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The Impact of EU Aid on the Trade Performance between the EU and Vietnam

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Abbreviations

ADB	**Asian Development Bank**
ASEAN	**Association of South East Asian Nations**
AfT	**Aid for Trade**
DCI	**Development Cooperation Instrument**
DAC	**OECD Development Assistant Committee**
EC	**European Commission**
EU	**European Union**
FTA	**Free Trade Agreement**
JICA	**Japan International Co-operation Agency**
GDP	**Gross Domestic Product**
MUTRAP	**Multilateral Trade Assistance Project**
OECD	**Organization for Economic Co-operation Development**
ODA	**Official Development Assistance**
UNDP	**United Nations Development Programme**
UN ESCAP	**United Nations Economic and Social Commission for Asia and the Pacific**
WB	**World Bank**
WTO	**World Trade Organization**

Chapter 1 Introduction

The EU and Vietnam have established diplomatic ties in the early of 1990s, and since then, their relations have undergone a multidimensional development (Nguyen & Mascitelli, 2017). The cooperation between the EU and Vietnam moved from humanitarian aid to development cooperation, economic, trade, and other issues (EU Delegation to Vietnam, 2015). Official development assistance (ODA) from the EU and its member states to Vietnam has taken an important role in building and strengthening the relationship (OECD, 2013; EU Delegation to Vietnam, 2015).

The EU, together with its member states, is one of the biggest donors of ODA and the largest grant donor in Vietnam (EU Delegation to Vietnam, 2015). Historically, EU development aid to Vietnam has focused on poverty reduction and social issues (EU Delegation to Vietnam, 2015). In the 1990s, EU ODA given to Vietnam concentrated on improving people's living standards (EU Delegation to Vietnam, 2015). Besides this, the focus was also on political relations. The success of Vietnam's economic reform ("Doi Moi[1]") has led the EU to reconsider its priorities regarding its relations with the country (Kokko, 2011; Nguyen & Mascitelli, 2017): by the mid-2000s, the focus of EU development cooperation had shifted towards aid to support Vietnamese economic growth, leading to an improvement in the trade relations for both sides (Kokko, 2011). The United Nations Agencies in Vietnam, the Delegation of the European Union to Vietnam, and the Ministry of Planning and Investment of Vietnam (2014) also indicated that EU ODA for Vietnam has had a clear shift of focus, from poverty reduction to supporting trade, and from financial transfers to a post-aid development partnership. To different degrees, the EU and its member states have begun to promote Vietnamese private sector development, with a view to build up mutually beneficial trading ties.

There was a significant increase in ODA not only from the European institutions but from the different EU member states[2] as well, especially from those countries which were already present

[1] At the Sixth Party Congress in 1986, the Vietnamese Communist Party introduced a comprehensive economic and political reforms program entitled *Doi Moi* (renovation policy or open-door policy), which has shifted Vietnam from a bureaucratically centralized planned economy to a multi-sector economy operating under a market mechanism with state management and a socialist orientation. The reforms were intended to open a closed economy to international markets and global trade

[2] Among the largest bilateral donors to Vietnam between 2007 and 2017, France was the second largest DAC aid donor in 2010, the UK was the third largest DAC aid donor in 2008, and Denmark was the fifth largest DAC aid donor in 2007. Germany has been one of the top ten largest bilateral donors to Vietnam since 2000s (Oxfam, 2019).

in Vietnam as large donors: France, Germany, and the United Kingdoms, who wanted to continue increasing their economic presence in Vietnam (Kokko, 2011). Vietnam has become one of the "*aid darlings*" of the EU and its member states (Hoang, 2014). The EU's aid allocation in Vietnam has been increasingly directed by economic interests (Kokko, 2011; Hoang, 2014). One of the main goals of the EU's aid to Vietnam was to enhance trade and investment opportunities (EU Delegation to Vietnam, 2015). Much of the EU financial support for Vietnam (including grants, concessional loans and technical assistance) aimed to facilitate Vietnam's governance, economic institutions, private sector development and trade reform. Through many projects/programs, the EU supported Vietnam's WTO accession[3], the EU-Vietnam trade negotiation process[4], and customs procedures[5], although a substantial share of EU ODA in infrastructure, industry and agriculture can also be interpreted as support for Vietnam's trade internationalization. EU ODA to Vietnam also displays the EU's commercial self-interest. Admittedly, through ODA projects, the EU supports Vietnam in extending market access for European exporters and importers, improving the business environment, and protecting EU investors in the Vietnamese market (Hoang, 2014). Therefore, one of the main aims of EU ODA, among other high priorities such as strengthening the political relationship with Vietnam and support for the country's development, is to enhance trading and investment opportunities, and the EU's position in trade with Vietnam as well as with the Association of South East Asian Nations (ASEAN) (EU delegation in Vietnam, 2015).

EU ODA, combined with a series of other EU policies[6] towards Vietnam launched in recent years, has indicated that the EU has recognized the rise of Vietnam's economic growth and its potential prospective market. In fact, bilateral trade between the EU and Vietnam has increased significantly with values rising from 11.5 billion Euros in 2007 to nearly 48 billion Euros in 2017

[3] Among other projects, the MUTRAP project in phase III (2008-2012) sought to enhance the capacity of Vietnam's Ministry of Industry and Trade and develop Vietnam's integration strategy into multilateral networks, particularly ASEAN and WTO based on the provision of European experiences.

[4] Among other projects, the European Trade Policy and Investment Support Project (2012-2018) was funded by around 16.5 million euro. One of the main aims of this project was to boost EU-Vietnam trade and investment relations.

[5] Under the Multi-Annual Indicative Program for Vietnam (2014-2020), the EU assisted 400 million euros to support Vietnam with developing a sustainable energy sector and strengthening governance and the rule of law. See at European External Action Service (2014), Multi annual Indicative Program for Vietnam.

[6] Since the official establishment of diplomatic relations, the EU issued many documents institutionalizing the EU-Vietnam economic and development cooperation, including the 1992 textile trade agreement, the 1995 Framework Cooperation Agreement, the 2004 Market Access Agreement and the 2016 EU-Vietnam Framework Agreement on Partnership and Cooperation (PCA). On 26 June 2012, the EU and Vietnam launched negotiations for a Vietnam-EU FTA, which was concluded at the end of 2016 and signed in 2020.

(EU Delegation to Vietnam, 2018). EU investors were one of the first foreign direct investment (FDI) partners in Vietnam and the EU remained among the top five largest sources of FDI in Vietnam between 2013 and 2017 (reaching second place in 2017) (EC, 2019). Vietnam has been the second partner of the EU in ASEAN to sign a free trade agreement (FTA), just after Singapore (EU Delegation to Vietnam, 2018).

Due to Vietnam's rapid development, some traditional European donors have already withdrawn, or are in the process of phasing out their grants for development cooperation. In reality, the Netherlands stopped its bilateral support to Vietnam in 2012, Sweden in 2013, the UK in 2016, and Finland in 2018 (OXFAM, 2019). Some EU donors have shifted from grants to concessional loans. However, the EU continues providing support for strengthening trade policy and regulations for the development of economic opportunities and for the export-oriented development strategy for Vietnam, as it considers Vietnam to be one of its foremost economic partners in the ASEAN (EU Delegation in Vietnam, 2015).

EU ODA is an important capital resource for enhancing Vietnam's capacity for trade growth and integration into global trade. This is where ODA in the form of "*Aid for Trade*" (AfT) from the EU to Vietnam has achieved the most significant results. According the WTO (2005), AfT is about helping developing countries, in particular the least developed countries, to build the trade capacity and infrastructure they need to benefit from trade opening. It is part of overall ODA, targeted at trade-related programs and projects. The EU has chosen AfT as one of the main types of ODA to support economic development in Vietnam and to tighten trade relations even further (EC, 2018).

