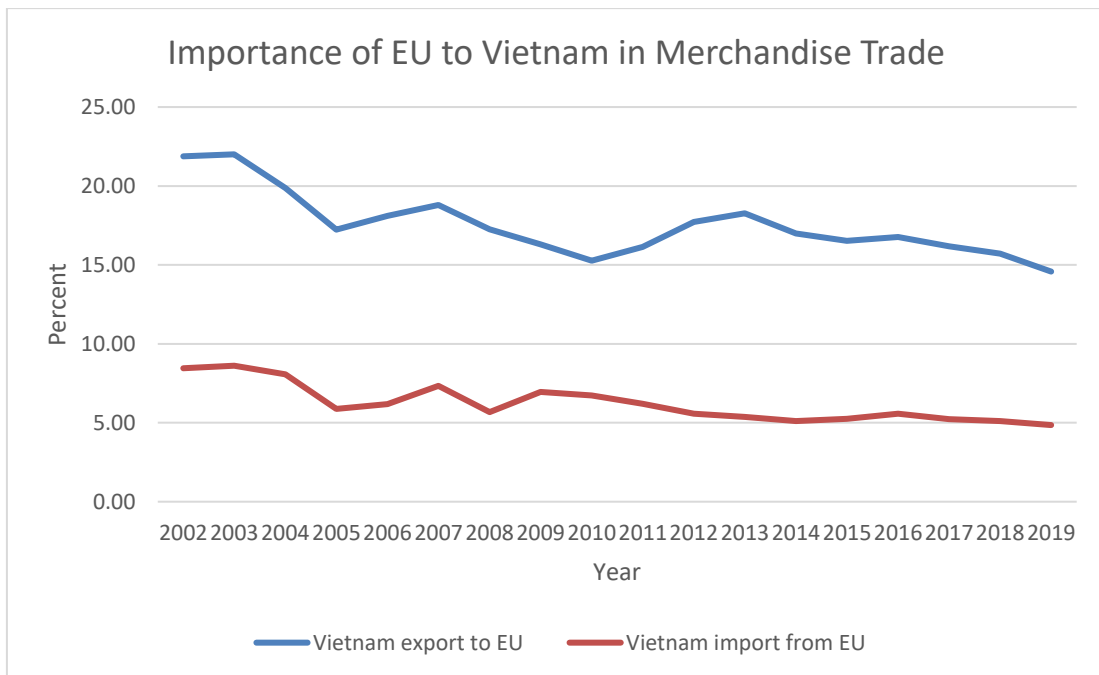
**Figure 6: Importance of Vietnam to EU in Merchandise Trade.**



Source: Global Trade Atlas

According to figure 6, from 2002 to 2019, the blue line represents the trend of EU export to Vietnam, the trend was not so different as the line is almost straight, the export percentage in 2002 was at 0.20 percent, and moved up to 0.50 percent in 2019, it is true that the number has increased but considering the increasing of 0.30 percent is a very small change. However, the big change can be seen in the red line which shows that the trend of EU import from Vietnam rises especially from 2009 to 2020. This significant rising trend of EU import from Vietnam means that the EU pays more attention to products from Vietnam since 2009 to 2020, the number from 2002 to 2020 is increased approximately four times higher. However, the percentage of both in import and export of EU to Vietnam is very small, this could be implied that Vietnam's importance to the EU in terms of merchandise trade is very low.

**Figure 7: Importance of EU to Vietnam in Merchandise Trade.**



Source: Global Trade Atlas

Figure 7 shows the importance of EU to Vietnam in Merchandise Trade, the red line represents the trend of Vietnam import from EU, and the blue line represent the trend of Vietnam export to EU. According to figure 7, the trend of Vietnam export to EU continue to decrease from 2002 to 2019, the proportion of Vietnam export to EU from 2002 to 2019 also decrease for almost 8 percent. The trend of Vietnam import from EU also decreases with the proportion of around 5 percent. From this graph, it could be implied that the EU is becoming less and less important to Vietnam. Although, the importance of EU to Vietnam is decreasing, the EU still has a lot of shares in Vietnam exporting market which is around 15 to 20 percent, this means that EU is still an important market to Vietnam even though its importance is decreasing.

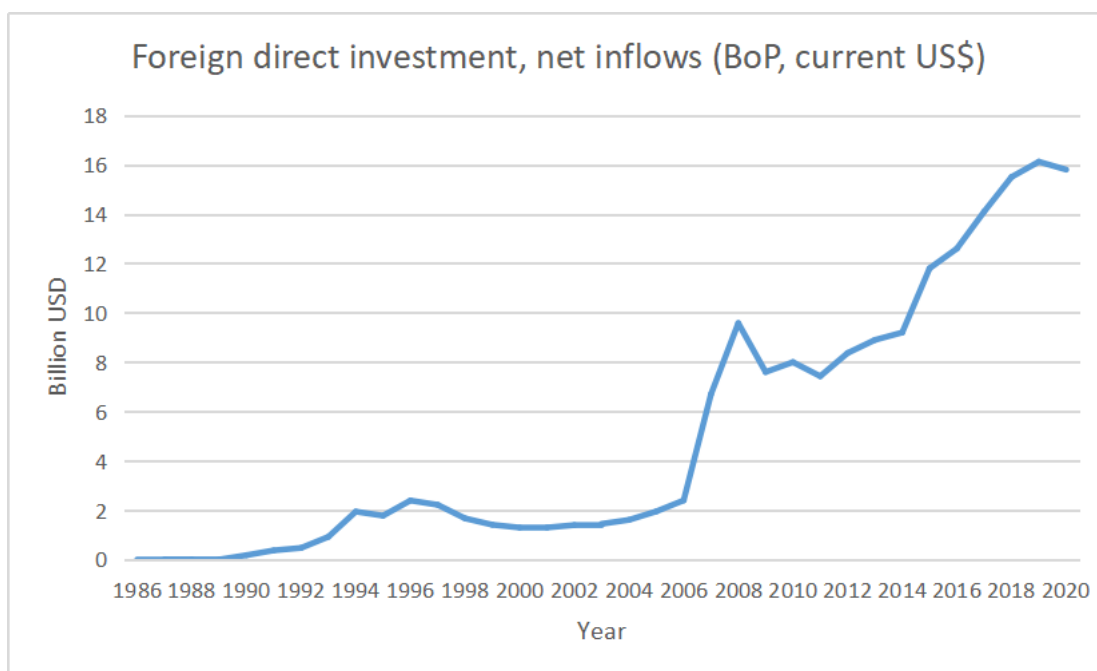
In conclusion, the proportion of Vietnam share in EU's import and export market are very low which is less than 1 percent share while the EU share in Vietnam market is comparatively high with 15 percent share in 2019. The two unmatched importance hint that Vietnam will gain more trade benefit from the EU.



