Vietnam Case

Assessing potential impacts of the EU-ASEAN Free Trade Agreement on Vietnam's socio-economic development

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as requested by
the Vietnam Peace and Development Foundation

Introduction

The Association of South East Asian Nations (ASEAN) has long economic ties with the EU. Long historical relationship between the concerned countries has given rise to and sustained current socio-economic relationship. In 2006, bilateral trade between the EU and ASEAN made up a share of 5 percent of total world trade. The EU is ASEAN's 2nd largest trading partner, accounting for 11.7 percent of ASEAN trade, while ASEAN altogether represents the EU's 5th largest major trading partner (European Commission 2009). ASEAN-EU bilateral trade has recently experienced a steady growth, reaching 4 percent per annum on average in 2003-08. Seeing great potential in ASEAN, EU is also the largest investor in ASEAN countries in 2001-05, accounting for almost 27 percent of total FDI inflows into the latter.

In addition, the ASEAN in general and Vietnam in particular are exhibiting a dynamic growth pattern, resting on radical domestic reforms and pro-active international economic integration. Following the waves of widespread free trade agreements (FTAs), the ASEAN has completed FTAs with many countries and regions, whilst being in negotiation of similar deals with others. An FTA deal with the ASEAN is thus critical to the EU.

The long-term economic benefits of the EU-ASEAN FTA remain questionable whether the deal should be signed and enacted at this stage. Vietnam has in fact made enormous socio-economic achievements thanks to, among others, pro-active economic integration. Yet this experience by no means ensures further socio-economic successes when the country signs more (multilateral and bilateral) trade deals. This paper, therefore, attempts to investigate the potential impacts of the EU-ASEAN FTA on Vietnam's socio-economic condition.

The paper is structured as follows. Section 1 provides a brief overview of Vietnam's trade agreements. Section 2 then describes the general impacts of those trade agreements and integration, focusing on the years 2007-08 after Vietnam becomes member of the World Trade Organization (WTO). The Section also discusses some major challenges in economic integration process of the country thus far, related to the contents of EU-ASEAN FTA, including financial stability, intellectual property rights, and food security. From these experience, Section 3 projects the potential socio-economic impacts of the EU-ASEAN FTA on Vietnam, if it is to be implemented. Section 4 eventually draws out the conclusions and makes several policy recommendations.

1. Overview of Vietnam's trade agreements

The most prolonged and comprehensive integration attempts that Vietnam has made so far is its application for WTO membership. Notwithstanding its application in early 1995, Vietnam had not yet started its bilateral negotiations until January 2002. From then on to mid-2006, the country has held and concluded the bilateral talks with 27 WTO Member countries concerned. Towards the end of October 2006, the country has also finalized multilateral negotiations with the Working Party. In November 2006, Vietnam was then accepted as the 150th Member country of the WTO, with its commitments to be implemented from January 11, 2007.

At the regional level, Vietnam has been a signatory to the regional trade agreements of APEC and ASEAN. Together with other APEC Member economies, Vietnam participated in the Bogor declaration in 1994 with commitments to reduce tariff and other trade barriers. Specifically, Vietnam is to achieve free trade and investment for Asia-Pacific countries by 2020 (Bogor Goals). In November 2006, Vietnam hosted the APEC Economic Leaders' Meeting, with a number of active contributions to APEC process throughout the year.

The agreements under the ASEAN framework are more comprehensive, with commitments covering all products and services, and other trade-related provisions. Within the scope of ASEAN agreement, after its accession in 1995, Vietnam is also committed to trade and investment liberalization. Such commitments include the tariff reduction of 95 percent of products to between 0-5% in 2006, through the Common Effective Preferential Tariff (CEPT), and pushing services trade liberalization in accordance with the ASEAN Framework Agreement on Services (AFAS). In addition, as a member of ASEAN, Vietnam is a signatory in the ASEAN-China Framework Agreement on Comprehensive Economic Cooperation (in November 2002), ASEAN-Korea Framework Agreement on Trade in Goods, and ASEAN-Japan Framework Agreement on Comprehensive Economic Partnership (in October 2003). Notably, after some period of implementing the Early Harvest Program (EHP), in 2006, ASEAN and China started to implement further commitments in trade in goods, under the ASEAN-China Free Trade Agreement (ACFTA). In April 2008, along with other ASEAN countries, Vietnam signed the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which includes the elimination of tariffs on 82 percent of imports from Japan. Recently, the country also signed the ASEAN-Australia-New Zealand FTA, and is also participating in the negotiation of other FTAs.

At the bilateral level, Vietnam has concluded bilateral trade agreements (BTAs) with about eighty countries, of which the Vietnam-US and Vietnam-EU trade agreements are of particular importance. The Vietnam-EU trade agreement in July 1995 provides for sustained dialogue, and cooperation in the trade and commercial sectors, with particular emphasis on intellectual property rights, environmental protection, drug control and general trade facilitation. In 2005, the EU also decided to eliminate all quotas on textiles and clothing products originating from Vietnam. In exchange, Vietnam granted the most-favored-nation (MFN) status to EU members, with no less favourable treatment than Vietnam-US BTA and Japan-Vietnam Bilateral Investment Agreement.

Meanwhile, the Vietnam-US bilateral trade agreement was signed in 2000, where Vietnam and US agreed to grant each other market access, national treatment and MFN status. In addition to reducing tariffs on a broad range of products of interest to U.S. exporters and eliminating quantitative restrictions on a range of industrial and agricultural products, Vietnam also had to commit extensively on several sectors of services for liberalization. A noteworthy point is, despite of Japan's role as a significant trade and investment partner, Vietnam had yet to reach an official trade agreement with Japan until 2008.

2. General impacts of trade agreements and international economic integration on Vietnam's economy

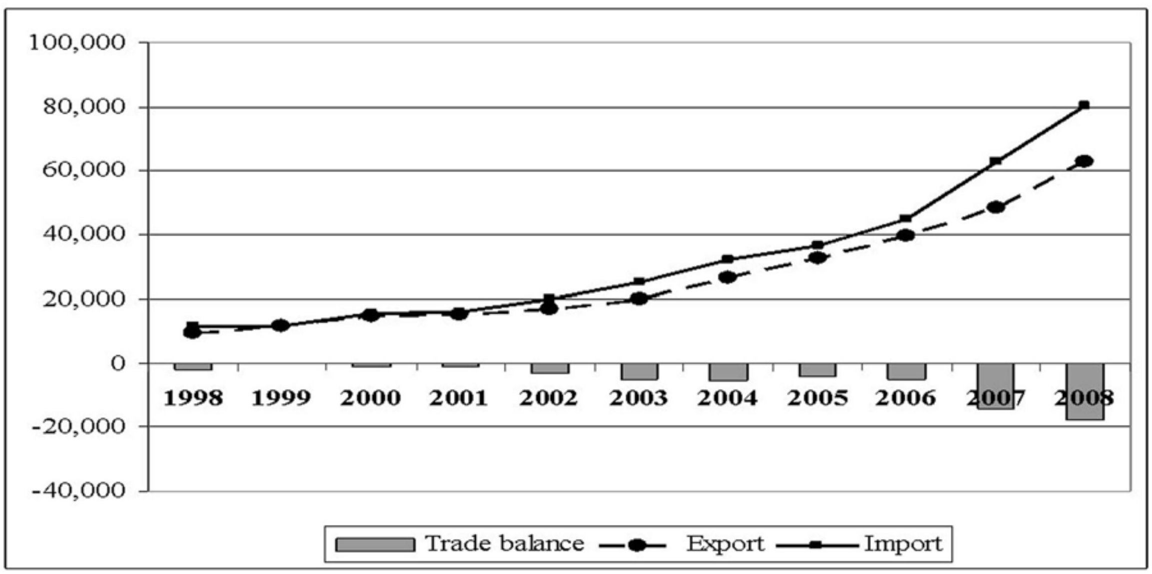
2.1. Real economy

Trade

As depicted in Figure 1, Vietnam's trade has expanded continuously during the period of 1998-2008. Both exports and imports have risen at impressive paces, with the average growth rate of the former being slower than that of the latter. Exports went up dramatically from over USD 9.3 billion in 1998 to almost USD 62.9 billion in 2008. In the same period, meanwhile, imports rose from just under USD 11.5 billion to around USD 80.4 billion. Faster growth of exports relative to imports, therefore, led to an almost continuous increase in trade deficit. Such a deficit went down from over USD 2.1 billion in 1998 to almost USD 0.2 billion in 1999, before widening to nearly USD 17.5 billion in 2008.