To summarize, in recent years, EU aid to Vietnam has focused more on economic interests. The amount of EU aid to Vietnam increased considerably, in parallel with the rise of trading flows. The question emerges whether EU aid to Vietnam has had any statistically significant impact on enhancing Vietnamese economic growth as well as the trade flows between the two partners. Moreover, the EU donors in Vietnam have included more than 20 EU member states as bilateral donors and the EU institutions as a multilateral donor, each with a variety of projects with different objectives and targets. The impact of each individual EU aid project has probably been small, and it is difficult to assess what their aggregate impact on Vietnamese development has been (Kokko, 2011). This leads to another question: which are the specific channels through which EU aid development projects can influence on Vietnamese economic outcomes and the EU-Vietnam trade relations? These issues bring an essential demand to study and to evaluate EU aid and Vietnamese economic growth as well as trade relations.

Generally, there has been abundance of empirical studies on the impact of aid on economic growth with mixed findings (Hokmeng and Moolio, 2015). Hence, many authors point towards the value of continued research in this field using different methods and diverse approaches (Moolio and Kong, 2016). Especially, Vietnam is identified as a "*success story*" of development and a good example of effective use of ODA for development in general and supporting trade in particular (OECD, 2013; UN ESCAP, 2013; UNDP, 2013, 2015). The country is chosen as a typical and interesting case study to assess the impacts of ODA on development (OECD, 2013; UN ESCAP, 2013). As a developing country, Vietnam lacks financial resources for investment and for promoting economic growth. Due to a technology lag and a human capital gap, Vietnam's domestic capital needed to boost its economic growth is insufficient (Tram, 2016). Foreign aid acts as a pivotal source of external capital expected to narrow these gaps and subsequently boost Vietnamese economic growth (Trinh, 2014). Albeit, the Government of Vietnam confirmed the important role of ODA in its development progress (GoV, 2016), the question of whether or not ODA enhances Vietnamese economic growth has been debated for decades. There is no consensus among researchers and policymakers. While some studies have found a significant positive relationship between ODA and Vietnamese economic outcomes (Hong, 2014; Moolio and Kong, 2015; Tram, 2016; Trinh, 2014), others gave the conclusion of an insignificant or even significant negative relation (Quy, 2016; Mun and Yee, 2013; Chengang and Balasubramanyam, 2011). There are also some assessments focused on the impact of aid to Vietnamese economic growth by specific donors or specific development projects (JICA, 2018; WB; 2013; OECD; 2013; Kokko, 2011; Hoang; 2014). The final conclusion has still been strongly controversial. Even though some studies investigated the development cooperation between the EU and Vietnam, their works still neglected or lacked the deep and empirical analysis of EU ODA for Vietnamese economic growth as well as trade performance (Kokko, 2011; Hoang; 2014; Sandra, 2018). For example, Kokko (2011) indicated the shift of EU aid in Vietnam from social development to economic growth. Hoang (2014) explained Vietnam as an "aid darling" of the EU based on four motivations (including the EU's interest, the recipient's needs, its capacities regarding governance and economic reforms, and the potential influence of EU aid). The analysis has shown that donor interest, aid recipient capacities and the potential impacts of EU aid are sufficient conditions for receiving a considerable amount of EU aid in Vietnam (Hoang, 2014). More specifically, there are very few studies or official reports which evaluate the influence of EU AfT on Vietnamese economic growth and trade (EU Delegation to Vietnam, 2015; OECD, 2013). For instance, OECD (2013) selected only one EU AfT project in Vietnam to analyze and build up a model of AfT project management. Indeed, earlier studies appear to lack comprehensive analysis investigating the impact of aid flows from the EU institutions and EU member states to Vietnamese economic growth and the specific mechanisms through which aid has affected their trade outcome. Therefore, this indicates there is a need for more in-depth and comprehensive investigation on the aid-growth relationship between the EU and Vietnam. Furthermore, EU ODA projects to Vietnam also need proper recommendations on improving the effectiveness of aid allocation and aid management in the recipient.

Therefore, this research contributes to the existing literature on the aid-growth relationship through the in-depth analysis of EU aid to Vietnamese economic growth, with a particular focus on evaluating the effects of EU AfT on trade flows between the EU and Vietnam. Furthermore, the dissertation examines the influences of EU AfT on the process of the negotiations of the free trade agreement between the EU and Vietnam by which they expect to enhance the trade values. It also analyzes EU AfT priorities in Vietnam. Some policy implications are proposed to enhance the positive influences of EU AfT on Vietnamese economic growth and its trade with the EU. To fulfill these aims, two main research questions guide this study:

Research question 1: What are the impacts of EU AfT on trade flows between the EU and Vietnam?

The aid flows from each EU member state to Vietnam have changed fluctuated year by year. Additionally, the aid amount from individual EU member state to Vietnam was so largely difference among these members (even some EU countries have no aid to Vietnam). Hence, the aid-trade relationship between Vietnam and each EU member state needs to be examined. This issue leads to the first sub-question:

Sub-question 1: What is the impact of aid from individual EU member states on trade flows with Vietnam?

Another issue is the role of EU institutions in aid-trade relationship between the EU and Vietnam. The EU institutions represent themselves as a multilateral donor in Vietnam. Through EU common development funds like Development Cooperation Instrument (DCI), EU institutions provide independent projects or co-funded projects to support Vietnam. This leads to the second sub-question:

*Sub-question 2: Which type of EU AfT has the largest impact on the trade performance***?**

The OECD has specified five main groups of activities that are considered to constitute AfT: Technical assistance for trade policy and regulation (category 1), Trade-Related Infrastructure (category 2), Building Productive Capacity (category 3), Trade-related Adjustment (category 4) and Orther Trade-Related Needs (category 5). Among these types of AfT, the EU and the Government of Vietnam (GoV) interact to choose the priorities. Albeit, the EU launched a common "EU AfT Strategy", the different capacities and interests among EU member states can lead them to choose different types of AfT to support Vietnam' development. Moreover, the EU institutions are also involved in AfT to Vietnam with independent projects. The complex interactions between Vietnam and the EU in preferring to types of AfT raises the second main research question:

Research question 2: How the AFT projects from the EU can interfere to trade relations between the EU and Vietnam?

My research focuses on the impact of EU AfT on the trade flows and trade relations between the EU and Vietnam t*o indicate that this aid has a positive impact on expanding trade for both sides*. The research uses a mix of qualitative and quantitative methods. On the one hand, the research applies econometric methods to estimate the relationship between trade and EU AfT. The regression models are based on the Gravity model of trade. The gravity model is an econometric model commonly used to analyze the impacts of deferent factors on bilateral trade flow, and its name is an analogy to Newton's gravity law in physics. The model postulates that bilateral trade depends on the size of the two economies and the distance between them (Krugman and Obstfeld, 2005). The model has emerged as an important and popular model in explaining and predicting bilateral trade flows (Head and Mayer, 2015; Yotov et al., 2016). The specific model applied in this dissertation is a variation of the gravity model by Krugman and Obstfeld (2005). The model is augmented by adding a financial variable, the aid flows from the EU member states to Vietnam in the forms of ODA and AfT, which act as a measure for its contribution to trading flows, then by population of origin and target countries as additional mass for bilateral trade. The empirical study assumes a log-linear functional form for gravity equations.

The finding of this study is consistent with other empirical work in explaining bilateral trade variation using gravity model. Economic size has strong influence on trade as high economic growth together with high income will increase the demand for importing goods. However, it is interesting to note that the negative coefficient of market size is more or less different trend with other papers. The distance variable turns out with unexpected sign and insignificant, it may be because there are still other unexplained variables beside the distance such as specific trade agreements, trade barriers, tariff duties, and exchange rates. The regression results support that EU aid has been an insignificant determinant of trade performance between the EU and Vietnam. Similarly, there were insignificant result of Pearson correlation coefficient between EU ODA disbursement and Vietnam's GDP growth and between EU ODA disbursement and total trade of the EU and Vietnam. Thus, there is not enough evidence to support the relationship between EU aid and the trade outcomes between the EU and Vietnam. Therefore, the case study continues to explore the evidence of these relations.