## 4.5 Impact of EU - Vietnam FTA

To examine the impact of EU and Vietnam FTA, this part will examine the potential impact of EVFTA to Vietnam in terms of Foreign Direct Investment (FDI), GDP, Poverty, employment, and the potential impact of EVFTA to both EU and Vietnam.

### 4.5.1 Foreign Direct Investment in Vietnam



**Figure 8:** Vietnam's Foreign Direct Investment, net inflows

Source: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=VN>

Figure 8 shows the graph of Vietnam's Foreign Direct Investment, net inflows since 1986, the beginning of the Doi Moi reform to 2020. According to figure 8, from 1986 the graph rises to 1995 when Vietnam joined ASEAN Free Trade Agreement (AFTA), however, the graph drop around 1997 due to the Asian Financial Crisis which effect the FDI in Vietnam up to 2006, the graph rises rapidly until 2007 which is the year when Vietnam has become an official member of WTO. The graph dropped again in 2008-2009 due to Global Financial Crisis, the graph rises again in 2012-2013 as the EU decided to start negotiating EVFTA with Vietnam in 2013, and the graph continue to rise ever since.

**Table 2:** Foreign Direct Investment by Sector in Vietnam  
(Valid projects accumulated as of December 20th, 2021)

No.	Sector	Number of projects	Total registered capital (Mil. USD)	Percent
1	Manufacturing, processing	15,592	241,936.51	59.28
2	Real estate business	993	61,773.58	15.14
3	Production, electricity, gas, steam and air conditioning supply	175	33,876.67	8.30
4	Accommodation and food service activities	897	12,737.72	3.12
5	Construction	1,772	10,917.06	2.68
6	Wholesale and retail trade; repair of motor vehicles and motorcycles	5,581	9,091.10	2.23
7	Transportation and storage	918	5,797.58	1.42
8	Mining and quarrying	108	4,898.40	1.20
9	Education and training	608	4,434.40	1.09
10	Information and communication	2,456	4,246.22	1.04
11	Professional, scientific and technical activities	3,788	4,103.73	1.01
12	Agriculture, forestry and fishery	516	3,723.72	0.91
13	Arts, entertainment and recreation	137	3,392.34	0.83
14	Water supply, sewerage, waste management and remediation activities	81	2,905.94	0.71
15	Public health and social work activities	152	1,741.34	0.43
16	Administrative and support service activities	522	987.97	0.24
17	Financial, banking and insurance activities	79	788.69	0.19
18	Other service activities	145	729.00	0.18
19	Household's chores employment activities	7	11.07	0.00
<b>Total</b>		<b>34,527</b>	<b>408,093.02</b>	<b>100.00</b>

Source: Foreign Investment Agency, Ministry of Planning and Investment, Vietnam

Table 2 shows Foreign Direct Investment in Vietnam by sector as of 2021 which is arranged from the highest number of investments to the lowest. According to table 2, the total FDI investment in Vietnam as of 2021 is 408,093.02 million USD with 34,527 projects in total. The first sector that gained most investment is manufacturing and processing sector which worth 241,936.51 million USD and accounted for 59.28 percent of the total investment amount. The second rank is real estate business sector which is worth up to 61,773.58 million USD, followed by production, electricity, gas,

steam and air conditioning supply sector, accommodation and food service activities sector, and construction accordingly.