Figure 1: Export, import, and trade balance of Vietnam, 1998-2008

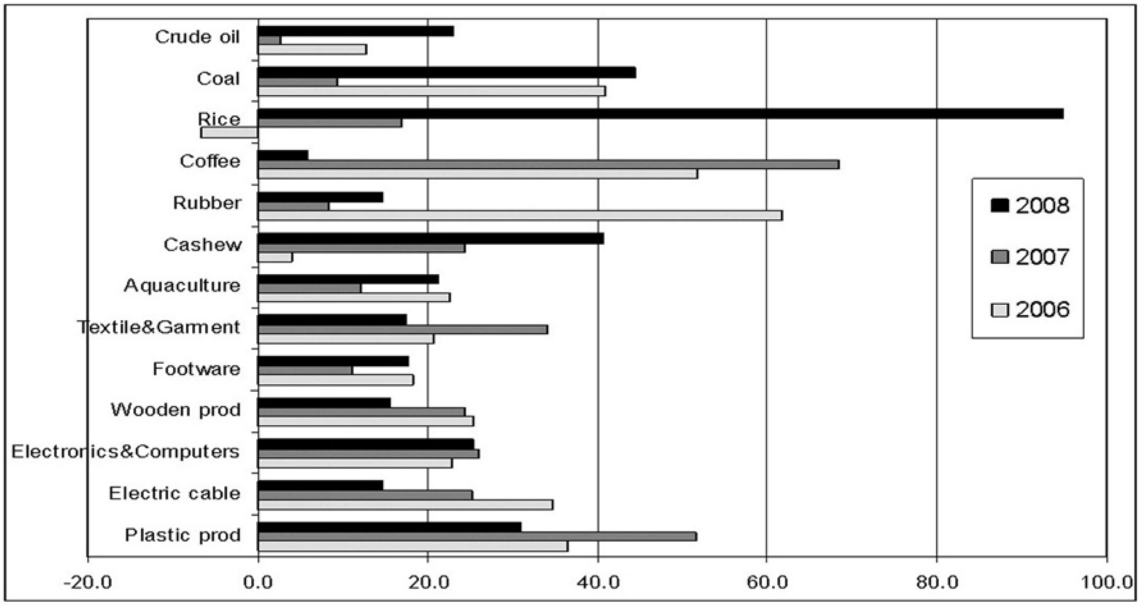
Unit: Million USD



Source: GSO.

After the WTO accession, Vietnam's comparative advantages seem to continue revealing through the export acceleration. The value of merchandize exports in 2007 and 2008 reached USD 48.6 billion and USD 62.9 billion, increasing by 21.9 percent and 29.5 percent, respectively. The export growth was due more significantly to various factors other than the enhanced market access under WTO framework. An export growth rate of 21.9 percent in 2007 is neither impressive relative to that of 2006 (22.7 percent) nor comparable to expectation prior to the country's WTO accession. The export growth rate of 29.5 percent in 2008 resulted largely from a surge in world commodity prices. Excluding the effect of rising prices of major products such as rice, crude oil, coal, coffee, rubber, etc. (Figure 2), the total value of merchandise exports in 2008 only grew by less than 14 percent. Moreover, monthly export fell significantly in the 4th quarter of 2008 due to the impact of global financial crisis which led to a substantial reduction of commodity and oil prices as well as aggregate demand. In fact, the export growth rate in the first three quarters of 2008 was about 39 percent.

Figure 2: Export growth of major commodities/products (%; 2006 - 08)



Source: General Statistics Office (GSO) and authors' calculations

The impact of the WTO accession on Vietnam's merchandise import appears to have been more clear-cut. The total value of merchandise import in 2007 reached USD 62.7 billion (measured at CIF prices) or grew by 39.6 percent, representing a big jump from that of only 20.1 percent in 2006. This unambiguous significant impact was anticipated, yet still underestimated, prior to Vietnam's accession to the WTO. ASEAN member countries and China continue to be the main sources of Vietnam's imports.[1] Notably, consumer goods were making up a greater proportion in total merchandise imports, of 11.4 percent in 2007 compared to an average level of only 7.5 percent in the years 1996-2006 (CIEM 2008). This resulted from a combination of factors, including the increase in overall income as well as in asset-generating income (wealth effect), and the reduction in import tariff. Even though such a proportion is not too large in absolute terms, attention should be given to its upward trend. In 2008 the total value of merchandise import was about USD 80.4 billion, but its growth decelerated to 28.3 percent. This was the outcome of economic slowdown and the measures for restricting trade deficit appeared too large in 2007.

Investment

Vietnam's total investment, as percentage of GDP, tends to rise. The investment ratio, measured by total investment over GDP, was about 30 percent in 2000. The ratio increased to 38.9 percent in 2005, 42.3 percent in 2006 and 45.6 percent in 2007. It then decreased to 41.7 percent in 2008 due to several reasons related to the tightening of state investments and stricter domestic credits. A salient feature of investment in Vietnam is that the state investment accounts for a large share of total investment, albeit going down continuously from 46.8 percent in 2005 to 43.0 percent in 2007 and 41.3 percent in 2008 (Table 1).

1 Imports of machinery, source technology and supporting equipments from the US, Japan and the European Union remain modest and tend to decline. Lacking access to source technology is still a prevalent issue, which may be detrimental to Vietnam's competitiveness in the long run (Vo Tri Thanh and Nguyen Anh Duong 2009).

Table 1: Investment Structure by Ownership (current price; 2006-08)

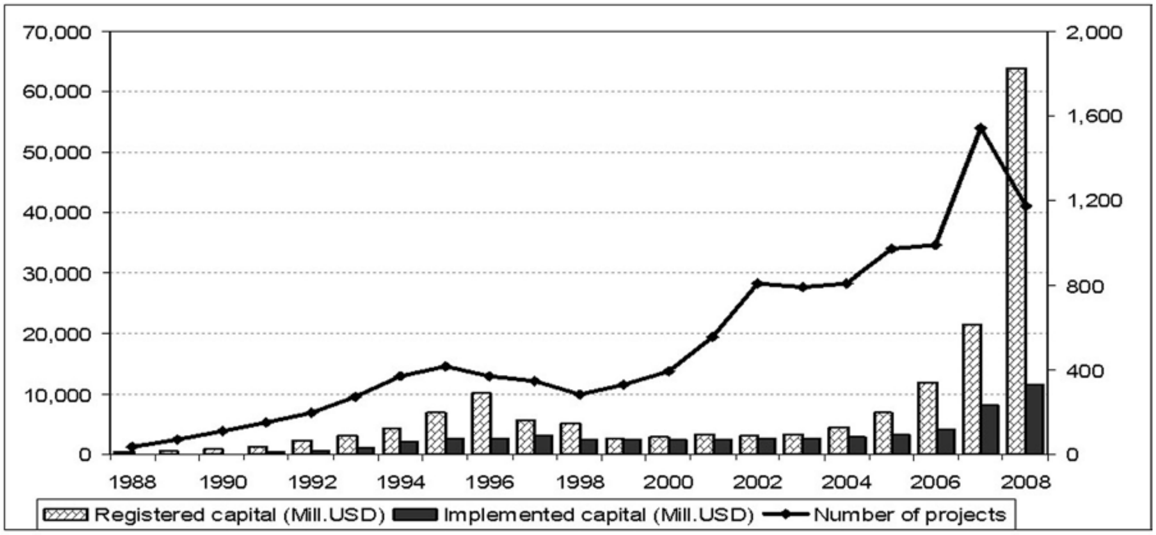
	2006	2007	2008
Total investment			
% GDP	42.3	45.6	41.7
Increase (%)	26.5	26.5	19.2
Inflation (%)	*6.6*	*12.6*	*19.9*
State investment			
Share of total investment (%)	46.8	43.0	41.3
Increase (%)	16.6	16.2	14.7
In which: - State budget			
Share of total investment (%)	23.4	24.7	24.4
Increase (%)	12.0	34.0	17.8
- State credits			
Share of total investment (%)	8.5	6.7	6.4
Increase (%)	16.3	0.6	14.0
- SOEs			
Share of total investment (%)	14.9	11.5	10.5
Increase (%)	24.7	-2.6	8.3
Non-state investment			
Share of total investment (%)	37.3	32.3	28.9
Increase (%)	43.1	9.3	7.0
FDI investment			
Share of total investment (%)	15.9	24.8	29.7
Increase (%)	23.8	97.1	43.1

Note: Investment from budget includes other mobilized funds
Source: Ministry of Planning and Investment (MPI) and authors' calculations

During 2006-07, the increase in *real* total investment was partly explained by the expansion of investment by the SOEs, especially in 2006, and investment from budget. This trend somehow stopped in 2008 as a result of the Government's measures to tighten fiscal policy. The boom of private investment can be observed only till 2006. The share of private investment decreased continuously from 37.3 percent in 2006 to 28.9 percent in 2008 (Table 1). A rise in the state investment from budget appears to have crowding out effect on private investment.