On the other hand, the research uses multiple case studies of EU AfT programs/projects funded by the EU institutions and EU member states to Vietnam as the main qualitative method. As mentioned above, Vietnam initiated a transition from a centrally planned economy to a market-oriented economy where the GoV would keep playing a leading role (WB, 2013). These renovation ('Doi moi') policies were successful at generating economic growth and reducing poverty (OXFAM, 2019). In the recent ten-year socio-economic strategy, the Vietnamese authorities further articulated their development objectives in terms of economic growth and poverty reduction (GoV, 2010). To reach these objectives, the GoV indicated that its structural reform priorities were to change Vietnam's trade and financial policies, liberalize the climate for private investment, increase the efficiency of public enterprises, and improve governance. Additionally, following the priorities of EU trade policies towards Vietnam, the EU uses AfT projects to support and to change the context of Vietnamese trade environment (EC, 2009). *Therefore, we use case study to employs a theoretical framework to help analyze how EU AfT projects intervene within Vietnam's trade policy reforms, and how their contestation shapes the outcomes of such projects*. According to the OECD (2011), measuring the influence of AfT is never going to be easy, given the difficulty in establishing the counterfactual, and because of the other factors which may come into play (political, economic, and social factors). For this reason, case study about the relationship between AfT and trade policy interventions presents a useful way of establishing what works, what does not work, where improvements are needed, and what type of interference of AfT can have (OECD, 2011). Specifically, this paper uses '*European Trade policy and Investment support Project'* (EU-MUTRAP) case is an example of the wider EU AfT and trade policy intervention in Vietnam. Therefore, a part of this section seeks examine the interference of the EU-MUTAP to Vietnam trade policy reform: "*How the EU-MUTRAP from the EU institutions can interfere with Vietnamese trade policy?* The EU-MUTRAP project is proof of the significant assistance that the EU has provided for Vietnam, supporting Vietnam to integrate deeper into the regional and global trade system, promoting EU-Vietnam trade and investment interrelationships (Mangini, 2015; Habel, 2018). In particular, a large extent of the results of the EU-MUTRAP accounted for the EU and Vietnam negotiation achievements of a bilateral agreement for free trade (EVFTA[7]) (Nguyen, 2018). Recently, The EU and Vietnam signed the EVFTA after several rounds of negotiation with high hopes of creating mutual benefits for both sides[8] ((Baker et al., 2014; Baker, 2015; Nguyen, 2014, 2016; Nga et al., 2020). The EU-MUTRAP has committed an even larger portion of funding to aiding the preparation, negotiating and implementation of EVFTA. Indeed, there was much financial support for policy reform has focused on trade-related capacity building such as EVFTA negotiating capacity, EVFTA negotiation process, and customs procedures. Especially improvements in regulatory quality appeared to play their intended role in the allocation of EU aid for trade, together with the improvement of the business environment (EU-MUTRAP Report, 2016). Admittedly, through EU-MUTRAP, the EU supports Vietnam while extending market access for European exporters and investors, however, average tariffs have fallen substantially, a part of it thanks to the EVFTA negotiation achievements (Nga et al., 2020). Therefore, we analyze the EU-MUTRAP project to provide a better understanding of the effectiveness of EU AfT projects in Vietnam. We created five criteria to analyze the effectiveness of EU AfT in this case study, namely (*i*) Vietnam's needs in terms of improving trade performance; (*ii*) The EU's self-interests in terms of trade with

[7] EVFTA is a comprehensive free trade agreement between Vietnam and the EU. Considering both the scope and level of commitments, EVFTA goes further than WTO, with commitments not only in traditional sectors, such as trade in goods, trade in services but also in the fields of investment, intellectual property, public procurement, and competition policy. EVFTA full text (2016) is available at http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437.

[8] The goals of this agreement are to create a stable and predictable entrepreneurial environment, which in turn promotes growth and employment. It has the potential to expand trade relations and investment by means of trade liberalization and better market access and by improving the business environment (Baker et al., 2014; Baker, 2015). Nguyen (2014, 2016) applied the gravity model for trade to estimate the changes in overall trade flows between the EU and Vietnam under the conditions of EVFTA. In the model, the coefficient explains that a decrease of 1% of EU's tariff/Vietnam's tariff leads to an increase of 0.52%/0.95% of Vietnam-EU trade.

Vietnam; (*ii*) Coordination between the EU and Vietnam in the AfT projects (from design to implementation to evaluation); (*iv*) Vietnam's absorptive capacity of EU AfT; (*v*) Sustainability (the expected longer impact of the AfT project). The analysis is also based on available data, project evaluations/reports, and other documents that we can access to study.

Based on a qualitative method, the present research found that EU ODA and EU AfT practices in Vietnam have not been linked directly to contemporary Vietnamese economic development and trade outcomes. Most their aid is allocated to social sectors and focuses on sustainable development but Vietnam requires capital accumulation in order to take-off or industrialize. The EU aid failed to serve its unconcealed purpose of being a big push for Vietnam's economy. As the EU aid disbursement to Vietnam was a low amount compared with other external capital and this aid was diversely allocated. A large part of EU aid was not directly to the productive sectors and covered the saving investment gap in Vietnam. It is partly proven by the contribution of the EU-MUTRAP for the results of EFVTA negotiation and implementation. During the EVFTA negotiation process, EU-MUTRAP supported many related activities to inform EVFTA discussions, promote EVFTA rounds and to reach conclusions. Obviously, these activities exerted influence on the achievements of the EVFTA process. Nevertheless, enhancing Vietnam trade capacity can be seen as an indirect method of influencing EVFTA by the EU-MUTRAP. The EU-MUTRAP implemented the effective methods of decentralized aid project management and coordination mechanisms, making use of local experts, cost cutting, evaluation reports, and research and publications that can attract diverse actors from both sides. Combining with EVFTA, the EU-MUTRAP provides a foundation for the imminent EVFTA. The effective method of delivering EU aid in the EU-MUTRAP project is enhancing human resources in Vietnam, especially those involved in the realm of trade and trade policy. However, weaknesses in the links between EU-MUTRAP and the EVFTA process include the lack of funding and supervision for sub-projects, and weak exchanges of information between stakeholders. Both sides may focus on tightening criteria for the selection of project beneficiaries, strengthening activities in the business community and improving the diversification of implementation methods. The project could include the more directed substance of EVFTA in its activities, while supporting the business sector in preparing for the impact of the FTA between Vietnam and the EU. Furthermore, the selected case illustrated that the EU donors involved largely in aid management process from the design stage to evaluate and control stage of their projects in Vietnam. Based on their own benefits and priorities, the EU donors interfered to allocate aid to various sectors in Vietnam. The EU AfT was given to Vietnam with conditions on policy. Therefore, the EU aid could not target capital accumulation in investment and the manufacturing industry in Vietnam. EU aid allocated to trade growth in Vietnam that do not directly simulate Vietnamese economic growth.

This dissertation is divided into eight chapters. The chapter following this Introduction provides an introductory of terms and definitions of the thesis. The third chapter presents details on ODA and Vietnamese development in recent years as well as the aid-trade relationship between the EU and Vietnam. Chapter four provides a review of the theoretical literature and empirical studies and reviews the evaluations of the aid-growth nexus in general and in the case of EU-Vietnam. The fifth chapter explains the methodologies used to estimate aid flows and trade flows relationship and data sources. It also includes the discussion of multi-case study method. Chapter six goes on to document the results of our empirical methodology. Chapter seven discusses the effectiveness of EU AfT in the selected projects in Vietnam. The final chapter concludes the dissertation.