**Table 3:** Top 20 FDI Counterpart in Vietnam  
(Valid projects accumulated as of December 20th, 2021)

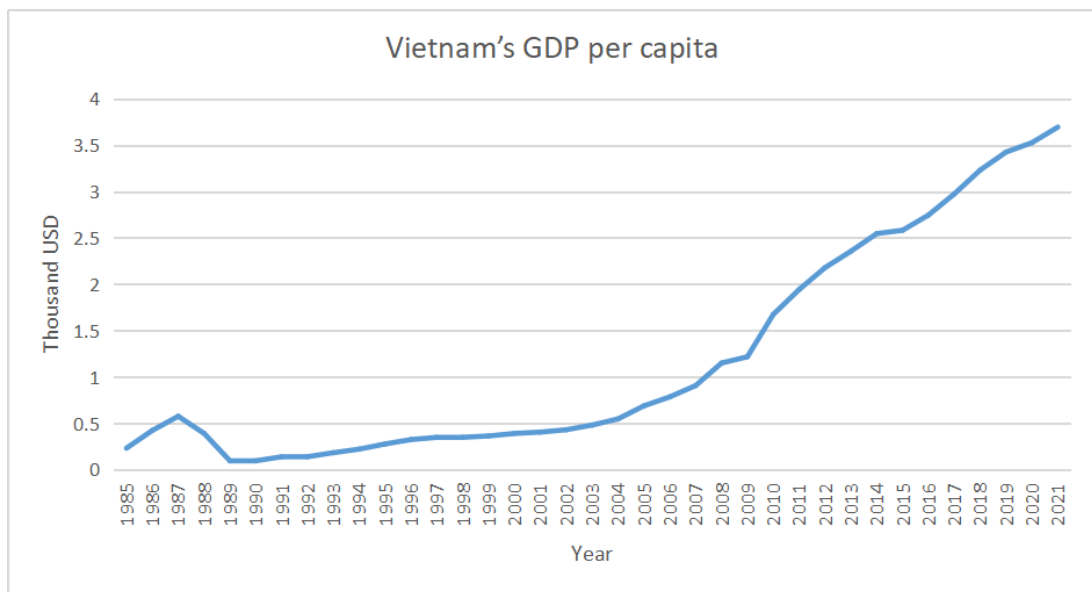
No.	Counterpart	Number of projects	Total registered investment capital (Mil. USD)	Percent
1	Republic of Korea	9,223	74,656.43	18.29
2	Japan	4,798	64,397.17	15.78
3	Singapore	2,836	64,361.64	15.77
4	Taiwan	2,845	35,327.38	8.66
5	Hong Kong	2,041	27,836.16	6.82
6	BritishVirginIslands	879	22,039.98	5.40
7	China	3,325	21,337.89	5.23
8	Thailand	644	13,007.82	3.19
9	Malaysia	665	12,805.57	3.14
10	Netherlands	381	10,468.24	2.57
11	United States	1,138	10,280.25	2.52
12	Samoa	403	8,596.91	2.11
13	Cayman Islands	126	7,048.98	1.73
14	Canada	233	4,817.89	1.18
15	United Kingdom	452	4,039.44	0.99
16	France	637	3,612.48	0.89
17	Germany	412	2,290.99	0.56
18	Luxembourg	56	2,106.71	0.52
19	Australia	550	1,936.80	0.47
20	Seychelles	262	1,896.12	0.46

Source: Foreign Investment Agency, Ministry of Planning and Investment, Vietnam

Table 3 shows data of the top 20 highest capital investment of FDI counterpart in Vietnam out of 140 counterparts. According to table 3, the four EU member countries namely the Netherlands, France, Germany, and Luxembourg have made it to the top 20 that invested the most in Vietnam as of 2021. Although, none of the EU member countries has made it to the top five, the total share of all EU member countries that invest in Vietnam as of 2021 is accountable for 22,016.92 million USD which would be ranked as the seventh highest investor in Vietnam.

#### 4.5.2 Gross domestic product (GDP)

Since 1986 when the Doi Moi reform was launched, Vietnam's GDP per capita increased from the previous year, however, in 1987 the economic crisis, the "Black Monday" stock market crash occurs which effect in the GDP dropped in the period between 1987-1989. From 1989 onward, Vietnam's GDP per capita has continue to rise ever since.



**Figure 9:** Vietnam's GDP Per Capita

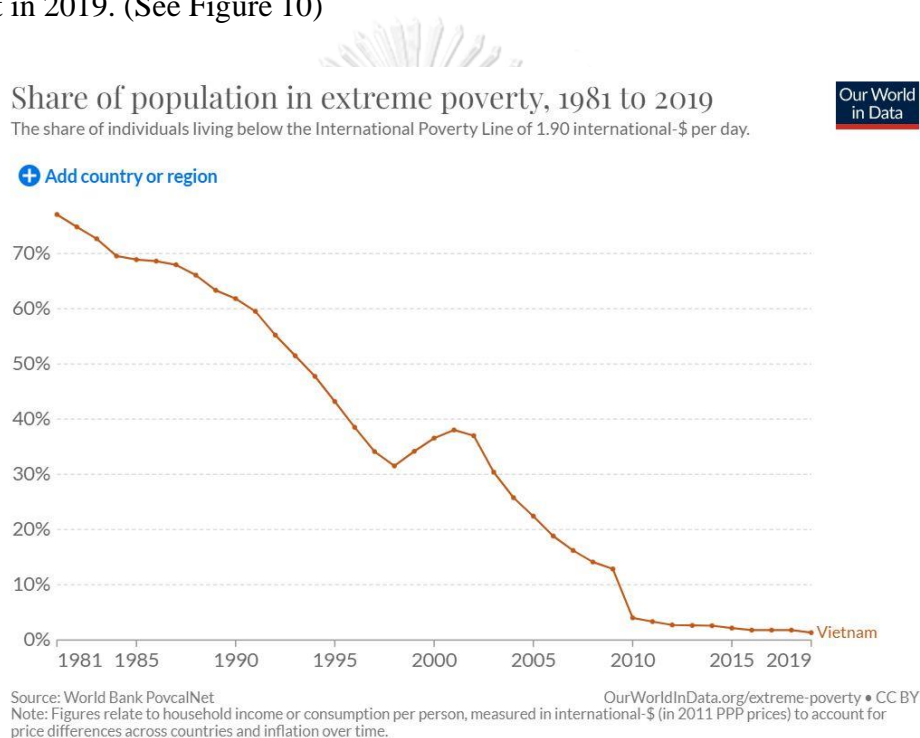
Source: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=VN>

According to the World Bank study, Vietnam GDP has potential to grow faster under EVFTA, the study estimated the GDP to increase 2.4 percent by 2030 alone without EVFTA but will increase to 6.8 percent when the productivity kick is applied.<sup>272</sup>

<sup>272</sup> World Bank, *Vietnam: Deepening International Integration and Implementing the EVFTA* (World Bank, 2020).

