

Some Measures to Boost Vietnam-EU Relations

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I. VIETNAM-EU RELATIONS OVER THE PAST YEARS

The Vietnam-European Union (EU) relations develop in many areas, especially in trade and investment.

1. The trade relations between Vietnam and the EU's member states have made progress just in the early years of the 1990s after Vietnam signed a series of agreements on economic, trade and technological cooperation and other areas with the EU, as well as its states, especially the EC-Vietnam Textile and Clothing Agreement signed in 1992 and the Vietnam-EU Framework Cooperation Agreement signed in July 1995 and entered into force on June 1, 1996.

Over the past 16 years, the Vietnam-EU trade relations have developed unceasingly (see Table 1)

Table 1 shows total trade value between Vietnam and the EU grows

steadily, from US\$300 million in 1990 to US\$1.3 billion in 1995; US\$3.5 billion in 1999; more than US\$4 billion in 2000; US\$5 billion in 2002 and around US\$6 billion in 2003. In this field, Vietnam's export value exceeded its import value, so it achieved trade surplus in the trade relations with the EU.

Although the Vietnam-EU trade value grows steadily, in comparison with other foreign partners, the EU still holds a modest position, not in accordance with its potentials.

If considering each EU member state, Vietnam has made trade relations with all EU's 25 states (EU-25). First, Vietnam's trade relations with the EU's 15 states (EU-15) are indicated in the following table:

The statistics reveal Vietnam ships its goods to all these above states. Among them, Germany is the biggest importer, followed by the UK, France,

Table 1: Vietnam's trade with the EU over years (US\$ mil.)

	1995	1999	2000	2001	2002	2003 (est.)
Export	664.2	2,526.5	2,845.1	3,002.9	3,162.5	3,852.8
Import	710.4	1,052.5	1,317.4	1,506.3	1,840.6	2,471.9
Total	1,374.6	3,579.0	4,162.5	4,509.2	5,003.1	6,324.7

Source: 2003 Statistics Yearbook, Thống Kê Publisher, 2004.

the Netherlands, Belgium, and Italia. In the meantime, Greece, Ireland, Finland, Portugal and Luxembourg import only a small volume of Vietnamese goods.

The Table 3 indicates Vietnam imports most from Germany, followed by France, Italia, the Netherlands, and the UK. Luxembourg, Portugal, Ireland, Greece, and Spain sell a small amount of their goods to Vietnam.

Among ten new states of the EU, there are eight traditional partners of Vietnam but due to certain causes, the trade relations between Vietnam and these countries saw a slowdown. Among them, Poland takes the lead, but reaching only less than US\$100 million, others lower, millions or tens of millions of US dollars annually.

From the analysis of features and trade value between Vietnam and ten new states of EU, we may come to conclusion that when the EU's expansion will help boost Vietnam's import into this market. However, the eastern countries are not the gate to penetrate the EU market. The main gate of this market is Germany. Vietnam, on the one hand, has to export its competitive goods, on the other hand, boosts importing modern equipment and technology from Western European in order to manufacture goods up to Western European

standard for export to the EU.

Over the past years, Vietnamese exports to the EU include mainly footwear, clothing, food (agro-aquaproducts) and handicrafts (see Table 4).

Table 4 shows the ratio of Vietnamese major exports to the EU over the past 5 years has not seen a significant change. Footwear products topped the list, followed by textile and clothing products, farm products, aquaproducts and handicrafts. The following are more details of these goods:

Footwear products: Footwear products face the biggest sales to the EU. To avoid trade fraud in import of footwear which does not originate from Vietnam, the EU and Vietnam signed a memorandum of understanding (MOU) to fight fraud trading in footwear. Therefore, Vietnamese footwear exports to the EU must not be subject to quotas. From 2000 until now, the sales of Vietnamese footwear to the EU always reach more than US\$1 billion, especially US\$1.6 billion in 2003 and always hold a 70% share of Vietnam's total earnings from footwear exports to the world market.

According to the statistics of Vietnam's General Department of Customs, the footwear exports account for 7%, even 8% or more of the country's export value. The European Committee said that Vietnamese footwear repre-

Table 2: Vietnam's export value with the EU-15 (US\$ mil.)