Chapter 2 Introductory of terms and definitions

In order to position and relate the thesis to past and current terms and definitions on development assistance in general and trade-related assistance in particular, this chapter provides a main strain of research.

The early part of the chapter addresses the main international development assistance organizations in order to exhibit an understanding of what these organizations do on the ground of the existing aid architecture. The following sections opens up the space for understanding the contestation surrounding foreign aid, official development assistance, and aid for trade.

The Organization for Economic Cooperation and Development (OECD)

The Organization for Economic Cooperation and Development (OECD) was initially called the Organization for European Economic Cooperation (OEEC). The OEEC was initiated was started in 1948, after World War II, to run the Marshall Plan to reconstruct Europe. Once the Marshall Plan was completed complete, Canada and the United States joined the OEEC nations. That created the OECD on 14th December, 1960. The OECD went into full force on 30th September, 1961 (OECD, 2020a). The OECD currently brings together 37 members, which share the principles of democratic governance and a market economy. Its members and key partners represent 80% of world trade and investment (OECD, 2020a). Over the last few years, the OECD has also strengthened its cooperation with non-OECD G20 members such as China, India, Brazil, and South Africa.

The goal of the OECD is to promote the economic welfare of its members. It also coordinates their efforts to aid developing countries outside of its membership. As a result, its programs account for 94 percent of world official development assistance that helps reformation reform in more than 100 countries worldwide (OECD, 2020b). The OECD promotes coordinated, innovative international action to accelerate progress towards the Sustainable Development Goals (SDGs) in developing countries and improve their financing. In accordance with its motto '*better policies for better lives'*, this international organization promotes 'policies that will improve the economic and social well-being of people around the world' (OECD, 2020b). The OECD set up international principles and standards for development cooperation, and monitors monitor how donors deliver on their commitments. In other words, the OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems.

They work with governments to understand what drives economic, social, and environmental change. They measure productivity and global flows of trade and investment. They analyze and compare data to predict future trends. They set international standards on a wide range of things, from agriculture and tax to the safety of chemicals (OECD, 2011).

The OECD Development Assistant Committee (DAC)

In the 1960s, the DAC was created to coordinate and promote aid from the donor community within the OECD. It has grouped the world's main donors, serving as a forum for dialogue, coordination, and international consensus-building (OECD, 2018). Indeed, the DAC became part of the OECD by Ministerial Resolution on 23 July, 1961. The World Bank, IMF, and UNDP participate as observers (OECD, 2020b). The key mandate of the DAC was set out to consult on the methods for making national resources available for assisting countries and areas in the process of economic development and for expanding and improving the flow of long-term funds and other developments to recipients (Manning, 2008). Verschaeve and Orbie (2016) demonstrated that the DAC has been influential in defining 'international development cooperation' by its role in defining and monitoring global development. The DAC is 'instrumental in defining terms and concepts in development assistance, identifying "best" practices, and providing a framework within which bilateral donors can interact with a higher degree of synergy than if they had been left to their own devices' (Rowlands, 2008). For example, the DAC provided the concepts of ODA, policy coherence for development, or united aid (Eyben, 2013). Furthermore, the core agenda of the DAC was also, from the start, concerned with the quality and effectiveness of aid such as making "the Paris Declaration on Aid Effectiveness" in 2005 (Manning, 2008). The DAC's work contributed a strong element of transparent reporting and publishing statistics on aid flows of what donors had committed and spent. It has a large impact on how the delivery of aid is structured (Kim and Lightfoot, 2011). When it comes to measuring resource flows to developing countries, the DAC is a global quasi-legislative body, defining, monitoring, and reporting ODA from both its members and non-members (Hynes & Scott, 2013). Mahon and McBride (2009) argued that the DAC is not only the club of the economically wealthy countries but also a community of 'shared values' reinforced by extensive use of the international peer review system.

In recent years, however, the DAC's role in international development cooperation has become increasingly challenged by a group of countries that are rapidly industrializing and seeking greater influence in the international arena (Tan-Mullinset et al., 2010). For several reasons, one could expect the non-DAC donors to have a detrimental impact on the DAC. Rising economies including Brazil, Rusia, India, China (four countries reffering to BRICs), the United Arab Emirates, Korea, Kuwait, and Saudi Arabia are subtly changing the rules of foreign aid with profound consequences for the role of multilateral institutions and conditionality. Specifically, Brautigam (2009) argued that China's growing foreign aid and export credit program as an element of the changing international aid architecture. Carroll and Kellow (2011) indicated clear tensions between the EU and the DAC due to their overlapping roles and membership in development cooperation issues. The establishment of the United Nations Development Cooperation Forum (DCF) is also widely regarded as a major challenge for the DAC.

In summary, there were two major challenges for the DAC, respectively, (i) its lack of inclusiveness, referring to the fact that only traditional donors (DAC members) take part in its work (Eyben, 2013) and (ii) the proliferation of "new" providers of aid (e.g BRICs, philanthropic foundation, the private sector), challenging its pre-eminent status in defining donor norms and principles (Kim and Lightfoot, 2011; Dreher et. al., 2013). As a result, these challenges put questions on the legitimacy of the existing aid architecture, including the role of the DAC in governing development issues (Besada and Kindornay, 2013; Woods, 2009). This sparked much debate among scholars on whether or not DAC will remain a relevant forum for global aid negotiations (Besada and Kindornay, 2013; Brautigam, 2011; Eyben, 2013; Kim and Lightfoot, 2011; Verschaeve and Orbie, 2016). Therefore, the DAC donors are willing to recognize the comparative advantage of the new donors (non-DAC donors) and to engage with them to induce greater global development outcomes (Kim and Lightfoot, 2011).

Foreign Aid and Official Development Assistance (ODA)

The history of foreign aid can be traced as far back as the late 1870s and early 1920s when the United Kingdom (UK) began the discussion on how to finance the development of economically disadvantaged countries which were then British colonies (Hjertholm and White, 1998). However, the term of development aid, as it is known today, started after World War II (WB, 1998). In 1947, the USA established and funded the Marshall Plan which was aimed at rebuilding

Europe after the war (Gillivray et. al, 2006). Afterward, for several decades, financing of development cooperation has been discussed to set up an "international input target" whereby the richer, more developed nations would devote at least a specific number of their national income to assisting developing countries in the forms of grants and concessional loans (Vanheukelom et. al, 2012). In 1970, the United Nations recommended and ratified a resolution in which the developed nations should (significantly) increase their development assistance budget to reach 0.7 percent of Gross National Income (GNI) (Nunnenkam and Thiele, 2011). In 1972, the OECD stated a formal definition of Official Development Assistance which continues to be applied to this day and is accompanied by relevant statistics and monitoring systems. The main objective of ODA is the "promotion of the economic development and welfare of developing countries" (OECD, 2015). Recently, ODCE defined ODA as "*those flows to countries and territories on DAC list of ODA Recipients and multilateral development institutions which are: (i) provided by official agencies, including state and local governments, or by their executive agencies; (ii) and each transaction of which: is administered with the promotion of economic development and welfare of developing countries as its main objective and its concession in character and conveys a grant element of at least 25 percent*" (OECD, 2015). Based on the ODA definition of the OECD, ODA can be understood as government aid designed to promote the economic development and welfare of developing countries. Loans and credits for military purposes are excluded. ODA may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or World Bank. ODA includes grants, concessional loans, and the provision of technical assistance. The OECD maintains a list of developing countries and territories; only aid to these countries counts as ODA.