But during 2006-08, the key driver of change in Vietnam's real total investment was the massive surge in FDI inflows. Even in the context of unfavourable developments in and outside the economy in 2008, Vietnam continued to apeal to FDI, reflecting foreign investors' confidence in the country's growth prospect. In 2007, registered FDI amounted to USD 21.3 billion, while implemented and disbursed FDI (through balance of payments) reached USD 8.1 billion and USD 6.7 billion, respectively. Notwithstanding their impressiveness, these figures appear to be far too small relative to that in the subsequent year. In 2008, an estimation of USD 64 billion of FDI was registered, and implemented and disbursed FDI already amounted to USD 11.5 billion and about USD 8.3 billion, respectively (Figure 3). Consequently, the share of FDI rose drastically from 15.9 percent in 2006 to 24.8 percent in 2007 and 29.7 percent in 2008 (Table 1).

Figure 3: FDI in Vietnam, 1988-2008



Note: Registered capital includes that of both newly registered and expanded existing projects.
Source: Ministry of Planning and Investment (MPI).

There are, however, some concerns about effectiveness of the recent FDI inflows. The ratio of implemented FDI over registered FDI was only 41 percent in 2006, 31 percent in 2007 and 18 percent in 2008 and much lower than the average during 1988-2007 period (52.7 percent). Arguably, the situation was partially caused by the fact that some FDI project registration only sought to "book a place" in Vietnam. In fact, the ratio between chartered capital and registered capital was only 25.6 percent in 2008, which was much lower than that in the previous years. The slower FDI implementation was also due to the "bottlenecks" in Vietnam's economy, i.e. the weaknesses in institution infrastructure and human resources. Moreover, the negative impact of the global financial crisis became apparent in the 4th quarter of 2008. The pace of new FDI registration was significantly slower and the implementation of several FDI projects, particularly large ones, was delayed.

Economic growth

Supported by the achievements in exports and investment, Vietnam experienced tremendous economic growth. In the years 1998-2006, growth has been quite robust and continuous. Vietnam's economy continued to grow rapidly after its WTO accession. In 2007, GDP growth remained high at 8.5 percent, compared to that of 8.2 percent in 2006 (Table 2), though the sustainability of such a high growth was, at the time, still questionable due to, among others, concerns of low public investment efficiency. The year 2008, however, witnessed the fear of macroeconomic instability and global financial crisis and recession, which caused economic activities and growth to slow down. The economic growth rate was only 6.2 percent (while that for the first 9 months attained 6.5 percent).

From the supply side, the changes in Vietnam's economic structure over the years 2000-08 are illustrated in Table 2. Accordingly, GDP growth has been largely driven by the industry-construction sector. In the years 2000-06, the sector made up an increasing share, from over 36.7 percent to over 41.5 percent, in Vietnam's GDP at current prices. The role of the manufacturing sector has also been strengthened, as reflected by its increasing contribution from under 18.6 percent in 2000 to over 21.2 percent in 2006. Conversely, the agriculture-forestry-fishery saw its share declining from over 24.5 percent to 20.4 percent in the same period.

Table 2: Changes in Vietnam's economic structure by economic activity, 2000-2008

Unit: Percent

	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP growth	6.79	6.89	7.08	7.34	7.79	8.44	8.23	8.48	6.18
Share in GDP (Current prices)									
Agriculture-Forestry-Fishery	24.53	23.24	23.03	22.54	21.81	20.97	20.40	20.34	22.10
Industry-Construction	36.73	38.13	38.49	39.47	40.21	41.02	41.54	41.48	39.73
- Manufacturing	*18.56*	*19.78*	*20.58*	*20.45*	*20.34*	*20.63*	*21.25*	*21.26*	*21.10*
Services	38.73	38.63	38.48	37.99	37.98	38.01	38.06	38.18	38.17

Source: General Statistics Office (GSO) and authors' estimations.

However, the shift in economic structure exhibited some changes in 2007-08. The industry-construction sector experienced a decline in its share to roughly 39.7 percent in 2008. Notably, the share of manufacturing appears to change in line with that of the overall industry-construction sector, whilst that of construction sector declined significantly in 2008 with the growth rate of nearly 0 percent. Meanwhile, the share of agriculture-forestry-fishery in GDP rose to 22.1 percent in 2008, notwithstanding a number of supply shocks to the sector. The years 2007-08 witnessed a boom of some services sub-sectors such as financial and retailing sectors but having yet a significant contribution to real economic growth. In fact, the share of services sector as a whole attained around 38 percent GDP during 2000-08.

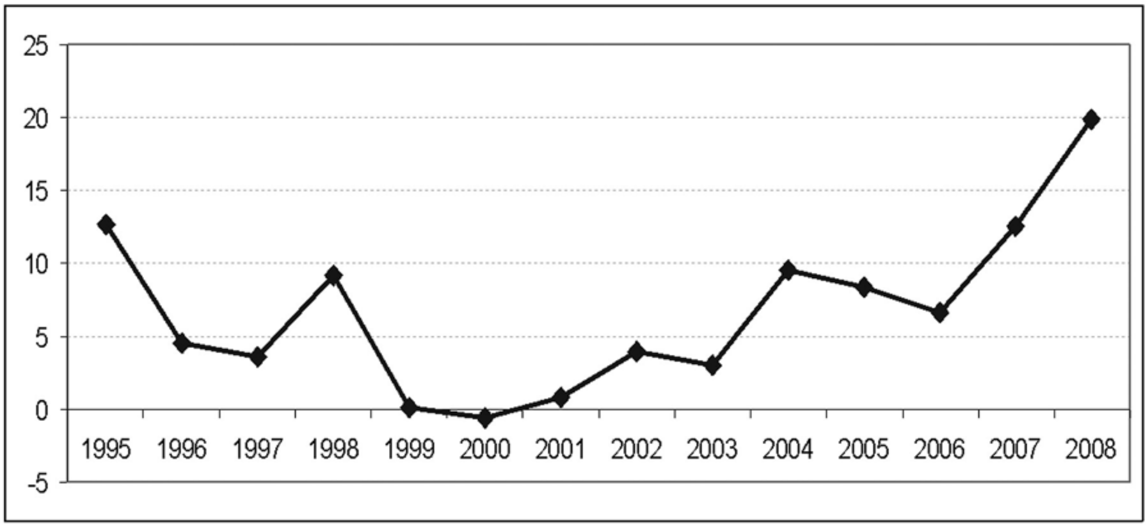
From another perspective, Vietnam's economic growth relies heavily on foreign savings. Due to the rapid increase in domestic consumption over the years 2007-08, domestic savings as a proportion of GDP experienced continuous falls from 30.6 percent in 2006 to 29.1 percent in GDP and 28.8 percent in 2008. As domestic investment expanded, the domestic savings-investment gap (much more than 10 percentage points) kept widening, and it would be hard to be met by overseas capital in sustainable manner.

2.2. Macroeconomic stability

Figure 4 depicts complicated movement in the CPI inflation in Vietnam. From 1995 to 1997, the growth in Vietnam's CPI decelerated from under 13 percent to approximately 4 percent. Despite a surge to over 9 percent in 1998 following the Asian monetary and financial crisis, the CPI inflation in the country continued to go down to a negative level in 2000, before accelerating again to over 9 percent in 2004. The Government's subsequent over 8 percent and 6 percent in 2005 and 2006, respectively. After Vietnam's accession to the WTO in early 2007, the CPI inflation accelearted again to over 12 percent in 2007 and, in particular, almost 20 percent in 2008.

Figure 4: CPI-based inflation, 1995-2008

Unit: Percent



Source: GSO and authors' compilations.