### 4.5.3 Poverty

Vietnam has a significant decreasing number of populations in extreme poverty since the Doi Moi reform was launch, between 1993 and 2014, Vietnam step from a low-income to middle-income country, lifted 40 million people out of poverty.<sup>273</sup> The percent of population in extreme poverty (living below 1.90 USD per day) decrease rapidly from 70 percent in 1985 to 30 percent in 1997. The Asian financial crisis in 1997 increased the percent of population in extreme poverty around that time, however, Vietnam has remarkably managed to decrease the share to be less than five percent in 2019. (See Figure 10)



**Figure 10:** Share of population in extreme poverty from 1981 to 2019

Source: <https://ourworldindata.org/extreme-poverty>

According to the World Bank study, poverty in Vietnam is expected to be decline from 29 percent in 2016 to 12.6 percent by 2030 at 5.50 USD per day purchasing

<sup>273</sup> "Working Together: Vietnam And The IMF," International Monetary Fund, 2022, accessed 16 July, 2022, <https://www.imf.org/en/Countries/VNM/vietnam-raising-millions-out-of-poverty>.

power parity.<sup>274</sup> However, with the EVFTA scenario, the poverty reduction would be more robust of further decreasing to 11.9 percent by 2030.<sup>275</sup>

#### 4.5.4 Employment

The EVFTA also has impacts on labour and employment, according to the Vietnam Ministry of Planning and Investment, the agreement is expected to increase 146,000 jobs per year in some sectors such as textile and garment industry is expected to increase 2.3 percent of employment by 2025, footwear industry has a growth rate of 4.3 percent by 2025, air transportation is expected to increase 1.5 percent by 2025, and water transportation is expected to increase 0.9 percent by 2025.<sup>276</sup> However, in some sector such as forestry, mining, and rice production, the employment is expected to be decreased from 0.26 percent to 0.36 percent per year.<sup>277</sup> Apart from the increase of employment, the EVFTA is also expected to increase labour's wage through more effective market operations and FDI spillover effects, according to the calculation of the Vietnam Ministry of Planning and Investment, the salary in FDI enterprises is expected to increase approximately one percent higher than the domestic ones.<sup>278</sup>

#### 4.5.5 The potential impact of EVFTA on the EU and Vietnam

According to the European Commission, the CGE model-based simulation confirms that the economic gain from EVFTA is likely to be different for the two parties.<sup>279</sup> The agreement is expected to increase 6 billion Euros in Vietnam's economic welfare by 2035 while the EU would only gain 1.9 billion Euros.<sup>280</sup> As the EU is the bigger trading partner to Vietnam than Vietnam to the EU, Vietnam would gain more economic return than the EU.<sup>281</sup> However, Vietnam takes more effort in liberalization

<sup>274</sup> Bank, Vietnam: *Deepening International Integration and Implementing the EVFTA.*

<sup>275</sup> Bank, Vietnam: *Deepening International Integration and Implementing the EVFTA.*

<sup>276</sup> Trade, "The Effective Impacts Of The EVFTA On Labor, Employment And Social Security."

<sup>277</sup> Trade, "The Effective Impacts Of The EVFTA On Labor, Employment And Social Security."

<sup>278</sup> Trade, "The Effective Impacts Of The EVFTA On Labor, Employment And Social Security."

<sup>279</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement.*

<sup>280</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement.*

<sup>281</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement.*

than the EU, this means that there is more benefit aspect rather than economic returns.<sup>282</sup>

From the CGE model-based simulation studied by the European Commission, the calculation shows that without EVFTA impact since 2020 when the FTA entered into force to 2035 the EU export to Vietnam will increase up to 29 percent as much as 8 billion Euros while Vietnam export to EU will increase 18 percent as much as 15 billion Euros.<sup>283</sup>

**Table 4:** Impact on EU trade of specific sectors with Vietnam

No	Sector	Export to Vietnam (Million EUR)	Import from Vietnam (Million EUR)
1	Textiles	349	929
2	Wearing Apparel	91	5091
3	Leather Products	448	7477
4	Chemicals, Rubber and Plastics	655	126
5	Motor Vehicles	1538	10
6	Transport Equipment	527	75
7	Electronic Equipment	56	-196
8	Other Machinery and Equipment	575	-32
9	Communications	632	174
10	Business Services	535	543

Source: European Commission, GDyn simulation results

According to table 4, the most impact is the increasing of Vietnam exports to EU such as wearing apparel and leather products while some export of Vietnam to EU is expected to decline such as electronic equipment, and other machinery and equipment. This means that the FTA will promote Vietnam's specialization in the sector where Vietnam usually has comparative advantage.<sup>284</sup>

At the same time, the EU export to Vietnam is expected to increase in the sector of motor vehicles, chemicals rubber and plastics, communication, other machinery and equipment, business service, transport equipment, and leather product.

<sup>282</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement*.

<sup>283</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement*.

<sup>284</sup> Commission and Trade, *The economic impact of the EU - Vietnam free trade agreement*.

## **4.6 Opportunity for EU-Thailand FTA**

After the EVFTA has been examined about how Vietnam has overcome all the challenges to be able to conclude trade negotiation with the EU, it is time to explore whether there is an opportunity for EU-Thailand FTA by examining the challenges, and the potential impact of EU-Thailand FTA.