	1995	2000	2001	2002	2003 (est.)
Total	664.2	2,845.1	3,002.9	3,162.5	3,852.8
Including:					
The UK	74.6	479.4	511.6	571.6	754.8
Austria	9.3	23.7	28.9	29.7	38.2
Belgium	34.6	311.9	341.2	337.1	391.6
Germany	218.0	730.3	721.8	729.0	854.8
Denmark	3.5	58.4	49.7	63.3	71.2
The Netherlands	79.7	391.0	364.5	404.3	493.2
Italy	57.1	218.0	237.9	264.6	331.1
France	169.1	380.1	467.5	437.9	496.1
Switzerland	4.7	55.1	53.2	62.4	90.0
Spain	8.8	137.3	158.5	179.0	234.1

Source: 2003 Statistics Yearbook, Thống Kê Publisher, 2004.

Table 3: Vietnam's import value with the EU-15 (US\$ mil.)

	1995	2000	2001	2002	2003 (est.)
Total	710.4	1,317.4	1,506.3	1,840.6	2,471.9
Including					
The UK	50.7	149.9	171.6	166.5	216.6
Austria	15.3	31.6	34.7	71.6	43.9
Belgium	21.7	92.0	72.2	94.7	168.8
Germany	175.5	295.2	396.7	558.1	609.8
The Netherlands	36.3	84.6	114.6	114.3	328.6
Italy	53.6	170.3	196.8	276.8	371.9
Finland	11.7	14.0	19.5	35.4	33.5
France	226.6	334.2	300.4	299.2	414.0
Sweden	22.6	43.7	73.6	62.5	113.6

Source: 2003 Statistics Yearbook, Thong Kê Publisher, 2004.

sented 8% of import market of this item in EU in 1996. However, from 1997 until now, the figure is always around 10%, especially 16.5% in 2001 behind China with 27.2%. At present, the market share of Vietnamese footwear in the EU is approximately 18%.

The Vietnamese footwear products exported to Middle and East European markets have remained modest although they encounter no barriers. The export value of these markets stands at US\$5-10 million annually, and went to the peak of US\$14 million in 2000. The East European major markets include Poland, Hungary, and Czech Republic while others almost did not import Vietnamese footwear.

Textile and clothing products: After 11 years of implementing the clothing agreement, the EU has become the second biggest importer of Vietnamese textile and clothing products, behind the US. Due to restriction by quota, Vietnam exports to the EU a total US\$500-600 million worth of textile and clothing products per annum, for example, US\$607.7 million in 2001, 551.9 million in 2002 and 573.1 million in 2003. Like footwear, Vietnamese textile and clothing products are sold to the EU by the way of processing for foreign companies, so the real income is not large and Vietnamese goods have not yet set a firm foothold on the EU market. When the WTO removes its quota on

textile and clothing products in the immediate future, the Vietnamese garment sector surely encounters more difficulties on the EU market, in particular, and the world, on the whole.

Agroproducts: Vietnam's agroproduct shipments to the EU register US\$200 million annually, for example, US\$201.8 million in 2001; 170.5 million in 2002; and 267.9 million in 2003, including coffee, tea, rice, etc.

Aquaproducts: The EU-15 annually absorbs Vietnamese aquaproducts worth US\$100-150 million (mainly shrimp): US\$100.3 million in 2000; 116.7 million in 2001; 97.9 million in 2002; and 153.2 million in 2003. The value of agroproducts exported to the EU accounts for 5.7% of total Vietnam's aquaproduct export and 0.5-0.7% of total export value of the country. The EU's demand for aquaproduct is very high, around 30-35 billion euro per year. Its member states' capacity of breeding and catching cannot meet this demand, so it has to import some 60% of its need for consumption. Vietnamese aquaproduct imports make up only 0.3-0.4% of the EU's total value of aquaproduct imports. Over the past years, Vietnamese seafood has not been marketed formally in East European countries. To secure food safety for customers, the EU prohibits the use of 16 chemicals for preservation including chloramphenicol and nitrofuran. In fact, the

Table 4: Ratio of major products exported to EU-15 (%)