Several common causes of the rapid surge in inflation in 2007-08 have been identified. *Firstly*, expansionary macroeconomic policies for many years, whilst facilitating continuous rapid growth over the past period, have also contributed to building up dramatic pressures on inflation. This problem was further magnified by the increase in international prices and complicated trade-offs in domestic price stabilization policy. *Secondly*, the massive unprecedented increase in foreign capital inflows in 2007 left policymakers with enormous perplexity, particularly in formulating policy response. The attempt to control money supply in the second half of 2007 was ineffective (and costly). As a result, money supply, whether in terms of M2 or domestic credit, in 2007 increased by more than 50%. Some other measures to tighten monetary policy were implemented in the early of 2008. But the fiscal policy, to a considerable extent, was still passive in coordinating with monetary policy. In such a context, continuing liberalization of trade, such as via the EU-ASEAN FTA, can add further volatility to domestic macroeconomic situation and lead to associated socio-economic issues, while the capacity to formulate policy resolution remains questionable.

As Vietnam's economy is growing rapidly, the banking-finance sector finds itself prospering. To grasp the growth and profitability opportunities, particularly after the WTO accession, activities in the sector rose in number and became more diverse. The State-owned commercial banks retain their dominant role. However, the joint stock commercial banks (JSCBs) have acquired greater significance in relative terms, accounting for 30.4 percent of total deposits and 28.6 percent of total credit of the banking system (Central Institute for Economic Management 2009). The banks also kept on opening new branches. In another aspect, the financial system became deeper. Measures of financial depth, such as total credit over GDP, or M2 over GDP, have both risen from 74.4 percent to 82.5 percent, and from 58.7 percent and 112.1 percent, respectively, in the years 2004-2007.

By 2006, more than 70 percent of income for banks was from lending i.e. the spread between deposit and lending rates. Since then, banking activities have been diversified, particularly in line with the development of bank cards and retail banking. In 2007, loans for investment in securities and real estates accounted for a relatively large share of outstanding credits of some JSCBs. Merger and acquisition got more popular. Apart from their core activities, the business groups and major corporations (mainly of the State) directly undertook investment in finance and real estates. The commercial banks themselves also exerted efforts to become "universal banks", and to establish strategic partnership with major corporations, especially those under State ownership. Besides, cooperation between commercial banks and foreign financial institutions took place.

The global financial crisis and economic recession are yet to constrain the development of Vietnam's finance and banking system. Notwithstanding the retreat of foreign investors following a long period of stock market decline, the banking sector continued to grow fast. Most of the banks, including newly-established ones (such as LienViet joint stock bank, etc.), made huge profits in 2007-08. It should be noted, however, that the contribution of finance-banking-insurance sector to Vietnam's GDP (at comparable prices) remained stable, at slightly over 5 percent in the years 2006-2008. That is, rapid development of the sector fails to bring along higher contribution to national income, whilst exposing the economy to further financial risks.

2.3. Employment and income

The integration process generally increases job creation in Vietnam, via development of labor-intensive industries. According to the Enterprise Surveys in 2001 and 2007, the number of jobs in manufacturing sector rose considerably, by more than 110 percent to 3.4 million, due to the huge number of newly-founded enterprises. Along with the shift in economic structure by sector, labors tend to move away from agriculture-forestry-fishery to industry-construction and services. The labor share of agriculture-forestry-fishery went down from 54.7 percent in 2006 to 52.2 percent in 2007, while those of industry-construction, and of services increased from 18.3 percent to 19.2 percent and from 26.9 percent to 28.6 percent, respectively.

Relative to the situation prior to the WTO accession, the figure on job creation in 2007 is insufficiently impressive. The working labor force increased by 2.3 percent, compared to 2.7 percent in 2006. In urban areas, the unemployment rate initially decreased slightly from 4.8 percent in 2006 to 4.6 percent in 2007, before rising rapidly to around 5.1 percent in 2008. Furthermore, the unemployment rate of young people increased; 42.5 percent of unemployed peoples were between 15 and 24 years old, and this group suffered from the highest unemployment rate of roughly 14.2 percent (CIEM 2008).

Table 3: Average wage of an enterprises' employee (Thousand VND, %)

	2006		2007		1st half 2008	
	Ave. wage	% increase	Ave. wage	% increase	Ave. wage	% increase
SOE	2,633	23.0	3,050	15.8	3,530	15.7
Non-State	1,488	14.2	1,660	11.6	1,860	12.0
FDI	2,175	11.8	2,450	12.6	2,750	12.2
Overall	1,969	15.0	2,235	13.5	2,525	13.0
	Wage increase > inflation (6.3%)		Wage increase > inflation (12.6)		Wage increase << inflation (18.4%)	

Source: Nguyen Hai Huu (2008).

Together with deeper integration, higher vulnerability to external shocks also poses greater challenges to social life of Vietnam's people, most of whom are having medium- or low- income with little diversity in income sources. The effect of high inflation over the past couple of years is a convincing example. Such a dramatic surge in overall consumer price level, which was well in excess of wage increase, seriously undermined the real income of various social groups. As illustrated in Table 3, real income was generally improved for employee of all enterprises in 2006 and in 2007, whilst being severely hit by the high inflation in 2008. Even the effect is uneven across different labor groups. In fact, income of employees in high value-added services sectors increased much faster than that in labor-intensive manufacturing industries (facing tough competition). As such, the social effect of inflation on the former group of labors might not be as severe as that on the latter one. Besides, slower growth in 2008, especially in the 4th quarter of 2008, led to sizeable job losses and associated reduction in income. This poses a caveat to policymakers in further attempts to liberalize trade, to mitigate the risk of rising unemployment and other associated social problems.

In another aspect, household poverty incidence shrank from 15.5 percent in 2006 to 14.7 percent in 2007 and 13.1 percent in 2008. The *direct* effect of the WTO accession on poor households is arguably not large as these households are unlikely to be involved substantially in export and/or high-technology industries (CIEM 2008). Alternatively, indirect effects via provision of individual and community services, as well as food and foodstuff, to income-improving households may be more significant. It should be noted, however, that the poverty line in 2005 is no longer valid, due to dramatic changes in inflation and, accordingly, the purchasing power of money in Vietnam. Taking into account the purchasing power parity, actual poverty rate should be around 15-16 percent by the end of 2008. Failure to adjust for this will lead to inaccurate assessment of social instability risk, and lower effectiveness of social supports.

It is also important to examine the question of households' gains from the increase in rice price in 2008. Not all households engaged in rice production benefit from that fact. This depends on whether they are net sellers or buyers of rice. Table 4 indicates that about 43.8 percent of Vietnam's households (out of 52.5 percent households engaged in production of rice), who are net rice sellers, could have a benefit. The proportion of the poor (60.2 percent) benefited from the rice price increase is larger than that of the non-poor. But in general this kind of benefit in 2008 was small as increase in income from rice selling could be offset by the substantial rises in input costs and inflation.

Table 4: Share of households in agricultural sector and in rice production, 2007

Unit: Percent

	Agricultural households	Households engaged in rice production	Net rice seller households
Whole country	71.9	52.5	43.8
Rural areas	86.2	66.0	54.4
Urban areas	29.3	12.3	11.9
Non-poor households	68.5	48.1	40.7
Poor households	90.4	76.7	60.2

Source: Nguyen Hai Huu (2008).

2.4. Environment

As Vietnam integrates more deeply in terms of trade and investment, the impacts on environment become more evident. Theoretically, trade expansion and Vietnam's view to attain dynamic comparative advantage in manufacturing products with high technology content will bring a positive net benefit to the environment, as the economy moves away from primary/resource-intensive products to more technologically advanced ones which are also more environmentally friendly. Nevertheless, this change in trade pattern has not been sufficiently fast. As depicted in Figure 1, after Vietnam's accession to the WTO, highest export growth rates were experienced with primary commodities or resource-intensive products such as crude oil, rice, coal, rubber.

Besides, a sizeable proportion of GDP is still derived from exploitation of natural resource wealth (mining and quarrying industry) or from agriculture-forestry-fishery. This is a mere reflection of the high (static) comparative advantage in agriculture, fisheries, minerals that Vietnam has been utilizing. From 2007-08, the share of manufacturing industry in GDP went down slightly from 21.38 percent to 21.23 percent. The

share of mining and quarrying industry also decreased steadily from 9.76 percent to 8.92 percent. That of the agriculture-forestry-fishery, meanwhile, jumped from 20.3 percent to almost 22 percent in the same period. Attempting to fulfill growth objectives by overly exploiting natural resource is unsustainable by its own means, since there is certainly a limit to the resouces in use by the country. While there is yet to be a quantitative assessment of environmental costs as a result of trade expansion and economic growth, the evidence is indicative of the environmental risk that current production pattern is posing.