### **4.6.1 EU-Thailand FTA challenges**

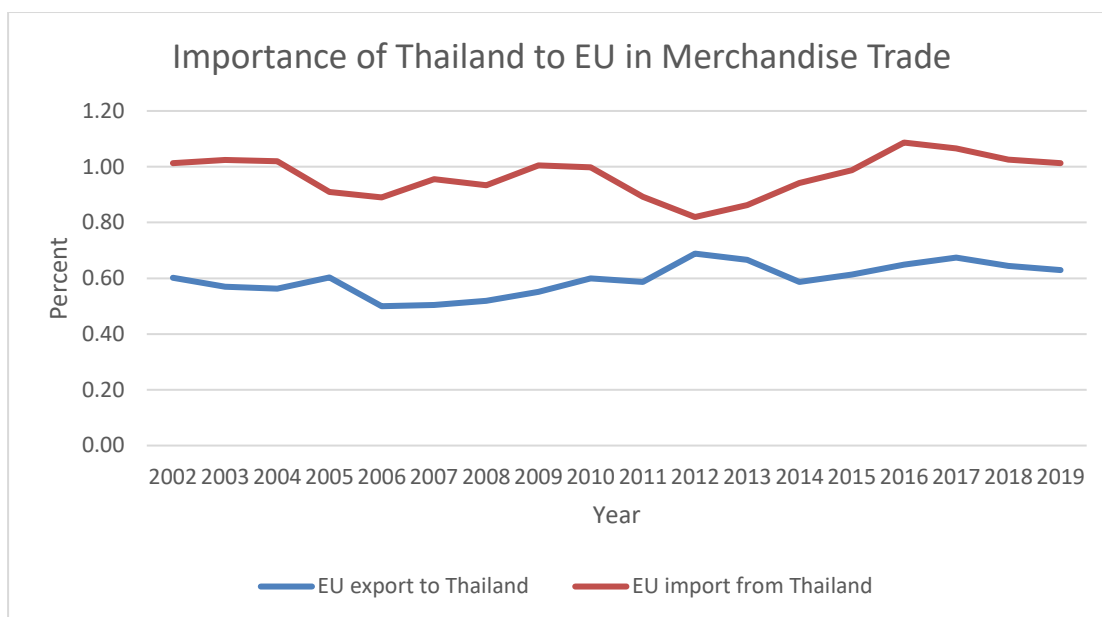
To examine EU-Thailand FTA challenges, in this part, the study will analyse the trade fact about the importance of Thailand to EU in merchandise trade and the importance of EU to Thailand in merchandise trade using the same equation (equation 1) which has been used earlier to analyse the importance of merchandise trade between the EU and Vietnam.

#### ***4.6.1.1 Importance of Merchandise Trade between EU and Thailand***

The importance of merchandise trade between EU and Thailand shows the whole picture of trade in goods, its importance is measured by the ratio between EU and Vietnam which has been illustrated into two following figures; Figure 11: Importance of Thailand to EU in Merchandise Trade and Figure 12: Importance of EU to Thailand in Merchandise Trade.

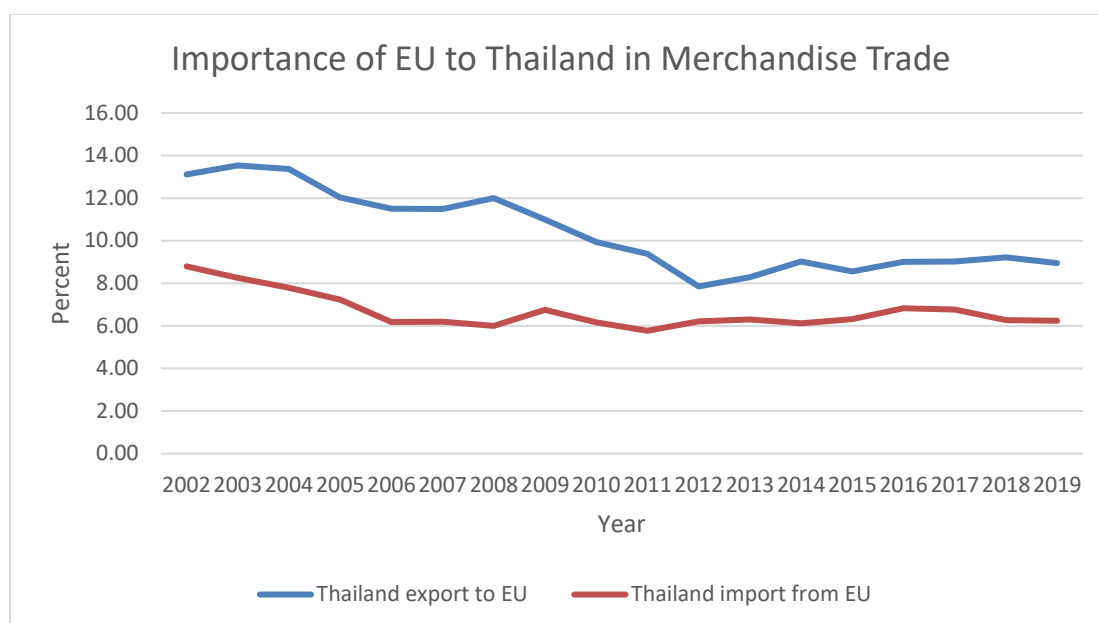


**Figure 11: Importance of Thailand to EU in Merchandise Trade**



Source: Global Trade Atlas

Figure 11 shows the importance of Thailand to EU, the blue line represents the EU export to Thailand and red line for EU import from Thailand. According to the figure 11, proportion of EU export to Thailand is around 0.6 percent, and although the proportion is very small, the percentage of EU export to Thailand is more than EU export to Vietnam (in comparison to figure 6). In terms of EU import from Thailand, the proportion is around 1 percent, in comparison to figure 6, from year 2009 onwards, the EU imports from Vietnam more than from Thailand. This means that the EU tends to import from Vietnam more while the trend of EU imports from Thailand stays the same, this may be because after Vietnam open its economy, and the very welcoming policy for FDI to attract investor into the country, many countries move their production to Vietnam then export back to the EU which is why the EU imports more from Vietnam.

**Figure 12: Importance of EU to Thailand in Merchandise Trade**

Source: Global Trade Atlas

According to Figure 12, the trend of Thailand export to EU is decreasing as well as import, however, the proportion of Thailand export to EU is high which is around 9 to 13 percent, and the proportion of Thailand import from EU is around 6 to 9 percent. Although the trend of import and export are dropping, the proportion of import and export remain, this means that the EU is important to Thailand but not otherwise.