Product	1999	2000	2001	2002	2003
Footwear	37.1	36.8	38.7	42.2	41.5
Clothing	22.0	21.6	20.2	17.5	14.9
Agroproducts	8.3	7.2	6.7	5.4	6.9
Aquaproducts	3.5	3.6	3.9	3.1	4.0
Handicrafts	2.4	3.9	4.0	4.7	4.5
Others	26.7	26.9	26.5	27.1	28.2

Source: Vietnam's General Department of Customs

Table 5: Ratio of major products imported from EU-15 (%)

Products	1999	2000	2001	2002	2003
Machinery and equipment	44.5	42.1	42.0	49.4	51.4
Raw materials for textile and clothing	5.0	4.5	5.5	3.6	3.1
Pharmaceutical product	9.0	9.4	4.7	4.9	4.5
Steel	1.9	3.5	5.1	2.7	2.9
Fertilizer	1.5	0.9	0.2	0.5	0.4
Others	38.1	39.6	35.2	38.9	37.7

Source: Vietnam's General Department of Customs

EU permits the antibiotic surplus less than 3 ppb.

Handicrafts: From 2000 until now, Vietnam shipped to the EU handicrafts and fine arts worth more than US\$100 million per annum (111.3 million in 2000; 119.2 million in 2001; 149.5 million in 2002; and 172 million in 2003), accounting for around 50% from the country's total earnings from handicraft export. Vietnamese handicrafts and fine arts including porcelain, bamboo, rattan products, fine art woodenware, are preferable in both East and West European states.

In addition to these major products, Vietnam also sells to the EU mechanical and electronic goods; bicycles, bicycle components; electronic components, personal computers, woodenware...

Import: Vietnam's principal imports from the EU are machine tools, electrical equipment, clothing materials, pharmaceutical products, steel, and fertilizer. (see Table 5).

Table 5 shows the import structure is rather rational. However, in further details, the EU's potentials have not yet been fully exploited, for example, technological supply. In the future, local companies should import more advanced machinery and

technologies from this region.

2. Investment relations: Vietnam and EU have also recorded a lot of achievements in investment relations.

Foreign direct investment (FDI): Until December 31, 2003, investors coming from 11 among 15 states in the former EU (EU-15) have implemented 372 projects in Vietnam, with total capital of US\$6,036.6 million including prescribed capital of US\$3,568.7 million and realized capital of US\$4,210.76 million. (see Table 6)

There are only 4 among 10 new states of the EU investing in Vietnam with a rather small capital of US\$72.3 million.

These above statistics indicate although 15 out of total 25 EU's states carry out direct investments in Vietnam, but their capital remains modest (in the stage of exploration), not compatible with their potentials.

The EU's investment in Vietnam is not huge because the EU, on the one hand, considers Vietnam's investment climate is not attractive enough to its investors (this is in accordance with the UNDP's examinations in its survey of 140 nations and territories: Vietnam ranks 45th on FDI realization but 75th on attractiveness and po-

tentials to attract investment). On the other hand, over the past years, the EU has focused its investment internally and on North America, Africa and Latin America. In the immediate future, the EU will pay attention to investments in its new state members. Vietnam has no other way than to continue reforming its investment climate and increase its attractiveness to the world's investors.

Indirect investment: In cooperation, the EU becomes one of Vietnam's large donors. Over the past years, its official development assistance (ODA) capital have been concentrated on hunger alleviation and poverty reduction, health care, education, and sustainable development. The Government is required to plan using this source in major programs with the aim to boost economic growth, especially in agriculture, and infrastructure construction. In addition, the EU's ODA should be spent on projects to promote relations between the two countries, for example, studying both nations' legal systems, reforming Vietnam's legal environment to allure the EU's investors, implementing measures to spur Vietnam's exports to the EU, exchanging culture between the two nations, opening schools to teach foreign language and train careers, transferring technologies, and supplying information... The Government should manage this ODA source more strictly to avoid loss and misusage and at the same time disburse it on time.

3. Vietnam-EU's relations in other fields: in services, tourism, transport, telecommunications, finance-banking, science-technology, Vietnam and the EU have also established relations, however, these relations have not yet corresponded to the two nations' potentialities.

Table 6: FDI from EU-15 into Vietnam (1998-2003) – US\$ mil.