ODA has been an important economic growth factor throughout history (Alonso, 2018). According to Niyonkuru (2016), ODA provides assistance to countries' development. These aids may include social infrastructure and economic infrastructure, services' aid, and production sector's aid. The social infrastructure includes education, water supply, and sanitation, all with the aim to improve human development and eventually contribute to long-term sustainable economic growth (Addison and Tarp, 2015). Furthermore, economic infrastructure ODA does improve energy, transport, and communications systems in recipient countries. The production sector's aid is aimed at agriculture, forestry, and fishing, industry, mining and construction, trade, and tourism. It may also attract FDI flows which further contribute positively to economic growth. As (Morrissey, 2001) suggests, there can be several positive channels through which ODA impacts economic growth; for example 'aid increases investment in physical and human capital, aid increases the capacity to import capital goods or technology, and aid is associated with technology transfers that increase the productivity of capital and promotes endogenous technical change'. However, there was an increased public scrutiny and criticism of ODA effectiveness. It gave much attention and pressure for better justification for using considerable amounts of aid. The DAC response was to ensure "effective aid delivery" (OECD, 2003). Soon afterwards the Paris Declaration on Aid Effectiveness was endorsed at the Second High Level Forum on Aid Effectiveness in 2005. This Declaration established guidelines for how more effective aid should be achieved and particularly focused on the monitoring and reporting of results (OECD, 2005).

The definition of ODA has been the global standard for measuring donor efforts in supporting development cooperation objectives (Hynes and Scott, 2013). It is necessary to have an internationally applicable definition of ODA. Firstly, it allows standards and, by extension, qualitative requirements to be defined that distinguish ODA from other approaches to cooperation, such as instruments for promoting foreign trade and military cooperation with other states. Secondly, it makes a platform to keep quantitative records of contributions to the development and of comparisons between countries. It provided the yardstick for documenting the volume and the terms of the concessional resources provided, assessing donor performance (OECD, 2015). Based on ODA statistics, which OECD calculates annually, the international development community could evaluate and present results of ODA in practice as well as research. The ODA definition provides a boundary to lead and encourage donors in supporting for developing countries (OECD, 2015). ODA is also the key measure used in practically all aid targets and assessments of aid performance.

Albeit, while the ODA definition has a crucial role as mentioned above, the ODA definition does not clearly determine the range of activities for which flows can qualify as ODA. For instance, economic development and welfare are broadly defined terms and include peace building, social and cultural programs, humanitarian aid and development research. It is too complicated to give an accurate ODA measurement (Hynes and Scott, 2013). Furthermore, ODA covers some activities which do not benefit the recipient countries such as the general administrative costs of the donor countries, debt relief, scholarship costs for students from developing countries studying in the donor states (who often do not return to their home countries) and the money spent on refugees (that are funded inside donor countries). Hynes and Scott (2013) argued that ODA is not sufficiently rooted in the historical development and the political realities of the measure. ODA is a measure based on the consensus of DAC member states. Its original definition was a compromise for some members. It was insufficiently concessional, while for others it excluded support that played a significant role in their aid program. Carbonnier (2010) indicated that donor countries have different motivations behind the ODA support for developing countries. Therefore, ODA's definition can-not express these manners of donor countries. For instance, ODA serves as an instrument through which industrialized countries seek to dominate poor-countries. ODA contributes to swelling the staff of a myriad of ineffective administrations in recipient countries. Furthermore, it serves to support corrupt and non-democratic leaders. ODA support given in the form of donations distorts markets, stifles entrepreneurialism, and creates dependence among the beneficiaries. Additionally, Severino and Ray (2012) stated that ODA cannot reflect the changes in international development cooperation as the involvement of China, non-DAC countries, and other developing countries in aid relations as donors with recipient countries. These authors indicated that 'ODA measures too little" which can no longer speak for the world's donor community'. They described the development cooperation process as a '*Triple revolution'* in which more actors are pursuing more objectives with more instruments.

There is also controversy about measuring ODA (Mathhieu and Guillaumont, 2014). According to these authors, the OECD calculation of "concessional loans" leads ODA data that cannot record the efforts of donors when they give a concessional loan with very long maturities (such as from 30 to 40 years) at very low interest rates (such as from 0 to 2 percent) without grant elements. Combined with the net ODA measurement, ODA data may present an unrealistic estimate of ODA results among donors and recipients. The 0.7 percent ODA/GNI target was an unachievable number for many DAC donors and even it not necessarily an accurate reflection of the financing requirements of developing countries. However, it is still used as a main standard for donor efforts to evaluate their contributions for development assistance. Roodman (2014) mentioned the issues of debt forgiveness and grant equivalent in measuring ODA that also brings the critics on ODA statistics. For example, rescheduling and forgiveness of concessional loans originally counted as ODA do not itself count as ODA, because that would be double-counting.

But relief on non-ODA loans does count as ODA, and that extends to stocks of unpaid interest and late fees on ODA concessional loans.

OECD launched a reforming of ODA definition in 2018 in which concessional loans will be assessed based on differentiated discount rates. Another change is that the reporting of loans that qualify as ODA will be a grant equivalent basis. This new definition makes a widening of discount rates based on the income status of developing countries. It seems to be an updated version to respond to the changes in development cooperation as well as to fix the problems in the previous ODA definition. More or less, it provides a better ODA measurement based on financial techniques. However, it still cannot solve the rooted controversy of ODA motivation and ODA activities. Furthermore, the new definition does not clearly define the distinction from other types of aid.

AfT initiative

Foreign aid to developing countries over the past decades has undergone many changes in addressing economic and social development of the recipient countries (Gounder, 2015). Foreign aid potentially enhances trade by raising recipient countries' income. Furthermore, aid also potentially boosts trade by strengthening political and economic links between the donor and recipient countries and reducing transaction costs (Suwa-Eisenmann and Verdier, 2007). Therefore, the attention of scholars turned towards to Aid for Trade (AfT) as a new tendency of the ODA. However, aid flows and trade nexus of many developing countries also indicate that aid is tied to recipients' trade levels (Gounder, 2015). The goal of revitalizing and balancing aid and trade came into existence in 2005 owing to the failing Doha Round[9] (Bouët and Laborde, 2008). This has contributed to AfT initiatives (Kim, 2016).

In fact, due to the limited capacity, low-income countries encountered many difficulties to compete with advanced countries and to get benefits on trade liberalization and globalization (Stiglitz and Charlton, 2006). For example, they lack the necessary exporting infrastructure (e.g. efficient ports, adequate roads, reliable electricity, and communications) or lack the necessary

[9] The Doha Round (2001) is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules (WTO, 2005).

technology and knowledge to meet product standards prevailing in high-value markets (such as sanitary measures, technical barriers, certification, etc.). The WTO (2005) also notes that ‘trade has the potential to be an engine for growth that lifts millions of people out of poverty’, but that ‘internal barriers such as lack of knowledge, excessive red tape, inadequate financing, poor infrastructure’ hamper that potential. Consequently, many developing countries faced a range of supply-side and trade-related infrastructure obstacles that constrains their abilities to engage in international trade. They are faced with the loss of preference margins, the loss of revenue form trade taxes, institutional weaknesses including the absence of adequate safety nets, implementation costs, lack of finance required to restructure the economy, and the limited ability of poor populations to manage short term unemployment (Stiglitz and Charlton, 2006). Thus, the results of WTO regulations and trade liberalization can be harmful and meaningless to the least developed countries (LDCs). These countries get more costs, are less competitive, face more obstacles, and do not have access to the market in advanced countries (Suwa-Eisenmann and Verdier, 2007). Therefore, AfT is one of the main external resources that support developing countries and LDCs to confront with trade liberalization and globalization (WTO, 2005; UNCTAD, 2008).