#### 4.6.1.2 *The potential impact of the EU-Thailand FTA*

As for Thailand, the FTA would make Thailand an attractive destination for FDI in high-tech investment as Thailand has high capability to support the manufacturing of advance-technology in Global Supply Chain. According to Institute of Future Studies for Development (IFD), the study shows that the FTA would boost Thailand's GDP up to 1.63 percent and raise import and export up to approximately 3.42 percent per year.<sup>285</sup> The household consumption and public welfare is expected to be boosted by the FTA.<sup>286</sup> Thai products are expected to benefit from more export of automobiles

<sup>285</sup> "An EU-Thailand Free Trade Agreement," European Association for Business and Commerce, 2021, accessed 12 July, 2021, <https://www.eabc-thailand.org/an-eu-thailand-free-trade-agreement/>.

<sup>286</sup> Commerce, "An EU-Thailand Free Trade Agreement."

and parts, garments, electronics, chemicals, rubber, plastic, food and processed food products, machinery and parts, construction and leather products.<sup>287</sup>

**Table 2:** Effect of EU-Thailand FTA

<b>Effect of EU-Thailand FTA</b>		
<b>Effect on</b>	<b>Long-term</b>	<b>Short-term</b>
Thai Welfare (million USD)	2,800	671
GDP (%)	1.28	0.09
Trade Balance (million USD)	-263	-1,951
Export (%)	2.83	0.87
Import (%)	2.81	1.82
Poverty (people)	-274,820	-159,616
Cultivator Income (%)	1.06	0.44
Skilled Labor Wage rate (%)	1.11	0.75

Source: Institute of Future Studies for Development

Table 2 shows the forecast of the long-term and short-term effect of EU-Thailand FTA, it indicates that Thai welfare will increase 671 million USD more in short-term and 2800 million USD in long-term. The GDP will increase 0.09 more percent in short-term and 1.28 percent in long-term. As for trade balance, Thailand will face a trade deficit in both long term and short term, in short term the trade deficit will be around 1,951 million USD but the number will later decrease, in long-term the trade deficit will reduce to 263 million USD. Percent of import and export will also increase in a long term, Number of poverties will decrease which in short-term, it will pull out 159,616 from poverty, and 274,820 in long-term. Cultivator income and Skilled labour wage rate will also increase over time.

According to the survey of Institute of Future Studies for Development on the Thai entrepreneur opinion and expectation from the EU-Thailand Free Trade Agreement, the entrepreneurs want the Thai government to proceed with the liberalization of trade by allowing foreigners to do business in Thailand and the government need to set

<sup>287</sup> Commerce, "An EU-Thailand Free Trade Agreement."

clear requirements to prevent competitive labour market of Thai occupations.<sup>288</sup> There should be quality control of Thai product and if there is any modification to regulations of trade, the government should discuss with the citizens and entrepreneurs to find a mutual agreement.<sup>289</sup> To trade with the EU, the government need to do a market study to be able to compete with the neighbouring countries, the study should cover all effect that might occurs to the industries and help reduce the negative effect.<sup>290</sup> The government should help develop skill of Thai labours and increase product quality measures to be at the same level as the EU.<sup>291</sup>

According to the survey of Institute of Future Studies for Development, products that Thai entrepreneurs want the EU to reduce tariff on export product are mostly agriculture product such as rice, corn, palm oil, coconut, rubber, etc. and most of products that Thai entrepreneurs want to reduce import barrier are food and machinery.

As for the EU, Thailand is the EU's 26<sup>th</sup> biggest trading partner and 17<sup>th</sup> for imports. Most of the EU imports from Thailand, by far, are machinery and vehicle which share 38 percent of EU's total import in 2021.<sup>292</sup> <sup>293</sup> According to ASEAN Briefing, the product group that will benefit most from EU-Thailand FTA are machinery and appliance, electronics, and vehicle manufacturing.<sup>294</sup> The EU-Thailand FTA would

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<sup>288</sup> "โครงการศึกษาผลกระทบจากการจัดทำความตกลงการค้าเสรีไทย-สหภาพยุโรป," Department of Trade Negotiation, 2020, accessed 23 July, 2022, <https://api.dtn.go.th/files/v3/5fbf33b7ef41400a67730d7d/download>.

<sup>289</sup> Negotiation, "โครงการศึกษาผลกระทบจากการจัดทำความตกลงการค้าเสรีไทย-สหภาพยุโรป."

<sup>290</sup> Negotiation, "โครงการศึกษาผลกระทบจากการจัดทำความตกลงการค้าเสรีไทย-สหภาพยุโรป."

<sup>291</sup> Negotiation, "โครงการศึกษาผลกระทบจากการจัดทำความตกลงการค้าเสรีไทย-สหภาพยุโรป."

<sup>292</sup> Eurostat, "Extra-EU Trade In Goods - Statistics Explained," (Brussels: Eurostat, 2022). [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Extra-EU\\_trade\\_in\\_goods](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Extra-EU_trade_in_goods).

<sup>293</sup> "Thailand and the EU Resume Free Trade Agreement Negotiations," ASEAN Briefing, 2021, accessed 3 August, 2022, <https://www.aseanbriefing.com/news/thailand-and-the-eu-resume-free-trade-agreement-negotiations/#:~:text=The%20military%20directly%20ran%20the,June%202021%20to%20resume%20negotiations>.