	Nation	Amount of projects	Total investment capital	Prescribed capital	Realized capital
1	France	135	2,117.7	1,325.5	1,045.2
2	The Netherlands	51	1,768.3	1,140.0	1,934.8
3	The UK	53	1,185.1	423.7	595.6
4	Sweden	11	455.4	439.7	358.8
5	Germany	49	243.9	102.0	120.7
6	Denmark	17	119.9	75.6	80.2
7	Belgium	22	53.3	22.7	48.2
8	Italia	13	38.7	17.3	8.5
9	Luxembourg	12	34.7	15.5	14.7
10	Austria	7	12.8	6.1	4.0
11	Spain	2	0.8	0.6	0.06
	Total	372	6,030.6	3,568.7	4,210.76
	Total of 64 nations and territories	4,380	41,707.6	18,818.0	24,992.4
	(%)	8.5	14.5	19.0	16.8

Notes: Figures are calculated until December 31, 2002. Only operational projects are included.

Source: Foreign Investment Department - MPI

II. THE EXPANDED EU: OPPORTUNITIES AND CHALLENGES

This is the EU's fifth expansion, ever largest and most important in its history of nearly 50 years of development - the EU is extended to the east. Since May 1, 2004, the EU comprises 25 states, becoming a potential market with a population of 455 million. The expanded EU brings good benefits, at the same time, poses a lot of challenges to the development of relations between Vietnam and the EU.

1. Opportunities

a. The political and diplomatic relations between Vietnam and the EU is still in good condition, most of ten new member states of the EU (CEEC 10) used to establish close relations with Vietnam in the former Council for Mutual Economic Assistance (COMECON). Better political relations will make favorable conditions for promoting economic and trade relations.

b. The expanded EU will become one of the world's largest markets with the spending power of 455 million people. The demand for goods and services will be much higher. This also helps Vietnam

these businesses easily enter the EU market.

c. The CEEC 10's economic restructuring will generate much more requirements for capital and technology as well as for consumption.

d. Eight states of CEEC 10 are formerly Vietnam's traditional partners. Although the relations saw a slowdown recently, but Vietnam remains an impressive image for them. Moreover, there are a lot of Vietnamese people residing in these countries. They may become a bridge for Vietnam's goods to penetrate these markets.

e. The imports and exports of CEEC 10 and Vietnam are not identical and competitive, but complementary. Their consumers are also familiar to Vietnamese products. These are favorable conditions to boost trade between Vietnam with this region.

f. The EU's renovation of external economic policies also helps develop its cooperative and trading relations with Vietnam. The EU-ASEAN Trading Initiative will be a significant precondition for the EU-ASEAN free trade area in the future expected by both of the two sides. Because Vietnam has more advantages than

other ASEAN countries in relations with the EU, it should consider opening door earlier to the EU (as China did with ASEAN).

2. Challenges

a. The EU is required to focus finance on reforming its organization in accordance with new circumstance of 25 member states, at the same time changing political and legal institutions and making economies of its new members compatible with old ones.

b. The EU's program on boosting trade liberalization by gradually reducing tariff and increasing non-tariff barriers; eliminating quotas on the GATT's road map and Generalized System of Preferences (GSP) may cause obstacles to Vietnamese exports which are poorly competitive.

c. The trade relations between Vietnam and CEEC 10 have been established in line with the two sides' specific conditions. When becoming official membership of the EU, these countries are obliged to implement the EU's trading mechanism and policy, so the old trading forms cannot be accepted. Furthermore, when joining the EU, these states' bilateral commitments with Vietnam will be abandoned. This

will cause troubles to Vietnam's businesses because they have not yet obtained experience and understood the whole EU's regulations.

d. Vietnam's former exports to CEEC 10 have not needed high quality and not faced strict non-tariff barriers like food hygiene safety or environmental protection, labor standard...However, these barriers have been applied since May 1, 2004. In addition, several goods currently sold to CEEC 10 must be subjected to quotas like textile and clothing products or high import duties like rice, sugar...