Moreover, certain aspects of environmental costs also need to be borne in mind. The poor households are dependent on natural resources in a disproportionate way (Coxhead 2005). Some activities producing negative externalities, such as industrial pollution, intensive aquaculture, etc. have been expanding rapidly. To attract foreign investment, many provinces have lowered the bar on environment protection standard. While this creates jobs and income for local people, it comes at the expense of long-term damage to the environment (air, water, land). In return, environmental costs of growth are disproportionately borne by the poor. On the one hand, these poor people often have to work directly with the polluted environment (water, land). On the other hand, they have enormous difficulties in financing medical treatment.

2.5. Major challenges in Vietnam's international economic integration

As summarized in the above section, international economic integration has been among the key drivers of socio-economic development in Vietnam. Nevertheless, the process has not been free of problem. Some new issues have emerged in economic, social, environmental aspects, while some other existing ones still need to be resolved. Given its limited resources, Vietnam should currently consider several issues in its economic integration process as follows.

<u>Banking and finance</u>

However, the boom in banking and financial activities has also posed greater risks to the financial system, partly due to the lack of adequate fundamentals for sustainable financial development in the longer term.

Firstly, Vietnam still has weak capacity to manage and control risks, which failed to catch up with the boom in financial and banking industry. Such a weakness at the micro level constrains the efficiency and prudential management as banking - financial institutions expand the scale and scope of their investment activities. Furthermore, at the macro level, the monitoring and surveillance system lags far behind the development of the market, while macroeconomic indicators are currently worrisome.

Secondly, the banking system appeared to suffer from a lack of liquidity, particularly in the first half of 2008. The declining propensity to save of the households left the banks and other depository institutions in fierce competition to attract deposits. Simultaneously, measures by the State Bank of Vietnam to control credits, including administrative withdrawal of money from circulation, caused some banks, particularly small JSCBs, to run out of funds to meet their lending and investment needs. The situation, nonetheless, has eased significantly since July 2008.

Thirdly, some banks also experienced serious maturity mismatch. The ratio of long-term loans in total credit seemed to be too high. At the same time, due to uncertainty in the overall macroeconomic situation, the households were more inclined to make short-term deposits. This problem was further complicated by the increase in non-performing loans, particularly those made for purposes of consumption and real estate investment, etc., in the second half of 2008.

IPR

So far, Vietnam only has IPR commitments in the frameworks of the WTO and Vietnam-US Bilateral Trade Agreement (VN-US BTA). Vietnam joined the Paris Convention for the Protection of Industrial Property in 1949 and has concluded and acceded to the Berne Convention on copyright; the Geneva Convention on recorded works; the Brussels Convention on satellite transmissions; the Madrid Agreement and Protocol on international registration of marks; the Patent Co-operation Treaty; and the Stockholm Convention Establishing the World Intellectual Property Organization (WIPO), as well as the TRIPS Agreement.

With increasing participation and commitments on IPR protection, Vietnam is expected to encounter certain socio-economic problems upon fulfilling those commitments. Almost all patents are currently held by foreign parties, and protecting them effectively grants monopolistic power to foreign firms. The longer the period of patent protection is, the higher the costs of losing competition are. In turn, foreign firms can exercise their power and raise prices. Accordingly, implementing IPR protection imposes a financial burden, and prevents access for local peoples. At least in the short run, this restricts many economic activities, thereby hindering any associated socio-economic achievements that could be made otherwise.

It could be argued that IPR protection also provides incentives for invention and technological renovation. In the context of Vietnam, however, IPR protection enables foreign firms to act as the monopoly in the market, and they can use such power to prevent subsequent entries by Vietnamese firms, even if the latter can develop patents with sufficient competitiveness. To sum up, IPR protection is not the sufficient condition for effective trade and economic development, nor does it work effectively without the institutional enhancement/protection of market competition.

Food security

Food security presents another challenge to Vietnam in its international economic integration process. As the economy is engaged more deeply in regional and world trade, it gradually changes production pattern to utilize *static* comparative advantage and to build up its *dynamic* comparative advantage. Together with a view to industrialize and modernize the economy, Vietnam will assign a relatively less important role to agricultural sector. At this stage, food security can be guaranteed for the country. Yet with the current trade policy, the industrial policy should take this issue into consideration.

Besides, deeper integration also raises the problem of effective management of the agricultural market, particularly rice market. It requires good forecasts of production and market developments. From the experience of 2008, failure to predict rice output whilst having to ensure food security led to wrong decision to stop rice export, when crop output turned out to be high and international market price was high. Any wrong decision will cause huge damage to farmers, and will not be justifiable on the ground of bad forecasts.

In another aspect, as Vietnam strives for industrialization and attracts foreign firms, it runs into the risk of agricultural land shortages due to urbanization and development of industrial zones, export processing zones. In an estimation, around 600,000 ha of cultivated land will be used by 2020 to develop industry and transport. As a result, the total rice growing area will fall from the current level of 4.1 million hectares to 3.5 million hectares (Look at Vietnam 2009). Growing industrialization without adequate consideration for environment protection will give rise to environmental issues (such as land degradation, water quality, etc.). All these factors will undermine production capacity of food, ultimately affecting Vietnam's ability to ensure food security.

3. Potential impacts of the EU-ASEAN FTA on Vietnam's socio-economic development

There is a study by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) on the likely outcome of an FTA, focusing on welfare, production and trade effects of such an agreement, including at sectoral level. Accordingly, the gains accruing to ASEAN members simulated in this situation are very large, adding up to more than 2% of GDP in 2020, though the gains differ across individual member countries, with modest gains for the least-developed countries. Moreover, the majority of the gains (actually three quarter of the gains accruing to ASEAN), are associated with liberalization in services. However, there is yet to be a quantitative study of the potential impacts that the EU-ASEAN FTA has on Vietnam, in terms of socio-economic and environment condition.

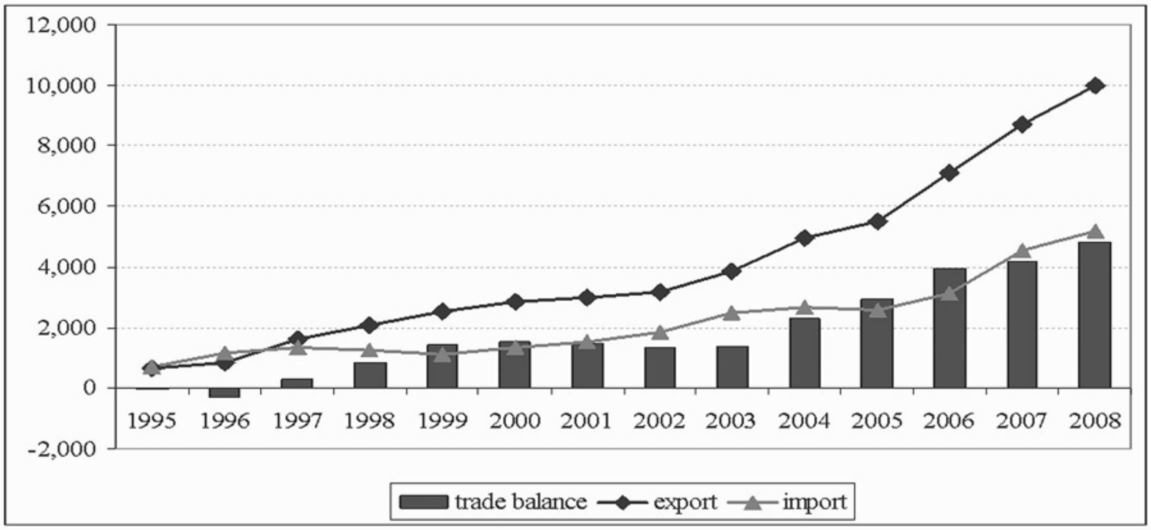
More specific projections of the impacts on Vietnam's several socio-economic aspects are as follows.

Trade

Reducing barriers to trade between Vietnam and the EU may enhance bilateral trade between Vietnam and the EU. This projection lays its ground on growth in both export and import of Vietnam with the EU in the years 1995-2008 (Figure 5). As Vietnam abolishes barriers to trade and adopts supporting measures to promote its trade, particularly export, activities, trade expansion is expected to continue. More specifically, export growth rate may be higher than that of import growth. Consequently, trade surplus between Vietnam and the EU may be widened, thereby contributing positively to overall balance of trade. There are several justifications for this prediction. On the one hand, Vietnam can effectively take advantage of its comparative advantages and boost exports. On the other hand, to effectively exploit access to the EU market with strict requirements, Vietnamese firms need to improve competitiveness of their products and services to a very high level; in turn, they can also better penetrate markets other than the EU. Overall, this improves Vietnam's trade situation. The outlook for Vietnam's trade with the EU is not purely bright. With currently ineffective quality control and weak accounting system, Vietnamese firms are vulnerable to the antidumping lawsuits in the EU. The cases with tiger shrimp or leather shoes in the past years are costly and useful experiences (Vo Tri Thanh *et al.* 2007). Conversely, in competing with local producers in the EU market, particularly agricultural markets, Vietnamese firms can be in a disadvantaged position due to the EU's heavy subsidies.