<sup>294</sup> Koty, "Thailand and the EU Resume Free Trade Agreement Negotiations."

benefit the EU-based industries in Thailand such as machines and appliances, apparel, and food and beverage.<sup>295</sup>

In 2019, the EU has taken action to deepen its relationship with Thailand, particularly by resuming discussions over a comprehensive free trade agreement which led to an agreement in 2021 to resume the trade negotiations with Thailand.<sup>296 297</sup>

#### 4.7 Conclusion

The Doi Moi reform in 1986 has turned Vietnam's economic status from the low-income country to middle income country with the openness of trade policy and Vietnam's eager liberalize its economy and integrated with the global economy. Since the joining of AFTA in 1995 and WTO accession in 2007, Vietnam has become more active in Regional and Global Value Chains. With Vietnam's readiness in infrastructure, low wages/cheap labour, educated and young labour, and the openness of its trade policy, these attract Foreign Direct Investment to invest in Vietnam. Vietnam's activeness in GVC and high investment from FDI has increase employment, export, and enhance Vietnam's economic growth. As the EU is also an active player in the GVC, many EU member countries invested a lot in Vietnam with the total of 22,016.92 million USD in 2021, the total investment of all EU member countries ranked the EU as the seventh biggest investor in Vietnam.

As for the impact of EVFTA on the EU, the CGE model-based simulation by the European Commission shows that Vietnam would gain more economic return than the EU. The GDyn simulation by the European Commission indicates that only some sector in the EU and Vietnam will enjoy the benefit of EVFTA, which the FTA will promote each party's specialization in the sector where one usually has comparative advantage while some sector will lose from this agreement. Hence, through greater FDI and GVC activity between Vietnam and EU, EVFTA would lead EU to better access to a developing manufacturing hub in the ASEAN and Vietnam is considered a good strategy of entering the booming ASEAN and wider Asian market.

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<sup>295</sup> Koty, "Thailand and the EU Resume Free Trade Agreement Negotiations."

<sup>296</sup> "EU Trade Relations with Thailand," European Commission, 2022, accessed 19 August, 2022, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/thailand\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/thailand_en).

<sup>297</sup> Koty, "Thailand and the EU Resume Free Trade Agreement Negotiations."

However, as good as Vietnam sounds, the fact that Thailand also used to be one of the EU destinations in FDI and GVC, and Thai and Vietnamese goods that export to the EU are very similar, and the EU also export many similar products to these countries, what changes the EU mind out of the sudden? Is it because Thailand that couldn't conclude FTA with the EU or is it the EU that couldn't conclude FTA with Thailand? From this study, there is no strong economic reasons to explain the EU decision to conclude FTA with Vietnam before Thailand, the reasons of the delayed process of EU-Thailand FTA negotiation might be more of political than economic reasons.



## **Chapter V**

### **Conclusion and Implications for Thailand**

#### **5.1. Conclusion**

International relations are a combination of history, geography, politics, and economics between two or more parties. This study finds that to understand better about the EU decision in negotiating with Vietnam and the reasons for suspension of EU-Thailand FTA negotiation, it is important to know all the aspect of history, geography, politics, and economy before making any judgement and conclusion.

In historical context, the relationship between the European countries and Vietnam since the sixteenth century has paved the way for trade relations and integrate some of their culture, beliefs, and way of life into Vietnam's society. It is undeniable that during the French colonization, French had built relationship with Vietnam during that period which may be later affect Vietnam-France-EU relations. Although, the relationship had been frozen after the communist party took over, both parties resumed their relationship when the communist party decided to reform the way Vietnam interacted with the world. France had been trying to maintain a good relationship with Vietnam by using a pragmatic policy when Vietnam shut itself from the world.

The long-standing relationship especially between France and Vietnam led to a stronger relationship between Vietnam and the EC when the Doi Moi Policy was launched. The relationship of Vietnam and the EU in the beginning was more of aid-doner relations, the EC was one of the very first to have helped develop Vietnam in many aspects from humanitarian to trade. It began with a humanitarian dimension followed by economic and environmental dimensions when later trade become more important than aid. With the EU's help and Vietnam's enthusiast to reform its social and economic policy to be more open to the world has strengthen the relationship between both parties to be where they are today. Therefore, it is undeniable that history took part in paving the way for EU-Vietnam FTA negotiations.

In geographical context, Vietnam has always had a strategic position in Southeast Asia in world politics. Vietnam's land border is connected to China and other ASEAN countries, it is connected to the Mekhong delta and part of its territory includes islands in the South China Sea. Vietnam had rich natural resources from the sea, forest and mining. In colonial times, France saw Vietnam as an economic gateway to China. With its strategic location, Vietnam makes a good buffer state between China and ASEAN countries. Later, France regarded Vietnam as a gateway for France to ASEAN, and France as a gateway for Vietnam to the EU. As France sees the importance of Vietnam, they found it more useful to leverage the EU to extend their relationship with Vietnam. As for the case of the South China Sea, Vietnam who is involved with the South China Sea dispute, makes a good link for the EU to join the balance of power game in Southeast Asia as Vietnam is having a dispute over a sea territory with a powerful country like China. Therefore, when it comes to geopolitics, Vietnam is considered a good choice as a gateway for the EU to enter the Southeast Asia region.

The assumption of EU's interest in South China Sea dispute is confirmed by the *'Global Strategy for the European Union's Foreign and Security Policy'* (EU Global Strategy) and *'the EU Strategy for Cooperation in the Indo-Pacific'*, that the EU is concerned of the South China Sea dispute as the EU's external crisis could affect the EU security and its internal policy, the EU's foreign trade need to pass through South China sea, the EU wish to expand their security involvement in the South China sea claiming 40 percent of EU's foreign trade need to pass through South China sea.