Notes: Challenges 3 and 4 have not a lot of impacts on Vietnam-EU's trade relation because of small amount of exports to these eastern countries over the past years.

e. The EU's member states are not leading investors in Vietnam. After expansion, investment capital will be shared and flow into new members which apply the same legal system and economic system. According to survey, Poland now has the most attractive investment climate, indexing 33% higher than the US and China (27%), the next comers include Hungary 20%, and Czech Republic 18% while the Vietnam's index reaches only 5%. Furthermore, after expansion, the EU will become a potential market alluring investors from the rest of the world. As such, Vietnam and developing nations' FDI capital will be restricted from the EU and other regions if their investment climate is not more competitive and attractive.

III. SOME MEASURES TO BOOST VIETNAM-EU'S RELATIONS

To make the best use of opportunities, overcome challenges and promote Vietnam-EU's relations in trading, investment and

cooperation, the following measures should be taken:

1. To study and diffuse widely information about the EU to Vietnamese

At present, Vietnam's businesses, especially in the south, have very few information about the EU; and vice versa. Therefore, the most important measure is to extend information channels and introduce the EU to Vietnam's people and vice versa. When having enough knowledge about the EU and knowing properly the importance of this market, ministries, sectors, local governments and each enterprise, based on their conditions and capacity, will establish close relations with the EU. The EU's customs, habits, laws, regulations...should be introduced to enterprises for appropriate preparations. By doing that, they can avoid regrettable risks, like the American market recently.

In addition, this market demand and taste must be also understood well so that Vietnamese businesses may set a firm foothold on this market.

2. To increase product quality and meet requirements of the EU market

To survive on the EU market, Vietnam's businesses have to unceasingly renovate designs and use advanced technologies to increase product quality and meet requirements of the EU market. At the same time, local businesses must enhance productivity, reduce product prices and strengthen competitiveness of Vietnam goods on the EU market in terms of quality, price, and support service...In addition, the EU's requirements and regulations must be strictly respected, for example, CE seal on goods, HACCP standard for food, ISO 14000, EHMS standard, SA 8000, etc...

On the other hand, Vietnam's exporters should pay full attention to advantages of Vietnam's handicrafts and fine arts, for example, national identity and uniqueness.

3. To diversify and select the most effective business forms

As for footwear, textile and clothing products, local businesses must step by step change from processing for the third party to directly processing for EU companies and then producing and selling by their own. To carry out this significant change, on the one hand, local businesses have to boost marketing and investigate the market demand, on the other hand, build a complete process of production, from material areas to knitting fabric and producing textile and clothing products. They must optimize each stage of production, combine export with import, connect trade and investment, and finally implement the model: West European technologies and capital + Vietnamese labor = EU-standard products exported to the EU and the world's markets.

4. To boost promotion of trade – investment – tourism on the EU market

There should be close coordination between the Government (via ministries, branches, and diplomatic agencies), local authorities and businesses to implement general marketing campaigns on the EU market.

To change positively the views of European customers to Vietnamese goods, the role of government agencies is extremely important, especially diplomatic agencies. Currently, there are seven Vietnam's trade counselors in EU-15 and five in East European nations. These agencies must act as a bridge between local busi-

nesses with this market. Vietnam's ministry of Trade should soon establish "Vietnam House" – Vietnam Trade Center and bonded warehouses in the EU.

Most of Vietnamese businesses are of small and medium size, so the role of associations is very important. As a result, the existing associations must be reformed and new ones set up. These associations have to concentrate members' power on their professional trade promotion.

Nevertheless, the most important are still businesses. They should positively seek for partners by participating fairs, exhibitions, workshops organized in Vietnam or EU with the assistance from trade counselors of Vietnamese embassies in the EU or EU member states' embassies in Vietnam.

5. To fully utilize opportunities in ASEM to boost Vietnam-EU cooperation relations

As a member of ASEAN and ASEM (Asia-Europe Meeting), Vietnam will face a lot of opportunities to tap favorable conditions for boosting relations with the EU in the new circumstance. Especially, in October 2004, Vietnam will host the ASEM 5. This is just a valuable chance to advertise the Vietnam's images with the EU member states and thus strengthen relations with the EU.

In short, the EU is an important partner, a potential market and a big trader for Vietnamese products. In the meanwhile, the EU is also the large supplier of modern technologies and equipment to Vietnam. To tie co-operation relations with the EU, first Vietnam and the EU should understand each other very deeply. ASEM is just the important bridge to help boost the Vietnam-EU relations to the new level. ■