The WTO, which started its Aid for Trade initiative in 2005, provides the following definition: ‘*Aid for Trade is about helping developing countries, in particular the least developed countries to build the trade capacity and infrastructure they need to benefit from trade opening’*. In WTO 2006 recommendations, the WTO Task Force stated that ‘projects and programs should be considered as AfT if these activities have been identified as trade-related development priorities in the recipient country’s national development strategies’. WB (2005) and UN (2005) indicated that AfT is not only helping the developing countries in technical assistance to trade but also in aid design to reduce transaction costs and to alleviate the social costs of trade liberalization. Furthermore, the WTO-led AfT initiative encourages the government of developing countries and donors to recognize the role that trade can play in development. Particularly, the initiative seeks to ‘mobilize resources to address the trade-related constraints identified by developing and least-developed countries’. The WTO Ministerial Meeting in Hong Kong (2005) called on donors to increase AfT resources to ‘help developing countries, especially LDCs, build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade’ (WTO, 2005). The WTO Task

Force on AfT summarized its objectives as '*assisting developing countries to increase exports of goods and services, to integrate them into the multilateral trading systems, and to benefit from liberalized trade, and to increase market access*.' AfT would enhance growth prospects and reduce poverty in developing countries as well as complement multilateral trade reforms and distribute the global benefits more equally across and within developing countries (WTO, 2005). Additionally, the OECD defines its AfT work as follows: 'OECD's work in trade supports a strong rule-based multilateral trading system to maintain the momentum for further trade liberalization while contributing to sustainable development. It strengthens trade policy dialogue with developing and emerging economies, increases the understanding of the effects of trade liberalization, and promotes mutually beneficial integration of these economies into the multilateral trading system'. The DAC (OECD) distinguishes AfT into five categories including (i) technical assistance for trade policy and regulations (e.g. helping countries develop trade strategies, negotiating trade agreements, and implementing their outcomes); (ii) trade-related infrastructure (e.g. building roads; ports and telecommunication networks to connect domestic markets to the global economy); (iii) productive capacity building, including trade development (e.g. supporting private sector exploit their comparative advantages and diversify their exports); (iv) trade-related adjustments (e.g. helping developing countries finance the costs associated with trade liberalization, such as tariff reductions, preference erosion, or declining terms of trade) and (v) other trade-related needs (OECD, 2007) (see more details in the Appendix 1). The OECD offered a database which is called the Creditor Reporting System (CRS) in order to monitor AfT flows and project related spending (OECD and WTO, 2013).

In summary, AfT's financial assistance is composed of ODA (grants, concessional loans, and equity), specifically targeted at helping developing countries to develop their capacity to trade, to foster economic growth, and to more effectively use trade in poverty reduction. The AfT has a broad scope, encompassing aid directly assisting beneficiaries formulates, implementing trade policies and practice, and aids in supporting developing beneficiaries to widen their economic capacity to trade, e.g., invest in infrastructure and productive sectors. Giving AfT to assist developing countries' needs is also seen to promote commercial interests of the donors (Bandyopadhyay and Vermann, 2012). Hallaert (2012) argued that the AfT Initiative was born because WTO's and donors' interests were converging. The WTO needed to mobilize resources to alleviate concerns from developing countries on the adjustment and implementation costs of a

Doha Round and donors were looking for ways to scale up aid while improving its effectiveness. The objective of the Initiative is to use trade as an engine for development. However, the task of defining and operationalizing the Initiative was left to the WTO. Reflecting its priorities, the WTO designed the Initiative in order to mobilize quickly a large amount of financial resources.

Chapter 3 The EU and Vietnam development cooperation

In order to accurately assess the impact of EU aid on Vietnamese economic growth, it is imperative to understand the features of foreign aid (ODA) in general and EU aid in particular to this recipient. Therefore, the first part of this chapter presents a brief discussion of the main characteristics of foreign aid/ODA in Vietnam in recent years (mainly from 2007 to present). ODA is one of the external capitals contribute to Vietnamese economic growth. Hence, this part underlines the main Vietnamese socio-economic development achievements as an evidence of the impact of foreign aid/EU aid in Vietnam. The following section discusses the main tendency of aid relations between the EU and Vietnam in general and trade-related assistance (AfT) in particular, which will guide the subsequent analysis of actual EU AfT impact on Vietnamese trade performance in the following chapters.

3.1 An overview of ODA in Vietnam

As a developing country, Vietnam is in the industrialization and modernization process with an important capital need. Every year, Vietnam receives foreign aid from other countries in various amounts and types to support its economic development. Vietnam is one of the largest recipients of ODA in the world, receiving support from over 50 bilateral and multilateral donors (Ministry of Planning and Investment of Vietnam, 2017). Vietnam has received ODA as grants, concessional loans and a mix of the two. Prior to the collapse of Communist Block, Vietnam received ODA mainly from the Soviet Union, Eastern European countries, and China (OECD, 2004). However, the political changes influencing these donors during 1990s made this main external financial source gradually dry up and led to a big challenge for Vietnam in filling the financial gap needed for economic expansion. Under this circumstance, the first Consultative Group Meeting (CG meeting) for Vietnam conducted in Paris in November 1993, in which a full cooperation between Vietnam and the international financial community was formally established, became a turning point marking the resumption of ODA flows into Vietnam (UNDP, 2003). Since then, the Vietnam Consultative Group meetings[10] are held once or twice per year in Vietnam at which the Vietnamese government and its donors exchange views on

[10] Vietnam Consultative Group (CG) Meeting is a conference for ODA mobilization at the national level. This is a dialogue forum between the Government of Vietnam (GoV) and the community of international donors on strategy, planning and socio-economic development policy of Vietnam, in which, the development cooperation relation and the provision and use aid to serve the socio-economic development and poverty reduction is an inseparable and close content.

socio-economic policies and the implementation of the ODA committed by the donors. Moreover, Vietnam was the first country to localize the 2005 *"Paris Declaration on Aid Effectiveness*", and it has been one of the most active in its implementation (OECD, 2011). In the new context, when Vietnam becomes a low middle-income country (2009), the GoV and donors have agreed on the need to change the methods and ways of organizing the CG. At the 19^{th} CG (2012), the GoV and its donors decided to improve the CG organizational methods by improving this conference into an annual Vietnam Development Partnership Forum (VDPF) to focus more on dialogue on development policies. As a result, the cumulative cooperation between donors and the recipient has led to the rapidly increasing flows of ODA into Vietnam since 1993. More explicitly, Table 3.1 illustrates the volume in foreign aid to Vietnam since 1993, represents the continuous increasing number from 1993 to 2014 and slightly downward amount in recent years. According to the OECD database (2019), in the period between 1993 and 2017, the net official development assistance and official aid received by Vietnam amounted to 54.5 billion US dollar which placed Vietnam among the countries that benefited the most from ODA. The OECD ranked Vietnam in the sixth place by net disbursement of ODA in 2016 (OECD, 2016). Excluding some temporary declines, total net ODA to Vietnam (including both development grants and concessional loans) increased steadily each year from 1993 to 2017 (reaching a maximum of 4.2 billion USD in 2014), but then declined relatively sharply to 2.3 billion USD in 2017 (see Table 3.1). Although Vietnam is one of the world's largest recipients of ODA, this assistance represented mostly above 3 percent of Vietnam Gross National Income (GNI) during the period of 1993-2010. Between 2011 and 2017, ODA was as percentage of Vietnam's GNI has declined significantly. Not only the share of net ODA to GNI has been declining, it is also small. In 2011, the net ODA-to-GNI ratio was 2.7 per cent; in 2017 it was only 1.1 percent (see Table 3.1). However, the impact of ODA to Vietnamese growth goes beyond its size. According to the GoV, 'in spite of accounting for only nearly 3 percent of GDP, the ODA grants and concessional loans from foreign donors in 2011-2015 period have supported for Vietnam a lot in socio-economic infrastructure development and reduction of poverty in a sustainable way' (GoV, 2016).

