

Why the New Vietnam-EU Economic Pacts Matter

A closer look at the significance of a recent development between the two sides.

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On June 30, Vietnam and the European Union finally signed a pair of trade and investment pacts. While the development came after a long delay and its future prospects remain uncertain, it nonetheless bears economic and geopolitical significance for both sides as well as the wider Asia-Pacific region.

While Vietnam has long had ties with select European states, Hanoi and the EU as a bloc have focused on expanding ties over the past few years. Vietnam has looked to broaden relations with a range of powers as part of its longstanding, multidirectional foreign policy, while the EU has eyed opportunities to further boost ties with Southeast Asian countries given the subregion's rising geopolitical significance.

The framework for these growing ties was formally set out in the 2012 EU-Vietnam Partnership and Cooperation Framework Agreement (PAC), which governs overall relations between the two parties across a range of areas. The PAC took effect in 2016. Along the way, there have also been individual efforts to increase collaboration in specific realms, be it on defense or in the economic realms.

On the economic side, one of the key mutual initiatives has been the pursuit of formal economic agreements. The EU and Vietnam had been discussing the prospect for years, with the EU as Vietnam's second-largest export market after the United States, and Vietnam one of the fastest-growing economies in Asia and the second-largest economic partner of the EU within Southeast Asia. But while substantive negotiations began in 2012 and had been more or less concluded back in 2015, lingering challenges, including in the area of democracy and human rights, delayed the finalization of a pact by the two sides.

On June 30, the EU and Vietnam officially inked the EU-Vietnam Free Trade Agreement and the Investment Protection Agreement in a ceremony in Hanoi. A joint press statement by EU Trade Commissioner Cecilia Malmström and Vietnamese Minister of Industry and Trade Tran Tuan Anh following the official signing said that the agreements "mark a milestone in our strong partnership." In a separate statement, the Vietnamese government called it a "historic moment."

While laudatory comments are customary at such occasions, the substantive significance of the agreement ought not to be understated. On the economic front, apart from what the agreements will do – including eliminating tariffs, reducing regulatory barriers, and opening up services and public procurement markets – they will also bring benefits for bilateral ties and for the economies of both sides. For instance, per official figures disclosed by the Vietnamese government, the agreements are expected to increase EU exports to Vietnam by 15.28 percent by 2020 and boost Vietnam's gross development product (GDP) by around 2 to 3 percent annually by 2023.

Beyond that, the agreements have wider geopolitical significance. For the EU, even though this is only its second formal economic arrangement of this kind with a Southeast Asian country, after Singapore, it is nonetheless a boost for the bloc's efforts to enhance its economic footprint

in the subregion more broadly. The concluded agreements, combined with ongoing negotiations with other countries, serve as stepping stones for an eventual EU-ASEAN region-to-region FTA. For Vietnam, the agreements offer a much-needed boost for its ties with Europe, which have come under stress, with potential knock on effects in other realms of EU-Vietnam ties as well as on Hanoi's relations with individual European countries.

More generally, the story of more formalized EU-Vietnam economic cooperation is also a rare story of collaboration, bucking the doom and gloom that dominates the headlines amid rising populism and protectionism. Both the EU and Vietnam have been dealing with various manifestations of this, with the EU wrestling with the ongoing issue of Britain's exit from the bloc (dubbed "Brexit") and Vietnam contending with the ongoing the U.S.-China trade war and the economic nationalist impulses of the Trump administration. Given this context, it is no surprise that both the EU and Vietnam have repeatedly cited the agreement as being an example of open, rules-based economic collaboration.

Of course, the future direction of the new EU-Vietnam economic agreements is still far from completely clear. They will have to be presented to the legislatures for consent, and while little resistance is expected in Vietnam, on the EU side, there still remain some lingering issues, including on democracy and human rights and in areas such as labor and environmental standards, that could yet prove to be obstacles. Furthermore, even if approval does materialize, like most economic agreements of this kind, both sides will only realize their full value with quick and thorough implementation, which will present its own challenges.

Nonetheless, the fact that the EU and Vietnam have finally inked these deals is a significant development for each of the two parties individually, for the relationship between them, and for the wider region and the world. While getting this over the line has been far from easy, the persistence shown by the EU and Vietnam to do so is testament to how much they both value this and understand the full impact it could potentially have