In a political context, the EU Global Strategy (EUGS) which sets out a principle guiding EU's external action and priorities of the EU external action has mentioned that *'Principled Pragmatism'* will be the new EU strategy in its foreign policy and external action, meaning the EU will be more realistic and be more practical when they are doing business with others. In doing foreign business, each policy and action will be handled and considered on a case-by-case basis, and trade agreement will be use as one of the EU's tools to complete its goal. The EU's Principled Pragmatism together with its concern of security in South China sea, its ultimate goal to build ASEAN-EU Free Trade Agreement, and the using of trade agreement as its tool to



complete its goal, altogether makes a good explanation for the EU to conclude trade with Vietnam even though Vietnam is a communist country. As for Thailand, the EUGS emphasize that one of the EU priorities is to underpin human rights protection and rules-based governance which has always been the EU norms and values, Thailand military takeover is in disregard to the EU norms and the use of trade agreement as a tool for a smart sanction makes a good explanation for the suspension of EU-Thailand trade negotiation. The different approach of treating Vietnam and Thailand differently does not point out that the EU is having a double standard but rather explain with its foreign policy written in the EUGS that each case will be considered on a case-by-case basis.

As for an economic context, since 1986 the Doi Moi policy has made a progressive impact on Vietnam's economy. The EU has been a very active partner that offered Vietnam aid and helped with integration into the global economy. Vietnam is also eager and enthusiast to integrate with world economy, Vietnam openness brought a lot of changes to Vietnam such as the changes of Vietnam law in trade to attract foreign direct investment and the joining of several regional economic cooperation groupings. As of now, Vietnam has concluded 14 FTAs in total including the CPTPP. In Global Value Chains both Vietnam and the EU has also been an active player, in fact the role in Global Value Chain of these two countries complemented each other where the EU plays big role in the upstream and downstream of the smiley curve and Vietnam is at the chin of the curve which is a manufacturing process. According to the EU external trade policy, the EU's trade strategy 2012 and 2015 complemented Vietnam's economic status as a compatible trading partner with the EU. Vietnam already enjoyed the Generalized Scheme of Preferences from the EU and has become the EU's 17th trading partner globally and the EU's second largest trading partner in ASEAN. The EU plays a major foreign direct investment role in Vietnam while Vietnam is active in the manufacturing process in the GVC. The exports and imports between the EU and Vietnam keep soaring. The data analysis of the importance of Vietnam to the EU in comparison to Thailand shows that both Thailand and Vietnam are in the same position when it comes to trade with the EU, both countries has almost the same trade ratio in import and export with the EU which they would enjoy the

benefit of Free Trade Agreement more than the EU as both countries has a trade surplus while EU has a trade deficit trading with both countries.

Regarding the study of economic context, the data analysis has proven that Thailand and Vietnam are in the same position when trading with the EU, both countries also sell and buy the same product from the EU with slightly insignificant amount, the economic study couldn't conclude that economic alone would be the major factor for the EU decision for the EU to conclude FTA with Vietnam before Thailand. According to the EU decision making process in trade negotiation, trade negotiation between EU and Vietnam only took three years while the ratifying process takes around five years for EVFTA to be able to enter into force, the ratifying process needs a consent of the Council of the EU and the EU Parliament which both bodies are considered a political part, this means that politics plays major role in deciding in EU-Vietnam FTA and there is a possibility that the suspension and delayed of EU-Thailand FTA is also the case.

## **5.2. Implications for Thailand**

As an implication for Thailand, France and Vietnam have a long-shared history since the colonial period. France is a key player in leveraging the EU to extend their relationship with Vietnam, while Thailand on the other hand does not have that former colonial privilege. This explains why Vietnam has more advantage in the historical context which link to a stronger relationship between Vietnam and the EU member countries like France. Although Thailand may not have such a colonial privilege, it's not too late for Thailand to build a strong relationship with the EU as the EU nowadays, has been very open to building a strong connection with many countries around the world.

As for a geographical context, although Thailand did not involve in a South China sea dispute like Vietnam, Thailand can use its location of being in the centre on the land of five connected ASEAN countries as an advantage to serve as a link for the EU to connect to other ASEAN countries. Thailand's centrality could be benefit by being a transportation hub for the import and export of goods between ASEAN and the EU.

In politics and economy, the EU's global strategy and the EU Strategy for Cooperation in the Indo-Pacific could be used as a diplomatic guideline for Thailand to enhance the relationship with the EU knowing which direction the EU is heading towards and its priorities. What Thailand can learn from Vietnam is that Vietnam has been very enthusiastic to integrate with world economy, Vietnam has been very open to take any action needed to trade with the EU and the world. Vietnam was willing to reform its law and regulations (regulatory guillotine) to elevate themselves to meet a global standard, the government also issues several policies to attract Foreign Direct Investments. Vietnam's openness and readiness are possibly what makes it attractive.

The fact that Vietnam has concluded many interesting trade agreements such as CPTPP or Vietnam - Eurasian Economic Union Free Trade Agreement, while Thailand's trading partners are less various in terms of trading bloc highlights that Thailand involve itself more in other trading blocs when the more blocs mean more markets, and as 'Friend-Shoring' might be the new trend of trade in the near future, it is always better to be in a loop of a trading bloc.

Also, since the EU-Vietnam negotiation was being process during 2012 to 2015, but as of now, the EU's strategy, interests, and trends have changed over time, the EU is now paying more attention to climate change and sustainability as reflects in the European Green Deal which requires EU's trading partners to comply with the EU Green Deal regulations such as the Carbon Border Adjustment Mechanism (CBAM). The opportunity for Thailand to conclude the EU-Thailand FTA is now more challenging than ever. Since the EU-Thailand trade negotiation is now back on the table, the question lies in Thailand's capabilities, whether Thailand has a potential to trade and to conform with the EU's norms and direction nowadays.

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End Note

<sup>i</sup> Original currency was called the ECU (European Currency Unit) which was introduced in 1979 and later became the Euro in 1999