Table 3.1 Foreign aid to Vietnam in the period of 1993-2017

Year	***Net official development assistance and official aid received (Million USD, current price 2017)***	***Net ODA received (% Gross National Income)***
1993	252.61	1.992
1994	904.30	5.697
1995	834.80	4.07
1996	937.21	3.862
1997	999.46	3.793
1998	1,178.54	4.413
1999	1,429.86	5.052
2000	1,682.99	5.07
2001	1,431.86	4.108
2002	1,276.12	3.414
2003	1,767.59	4.2
2004	1,837.33	3.783
2005	1,910.90	3.378
2006	1,852.32	2.852
2007	2,510.44	3.336
2008	2,549.02	2.65
2009	3,738.59	4.037
2010	2,948.09	2.644
2011	3,619.28	2.791
2012	4,113.31	2.75
2013	4,085.60	2.493
2014	4,215.62	2.377
2015	3,157.36	1.722
2016	2,894.78	1.472
2017	2,376.39	1.116

*Source: Calculation of the author based on the information from OECD database**, *2019*
(*Data extracted on 01 Oct 2019 15:52 UTC (GMT) from OECD.Stat.)

Table 3.2 shows that, the ODA-to-Total investment capital (TIC*) ratio was 8.6 per cent in 2011, after which it increased to 9.8 per cent in 2014 before falling back to 5.9 per cent in 2015. The average of ODA-to-TIC ratio during the period of 2011-2015 was just around 8.6 per cent, while the average of ODA-to-total investment capital from state budget of Vietnam accounted for above 47.3 per cent. ODA has been taking an important role of the investment capital from state budget of Vietnam.

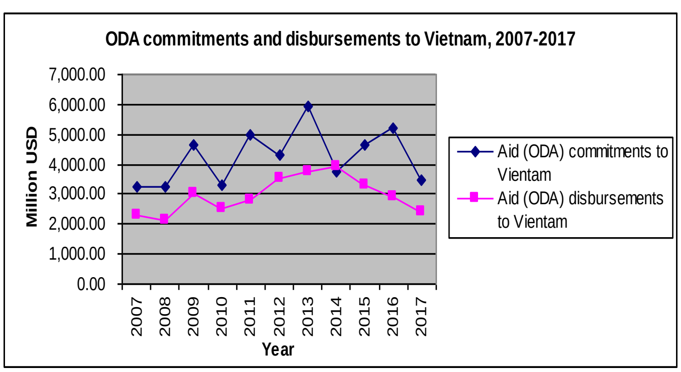
Table 3.2 Proportion of ODA grants and concessional loans to GDP, total investment capital of society, total investment capital from state budget of Vietnam in 2011-2015 periods

Indicator	***2011***	***2012***	***2013***	***2014***	***2015***
1. ODA grants and disbursed concessional loans/GDP (%)	3	2.95	3.01	3.05	1.9
2. ODA grants and disbursed concessional loans/Total investment capital society (TIC*) (%)	8.65	8.81	9.9	9.84	5.99
3. ODA grants and disbursed concessional loans/Total investment capital from state budget (%)	42.66	42.5	52.53	57.85	41.3

Source: GoV (2016)

*Note: * The term total investment capital (TIC) has been used by the GoV in Decision 251, which sets out how to attract, manage and use ODA during 2016-2020. TIC focuses on investment expenditure (like building of a new school) instead of consumption expenditure (like the payment of public servants).*

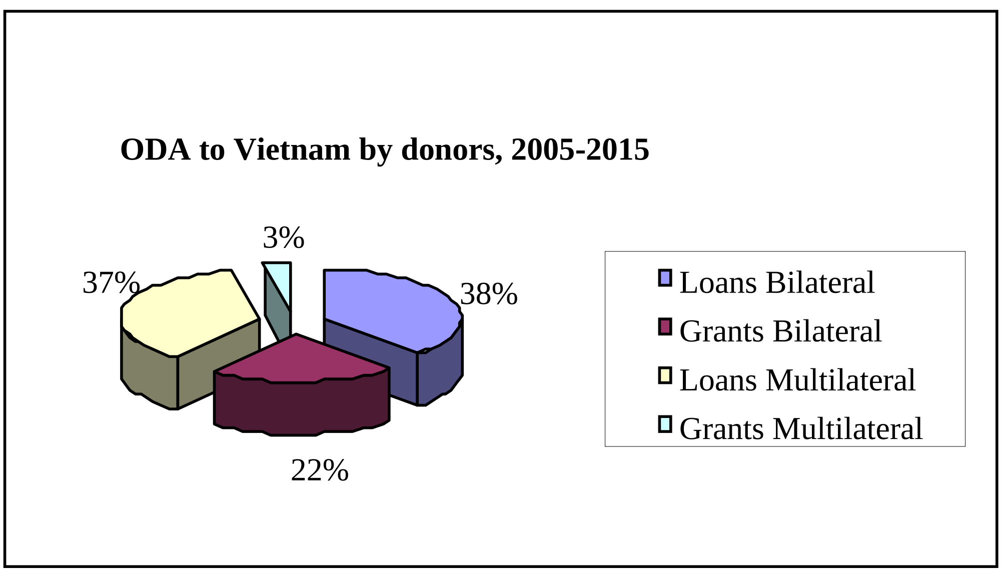
Particularly, the total ODA committed to Vietnam the amount of to 46.7 billion USD of which 32.5 billion USD was disbursed during the period of 2007 and 2017 (OECD, 2019). The lowest levels of development aid disbursement in the period between 2007 and 2017 were recorded in 2007 and 2008. In the following years foreign aid contributions to Vietnam saw a sharp increase, mostly due to a higher volume of ODA loans with total development assistance peaking in 2014 with 4.2 billion USD. In recent years, the disbursements of development assistance indicated a decrease. This issue was an effect of the country entered the group of low-middle income countries which motivated many donors to disengage with Vietnam and decreased their levels of development assistance. This is visible in the decrease of both grants and concessional loans disbursements (see Figure 3.1).



Source: Calculation of the author based on the information from OECD database, 2019
Figure 3.1 ODA commitments and disbursements to Vietnam, 2007-2017

Recently, the Ministry of Planning and Investment of Vietnam (MPI, 2017) stated that the total ODA disbursement during the period of 2016 and 2020 is expected to reach from 26 to 30 billion US dollars, equivalent to approximately from 5 to 6 billion US dollars per year. However, in fact, the total amount disbursed was just 3.7 billion US dollars in 2016 and 3.6 billion US dollars in 2017. Such a slow disbursement rate was due to the reasons that it has accumulated from the previous period. However, it has not yet to be resolved completely, such as a lack of counterpart funding, slow site clearance and compensation, cost overruns, design, policy changes, poor capacity of project management and contractors (Vietnamnet, 2019). The MPI also pointed out that the capability of localities that hosts ODA projects was still limited. Some ongoing ODA projects had to extend their implementation time due to delay in land clearance and slow construction progress. For example, the investment capital for the ongoing project of Nhổn-Hà Nội Station Urban Railway is now about 1.17 billion Euros (1.3 billion US dollars) instead of 783 million Euros as initially planned (Vietnamnet, 2019).

Bilateral donors account for 60 percent of total ODA commitments disbursed during the period of 2000-2015 (see Figure 3.2) and include the governments of Ireland, the UK, Austria, Poland, Belgium, Canada, Kuwait, Denmark, Germany, the Netherlands, South Korea, Hungary, Italy, Luxembourg, Malaysia, the US, Norway, Japan, New Zealand, Australia, Finland, France, the Czech Republic, Spain, Thailand, Sweden, Switzerland, China, and Singapore (UNDP, 2018).