Figure 5: Vietnam's trade with the EU, 1995-2008

Unit: Million USD



Source: Authors' calculation from GSO data.

Improving its trade with the EU as well as with other countries does not, however, come without Vietnam's efforts. In particular, the country should note several aspects of its current competitiveness level.

Firstly, like other East Asian economies, Vietnam began its growth process relying heavily on exports of labor-intensive products, and gradually shifted to increasingly capital- and technology-intensive products as it acquired comparative advantages. Vietnam's manufacturing exports currently concentrate in labour-intensive products. For example, since 1995, the exports of textile and garments, footwear have already accounted for, on average, about 25.2% of total merchandise exports. Recently, electronic parts and computer peripherals have become major exports of Vietnam, with total export values of roughly USD 1.1 billion and USD 1.4 billion in 2004 and 2005, respectively. However, the primary commodities still account for a large share in exports, making Vietnam's exports vulnerable to the volatility of the world commodity prices.

Secondly, trade in intermediate goods such as machinery parts and components of East Asian economies have expanded considerably, together with a rapid increase in regional intra-industry trade. Vietnam seems to exhibit similar patterns. Regional intra-industry trade index of the country increased from 2.2 in 1985 to 19.0 in 2000, but it is much smaller than that of other East Asian economies[2]. In recent years, for Vietnam, East Asia remains the most important market, but with declining export share and increasing import share. It has become the largest source of Vietnam's imports of the intermediate products for industrial production. Given the dualistic structure of Vietnam's economy, however, the majority of these imports are for import-substituting industries, which are dominated by SOEs or joint ventures with SOEs.

Thirdly, the majority of the markets for final products are still extra-regional. Although the ratio of intra-East Asian trade to regional GDP increased considerably from 1975 through to the present, but the ratio of the regional exports to Europe, North America and the rest of the world rose even more rapidly. The significantly increasing roles of the EU and the US as important destinations for exports can also be seen in the case of Vietnam.

2 For Japan: 17.7 and 42.5, Korea: 48.5 and 68.7, China: 23.2 and 49.9, Hong Kong: 24.8 and 11.5, Chinese Taipei: 48.9 and 76.5, Singapore: 44.9 and 82.3, Indonesia: 10.1 and 32.8, Malaysia: 25.6 and 65.8, Thailand: 21.3 and 61.7, Philippines: 32.3 and 56.4, respectively (Vo Tri Thanh and Nguyen Anh Duong 2006).

Production and investment

The EU-ASEAN FTA, if signed, may provide Vietnam with an opportunity to engage in trade and production in a less *economically* distorted way. Whether the opportunity can be realized as a driver of change in current production requires Vietnam's own efforts. As barriers to trade between Vietnam and the EU are further abolished (while current GSP treatment remains), it is natural to expect that Vietnam will enjoy trade expansion and higher growth. In fact, this expectation can lay its ground on Vietnam's strong export growth in 1998-2005 under the market expansion effect (Vo Tri Thanh et al. 2007).

Positive changes in Vietnam's production structure, towards greater share of manufacturing and services, appear harder to visualize. Although the manufacturing sector is attaining greater role in the economy, its competitiveness remains relatively low. Such a low competitiveness of Vietnam's manufacturing sector is reflected in the global and regional value chain. To sustain competitive advantage, firms have to build on their current strengths and to develop others; they need both cost advantages (low wage and cheap local raw materials) and quality advantages (brand name, technology specific to a firm).

The local firms in Vietnam, in general, are recognized as weak in both support activities (management, human resource, technology) and primary activities, especially those associated with the cost-effective linkages. As sub-contractors and assemblers, they have tended to become marginalized at the lower/lowest end of the production supply chain. Taking advantage of the broader trade and investment opportunities by the EU-ASEAN FTA to improve its position in the value chain is, thus, a challenging task. Meanwhile, in the case of producer-driven chains, the multinational corporations (MNCs) have market power in capital and technology-intensive sectors, such as automotive and motorbike industries. Thus, they control the whole production system based around a set of backward and forward linkages. Like many developing countries, Vietnam has frequently used tax incentives as rewards/penalties to push localization. Yet the actual effects of those measures in promoting development of supporting industries were often more disappointing than successful.

In the case of buyer-driven chains, which can be found in labor-intensive sectors such as garments, footwear, etc., the large international retailers, branded marketers and trading companies set up a series of assembled production networks, typically in low wage locations. Vietnam has been facing with two problems. Firstly, as alternative low wage locations can be found, the international production with buyer-driven chains becomes increasingly competitive and this puts continual downward pressure on wage. Secondly, efficient and continual upgrading of export composition with higher value-added proves to be challenging for Vietnam, due to its inadequate attention to the role of services in the value chains. The costs and inefficiency of key services sectors such as telecommunications and transportation, etc., have relatively penalized firms operating in Vietnam vis-à-vis those in many other East Asian countries (Vo Tri Thanh and Nguyen Anh Duong 2006).

Currently, the EU is not a major provider of FDI into Vietnam. As illustrated in Table 5, the biggest sources of FDI into Vietnam in the years 1988-2008 come from Asian countries and territories such as Chinese Taipei, Malaysia, Japan, South Korea, etc. and the United States. FDI from the European countries, whilst being significant in absolute value as well as the contribution to Vietnam's socio-economic development over the period, remained modest. With the ASEAN-Japan Comprehensive Economic Partnership in effect since December 01, 2008, investment from Japan will rise further. As such, the EU-ASEAN FTA might not significantly improve the relative significance of FDI from the EU into Vietnam. Accordingly, the direct effect on production structure in Vietnam by the EU's FDI might be negligible.

Table 5: Major sources of FDI into Vietnam, 1988-2008

Unit: Million USD

Country	Total registered capital[a]	Country	Total registered capital[a]
Chinese Taipei	20,951.8	Cayman Islands	4,352.2
Malaysia	18,003.6	France	3,216.2
Japan	17,361.2	Netherlands	3,018.8
Singapore	17,071.0	UK	2,711.2
South Korea	16,666.3	China	2,188.3
British Virgin Islands	13,824.1	Russia	1,935.4
Hong Kong SAR	7,416.7	Australia	1,811.3
Thailand	6,121.7	Switzerland	1,693.8
US	5,034.8	Samoa	1,548.9

Source: MPI.

Services

Benefits to Vietnam from liberalizing trade in services, within the framework of EU-ASEAN FTA in particular and other trade agreements in general, rest heavily on the extent, roadmap of liberalization, as well as on the differences between bilateral, regional and multilateral commitments. Too much liberalization without a proper roadmap (compatibility with socio-economic development level) will create adverse impacts to the economy, and restrict the benefits from service trades liberalization. The role of developing proper roadmap for Vietnam is therefore critical. As such, the potential impacts of the EU-ASEAN FTA on Vietnam's services sector depend not only on Vietnam's commitments, but on the timeline which those commitments are implemented. In addition, the differences between bilateral, regional and multilateral commitments are also vital to grasping benefits from liberalizing trade in services. Such differences allow Vietnamese firms to concentrate on markets with suitable requirements and commitments. Yet too much difference may create a "trade diversion" effect, rather than "trade creation" effect.[3] Due to these factors, accurately assessing the impacts of the EU-ASEAN FTA on Vietnam's services sector is by no means possible without a general equilibrium approach.

3 This is popular as each country tends to make more commitments with those of the same development level (Vo Tri Thanh and Nguyen Anh Duong 2007).

Table 6: Growth of service sub-sectors, 2001-08

Unit: Percent

		2001	2002	2003	2004	2005	2006	2007	2008
	Services sector	6.10	6.54	6.45	7.26	8.48	8.29	8.85	7.18
1	Trade	7.02	7.25	6.83	7.82	8.34	8.55	8.81	6.42
2	Hotelling, restaurants	6.71	7.05	5.14	8.12	17.04	12.42	12.82	8.63
3	Transport, post, tourism	6.64	7.08	5.49	8.12	9.61	10.13	11.40	13.16
4	Finance, banking, insurance	6.28	6.99	7.95	8.07	9.37	8.18	8.84	6.63
5	Science	11.33	9.15	7.07	7.42	7.85	7.39	7.66	6.14
6	Real estate	3.27	3.76	5.26	4.35	2.92	2.94	4.06	2.50
7	Public administration	5.22	3.89	5.24	5.90	7.21	7.57	8.13	6.47
8	Education, training	5.72	8.14	7.49	7.68	8.26	8.42	8.75	8.04
9	Health	5.19	7.55	8.71	7.86	7.75	7.84	8.05	8.30
10	Cultural activities	2.93	3.51	8.90	7.51	8.31	7.67	8.12	6.52
11	Associations' activities	5.51	5.54	5.38	6.23	7.05	7.33	8.15	6.92
12	Personal and community services	5.09	5.45	6.12	5.90	7.20	7.25	7.92	6.30
13	Employed service activities in private households	2.69	1.10	3.57	3.60	6.02	7.39	8.48	7.67

Source: GSO.

It is, however, possible to qualitatively postulate the impacts of the EU-ASEAN FTA on Vietnam's services sector, with reference to the past experience. After implementing commitments in the VN-US BTA and in the ASEAN Framework Agreement in Services (AFAS), Vietnam saw services activities prosper, creating many additional jobs and contributing to higher economic growth. GDP of the services sector grew more rapidly, from 7.26 percent in 2004 to 8.48 percent in 2005, 8.29 percent in 2006, 8.85 percent in 2007, and 7.18 percent in 2008. Highest growth was seen in the subsectors of hotelling and restaurants, and transport-post-tourism (Table 6). In the mean time, if the EU-ASEAN FTA is to be signed, the benefits in terms of service sector growth can be materialized. For sustainable development of the sector in the longer term, however, Vietnam needs further efforts to promote sectoral development.

IPR

Meeting the requirements of the TRIPS Agreement is likely to create a financial burden on countries with small budgets, including Vietnam. The most-developed countries are most likely to benefit from greater protection of IPR, while countries that need to import technology will be economically burdened. Fairly high costs are likely to be borne by developing countries, including licensing of industrial properties such as computer software.

According to a study by the Business Software Alliance, on software copyright infringements committed by Vietnamese enterprises, software piracy has produced negative impacts on the development of the domestic software industry, tax revenues and local job opportunities. A 10-percentage-point reduction in the piracy rate (from 92 percent to 82 percent) could estimatedly help add USD 1 billion to the country's GDP, create more than 4,000 jobs in hi-tech industries, generate an additional USD 43 million in local tax revenues and bring USD 726 million in additional revenue to domestic software companies, the alliance concluded.

Yet according to general forecasts of WIPO and the United Nations Conference on Trade and Development (UNCTAD), in addition, short-term impacts of the TRIPS Agreement's high standards on developing countries, including Vietnam, will be adverse in that strict IPR protection is likely to restrict the access by Vietnamese society and consumers to many products and services priced beyond their financial capacity. This impact could be severe in the short-run, as it puts a binding constraint on economic activities and may, subsequently, exert negative impacts in terms of employment and social stability.

Moreover, strict IPR protection also complicates the legal environment, and makes it more costly for Vietnamese firms, at least in the short-run when these firms can not make. Many Vietnamese businesses are still not fully aware of the significance and operation of IPR protection. Complying is a burden on domestic businesses, few of whom in turn benefit from IP regulations as they themselves have registered few IPR objects for protection. Meanwhile, given too strict IPR protection, investment in new technology may prove to be very risky and/or costly, especially as new inventions are slow to come or invention registration procedures are lengthy and cumbersome. In this respect, IPR protection effectively discriminates against small-sized enterprises in favour of larger ones. Therefore, the FTA, if adopted, may provide an additional assistance to foreign firms who already have advantages with huge financial and technology capacity.

Once domestic firms can not compete with their foreign counterparts, they go bankrupt or are bought. Sustaining market competition is subsequently a challenging, if not impossible, task. In the market for health products, monopoly power of profit-seeking foreign firms, induced by IPR production, can be overly exploited at the expense of domestic consumers. Meanwhile, given its socio-economic development level, access to pharmaceutical products is essential to Vietnam since disease and other health problems greatly impede development and public welfare. This area presents a challenge to making effective IPR protection commitments.

Social and environmental impacts

Social impacts

Vietnam may expect certain social impacts from implementing the EU-ASEAN FTA. GDP per capita may increase, as a consequence of the broader trade and investment opportunities from the FTA. Experience from the deeper economic integration in Vietnam also supports this (Box 1). The magnitude of such an increase is, nonetheless, ambiguous until a quantitative assessment of the separate impact of the EU-ASEAN FTA is made. The income improvement also implies reduction in poverty. The fact shows that thanks to economic growth and specific measures to accelerate poverty reduction, the general poverty rate was improved continuously, from over 37 percent in 1998 to under 29 percent in 2002, 19.5 percent in 2004, and roughly 16 percent in 2006, 14.7 percent in 2007, and 13.1 percent in 2008.[4] Higher growth, furthermore, bring about higher income for the people and more budget revenues to the State, thereby facilitating health and education development.

On the other hand, Vietnam should be prepared to deal with social risks that will be intensified, rather than newly emerge, from implementing the EU-ASEAN FTA. While the benefits of such an FTA can be in terms of improvement in income at the national level, at least in the long-run, inequality in income across social groups and across regions are likely to widen. Currently, economic activities concentrate in the South East and the Red River Delta; thus, benefits from expanding economic activities, if any, will be distributed

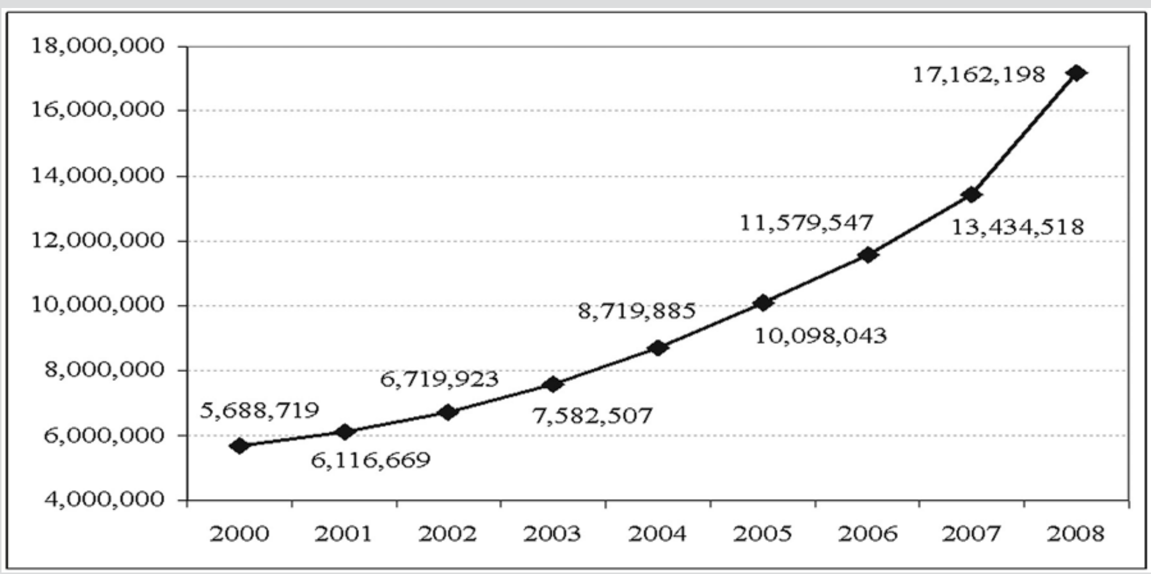
4 Since 2005, Vietnam has raised the poverty line.

in an uneven pattern across geographical regions. Access to economic activities also differ from one social group to another; in the prevailing way, it seems that the rich and professionally skilful labours will have enhanced opportunities to raise their income, while the poor, the disadvantaged, or unskilled labour could increase disproportionately, or even lose their income. For certain part of the population, particularly those in disadvantaged, remote and mountainous areas, life gets more risky and unpredictable (Ngo Van Diem et al 2007). Farmers producing agricultural products for export, for instance, might face tougher competition and the associated risks of anti-dumping lawsuits and agricultural production subsidies in the EU.

Income improvement in Vietnam, 2000-08

As a sign of income improvement, GDP per capita rose continuously in the years 2000-08. This was driven mainly by the significantly faster growth of nominal GDP than population growth. GDP per capita went up steadily in 2000-03, from just under VND 5.7 million to almost VND 7.6 million. After that, it started to accelerated to nearly VND 10.1 million in 2005 and over VND 17.1 million in 2008 (Figure 6). In USD terms, GDP per capita also exhibited improvement, albeit by somewhat less dramatic extent. The indicator increased from just over USD 400 in 2000 to almost USD 500 in 2003, over USD 830 in 2007, and about USD 1,020 in 2008. That is, Vietnam's GDP per capita already surpassed the threshold level for low-income countries.

Figure 6: Vietnam's GDP per capita in VND, 2000-08



Source: Authors' calculations from GSO data.

As 70 percent of Vietnam's population live in the rural areas, relying heavily on agricultural production, their social lives can be significantly affected by the FTAs. Rapid urbanization and establishment of industrial zones and export processing zones to take advantage of FDI are reducing the stock of land available for agricultural cultivation. Accordingly, employment and income of those in the rural areas can be seriously undermined, as commitments from firms in the zones, if any, can only ensure employment for some peoples only. This may in turn give rise to higher incidence of social evils, worse health care, etc., not to mention the highly likely issue of (air, water, land, noise) pollution in areas surrounding industrial and export processing zones. For those who can retain land for agricultural production, new agricultural seeds (developed under the protection of IPRs) may produce the benefit from better output prices, at the possible costs of higher (monopolistic) prices of those seeds. In this respect, the net benefits to farmers are uncertain.

Environmental impacts

Unless the Government adopts bolder measures to protect and improve the environment, the environmental impacts that Vietnam has been experiencing over the past years will remain after the EU-ASEAN FTA, if it is to be signed.

In another aspect, environmental services have not been included in serious negotiation. While the draft proposals by the EU cover the liberalization of environmental goods and services, there remains a lack of a clearly defined mandate. Besides, Vietnam is finding itself incompetent in regulating environmental services. In fact, regulatory competence is yet to be clearly allocated and dispatched among government agencies, especially environmental services regulations. Even so, environment services are public services provided at almost zero costs and dominated by state-owned enterprises. Any attempt to liberalize environment services will risk causing huge job and income losses. Given that liberalization of environmental services might be absent from the (possible) contents of EU-ASEAN FTA, implementing the FTA might produce no *direct* impact on the environment.

There might, however, be some indirect impacts on the environment. As discussed above, a key challenge for Vietnam in implementing the EU-ASEAN FTA is that it will continue to exploit *static* comparative advantage in labor- and/or resource-intensive products, without realizing *dynamic* comparative advantage in those with high technological content. That is, engaging in the FTA may threaten Vietnam's chance to develop and apply new technologies which are more friendly to the environment. In this respect, the FTA may be environmentally harmful to Vietnam.

Environment services

The environment services at the three-digit Central-Product-Classification (CPC) level include:
941. Sewerage, sewage treatment and septic tank cleaning services
942. Waste collection services
943. Waste treatment and disposal services
944. Remediation services
945. Sanitation and similar services
949. Other environmental protection services, not-easily-classified.

Vietnam is currently committed to liberalize environment services in accordance with its GATS/WTO accession schedule, whilst having no commitments/discussion of these services in its FTAs under the umbrella of ASEAN. Nevertheless, the GATS/WTO commitments in these services are few in number, covering only sewage services, refuse disposal services, cleaning services of exhaust gases and noise abatement services, and environmental impact assessment services.

Source: Authors' compilations from various sources.

4. Conclusions and policy recommendations

Trade relations between the EU and ASEAN have been enhancing. This is both the cause and the consequence of the dynamism and pro-active international economic integration exhibited in ASEAN's development process. There are, however, enormous potentials for expanding bilateral trade between the two economic regions left unexploited. Apart from other indirect measures on both unilateral and bilateral basis, the EU is seeing an FTA deal as the quickest way to considerably enhance access to the ASEAN market.

As part of ASEAN - a dynamically developing region, Vietnam is effectively combining economic integration and domestic reforms. Notably, export has always been among key drivers of growth process in the country. Meanwhile, imports provided the country with necessary inputs that would otherwise be very costly or impossible to produce domestically.

Nonetheless, moving towards free trade has never been purely beneficial. Even from economic perspective, engaging in FTAs presents the country, a rapidly developing country with high vulnerability to external shocks and low risk management capacity, with enormous challenges. In addition, the social and environmental impacts of the FTAs can be detrimental themselves.

The current global economic context with huge uncertainty, in the aftermath of the global financial crisis, are questioning countries regarding how to get over the problem, and how to subsequently move forward. Magnifying the economic and social risks in such a time of economic recession might have adverse effect, since larger market access produces almost no instantaneous effect when the consumers are reluctant to spend their hard-earned income. The additional economic values to Vietnam from the EU-ASEAN FTA present another source of uncertainty, as the country has already signed a number of other FTAs with comprehensive commitments. It may be worthwhile to see how these signed FTAs work in effect, before signing new ones.

From past experience, Vietnam enjoyed a number of successes as a result of economic integration in general. The economic successes enabled the country to make social progress, with better capacity to finance health and education, environmental protection, whilst facilitating poverty reduction.

However, Vietnam should also be concerned about the challenges from further liberalization of trade with the EU. The experience also shows evidence of EU's antidumping lawsuits that are causing enormous problems for Vietnamese enterprises. Many of these cases are against firms with many labours, thereby hardening the social risks for Vietnam as it aims for further exports to the EU market. Moreover, too much exploitation of the country's *static* comparative advantages in labour- and resource-intensive products, in merely seeking trade surplus with the EU, may adversely leave itself in a "low-cost labour trap", with low value added and little development potential. Accordingly, failure to attain a more modern economic structure using advanced and environmentally friendly technology can exert enormous negative environmental impacts, which are slow to recognize but very costly and/or impossible to reverse.

This Study, given the above discussions, concludes with some policy recommendations for Vietnam's considerations of the EU-ASEAN FTA. To take the most advantages of export opportunities in the EU market, Vietnam need to adopt a suitable export strategy with joint efforts of enterprises, associations and the Government. More specifically, business strategies need to combine the continuing promotion of traditional exports with diversification of products and improve non-price competitiveness. Meanwhile, long-term export competitiveness of enterprises can only be strengthened if they properly understand their position, make serious efforts in "learning by doing" via competition, linkages, and have deep knowledge of (EU) markets.

Secondly, to effectively sign and implement the EU-ASEAN FTA in particular and to better utilize the benefits of economic integration for domestic economic growth, the Government and business associations should establish a competitive business environment, and identifying effective and feasible means of supports.

Thirdly, Vietnam should consider very carefully the opening of the market on the areas of "Singaporean issues" since this is very sentitive to the national economic sovereignty and stability, where Vietnam and most of the ASEAN countries are not in the position to compete with EU. Particularly, liberalisation of finacial services, retails and government procurement should be discouraged and limited as much as possible.

Fourthly, the timing for signing such an FTA is also worth considering. At this stage, the global economic situation has been worsening rapidly, while domestic economy experience more sluggish growth[5]. This economic context leaves Vietnam with a number of challenges to overcome, such as economic stimulation, social safety, etc., notwithstanding the uncertainty embodied in those challenges. Accelerating further trade liberalization via the FTA, whilst failing to assess full benefits of other FTAs that Vietnam has already signed and implemented, can add further uncertainty to the country's socio-economic environment. As such, Vietnam should carefully determine whether it is suitable to sign the FTA at this stage, taking into account domestic and international economic developments as well as its judgments of how other ASEAN member countries might proceed.

Finally, making commitments in other aspects such as IPR protection, government procurement, etc. should rest more heavily on other comprehensive quantitative assessments of social, economic, environmental impacts of those commitments. This is critical since it allows for smoother transition of Vietnam in implementing the EU-ASEAN FTA, if it ever decides to. Moreover, it helps identify areas of attention in implementing the FTA in particular and economic integration in general, so that the country can formulate effective policies to address. Supporting social groups which are in disadvantaged positions is a critical task to ensure social stability. Meanwhile, incorporating elements for environmental protection in Vietnam's policy can help create a sustainable environment for socio-economic development. Continuing assessments should also be necessary, even after implementing the FTA, to see how it works by itself and in interaction with other FTAs of Vietnam, thereby consolidating scientific ground for the country's subsequent policy measures..

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5 GDP growth in Vietnam was only 3.1 percent per annum for the first quarter of 2009.