Source: MPI, OECD CRS database
Figure 3.2 ODA to Vietnam by donors, 2000-2015

Table 3.3 presents ODA commitment grants and loans to Vietnam from its main donors. Throughout the 15 years (2000-2015) Japan figures as the largest bilateral donor with 18 billion US dollars. Multilateral donors account for 40 percent of ODA commitments to Vietnam and include international financial institutions and funds such as: International Development Association (IDA) - the branch of the World Bank supporting the least developed countries - the ranks 1st with 16 billion US dollars, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the OPEC Fund for International Development (OFID), the Kuwait Fund, the Saudi Fund, the Nordic Development Fund (NDF), and the Nordic Investment Bank (NIB). Other international organizations and intergovernmental organizations have also been involved, including the European Union (EU), which ranks the third with 1 billion US dollar, the United Nations High Commissioners for Refugees (UNHCR), the Joint United Nation Program on HIV/AIDS (UNAIDS), the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), the Food and Agriculture Organization of the United Nations (FAO), the International Labor Organization (ILO), the World Health Organization (WHO), and many others, see Table 3.3.

Table 3.3 ODA commitments grant and loan to Vietnam, 2000-2015, million USD

Institutions	Loans	Grants	Total Disbursement	Percentage (%)
Japan	16,255.67	1,647.61	17,903.28	30
France	2,494.76	900.26	3,395.02	6
Germany	1,480.46	1,182.42	2,662.88	4
Korea	-	341.98	2,292.87	4
Australia	-	1,810.51	1,810.51	3
USA	-	1,078.22	1,078.22	2
UK	-	1,024.77	1,024.77	2
Denmark	na	825	825.00	1
Other bilateral	2,213.00	4,184.85	***4,446.96***	7
Total Bilateral	**22,443.90**	**13,167.47**	**35,611.37**	60
IDA	15,738.25	41.4	15,779.66	26
AsDB Specials Funds	5,408.55	7.41	5,415.95	9
EU institutions	*295.13*	*744.61*	*1,039.74*	*2*
Other multilateral	748.26	1,744.46	***1,699.30***	3
Total Multilateral	**22,190.20**	**2,537.87**	*23,934.66*	40
TOTAL	**44,634.10**	**15,705.35**	**59,546.02**	**100**

Source: UNDP Report (2018)

Table 3.3 shows that, the share of loans has been much larger than the share of grants as it accounted for nearly 74 per cent of total ODA to Vietnam between 2000 and 2015. According to MPI (2017), before 2017, almost all of the ODA loans to Vietnam were long-term and carrying preferential interest rate and long grace period. Around 45 per cent of the loans have interest rate that is lower than 1 per cent and a maturity of at least 30 years, of which 10 years are the grace period. With such advantages over commercial lending, the volume of ODA that donors had committed to provide to Vietnam used to be announced as a success after every CG Meeting (now called the Vietnam Development Partnership Forum). ODA loans have helped Vietnam to access important technical and financial resources. Moreover, they can promote knowledge transfer, innovation and creativity. ODA has also created a catalyst to help Vietnam to mobilize capital from other sources, especially domestic source.

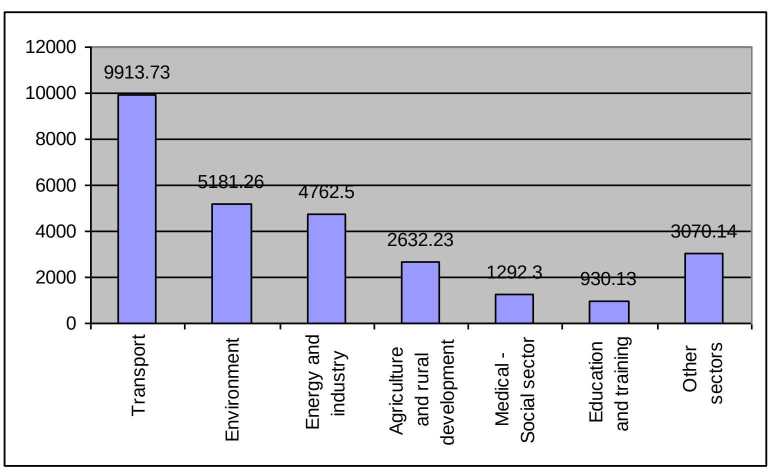
Table 3.4 ODA Loans to Vietnam (billion USD)

Period	1993-1995	1996-2000	2001-2005	2006-2010	2011-2015	2016-2020 (est)
Committed capital	6	12	15	28	30	40
Disbursed capital	1.88	6	8	12	29.8	
Disbursement ratio (%)	31.33	50.00	53.33	42.86	99.33	

Source: GSO, 2019

However, Vietnam has already graduated from the World Bank's International Development Agency to its International Bank for Reconstruction and Development lending in July 2017, and went to graduate from the ADB, Asian Development Fund (ADF) to Ordinary Capital Resources in 2018 and 2019. Therefore, Vietnam will have to begin borrowing at a higher cost and with shorter grace periods. Instead of preferential interest rate of concesstional loans from the WB and ADB, Vietnam needs to secure loans from International Bank for Reconstruction and Development with interest rates of 3 per cent to 4 per cent on concessional loans and 3.51 per cent to 5.1 per cent on ordinary loans depending on the terms of the loans. For bilateral donors, the interest rates on ODA provided by the Republic of Korea range from 0 per cent to 2 per cent, and an average of Indian loans is 1.75 per cent. For Japan, the Ministry of Finance informed that from October 2017, the lending rates would rise from 1.2 per cent to 1.5 per cent, combined with other fees. The rates on loans for human resources development, education, healthcare, environmental protection, vocational training and climate change response also rose from 0.3 per cent to 1 per cent (Nhandan, 2018). This situation requires the GoV to develop and apply new strategy and approaches in financing its development in general. And, it will be in mobilizing and utilizing ODA loans in particular (UNDP, 2017). It can also cause considerable challenges and risks for Vietnamese sustainable development, as middle-income status is often accompanied by social dislocation, governance limitations, and inequalities in the distribution of economic gains

(OXFAM, 2019). ODA resources have mostly been allocated in accordance with the priority the GoV places on economic sectors as well as the preference of the donors. With the aim of creating a favorable environment for economic development and poverty reduction, the Government allocates aid mainly to economic infrastructure and services (see Figure 3.3). In the agriculture and rural development sectors, ODA to Vietnam has been used to upgrade irrigation systems, rural power networks, health stations, rural transport and domestic water supplies. The power energy sector has been using ODA to increase power capacity and developing the distribution network in rural areas. In the transportation, post and telecommunication sectors, ODA has been used to improve roads, railways, internal waterways, sea-ports and airlines, as well as post and telecommunications infrastructure. ODA has contributed to the development of the education and training sectors, including infrastructure for schooling at all levels, new textbooks, curricula and teacher training. It also supports for both students and teachers who wish to study overseas. In the health sector, ODA has been used to develop infrastructure for medical testing and treatment, or HIV/AIDS and communicable disease prevention (GoV, 2016). Each donor also has specific preference in terms of aid allocation. More particularly, Japan is the Vietnam's largest donor, concentrates more than 65% of its aid into Vietnam on transport and energy sector, for the purpose of increasing industrial capacity and building up the country's comparative advantages. In contrast, Australia is the fifth largest bilateral donor of Vietnam, mainly focuses on education. In addition, France is the second largest bilateral donor assigns about a half of its ODA into Vietnam to the multi-sectors (UNDP Report, 2018).



Source: Decision 251, Table 1, Referring to data by the Ministry of Planning and Investment

Figure 3.3 Average annual ODA by sectors (million US dollar), based on 2011-2015

Vietnam’s achievements in socio-economic and political development over the past 30 years of economic reform (Doi Moi) are at least partly due to 20 years of ODA (UNDP, 2018). In an international conference held in 2015 to review two decades of ODA in Vietnam, the GoV acknowledged that ODA had played a critical role in turning Vietnam from a poor country into a low middle-income country, reducing poverty and enabling the country to integrate deeper into the world economy and trade system. According to reports from Japan International Cooperation Agency (JICA), ADB, and WB, the projects funded by the three donors in Vietnam are more effective than those in India, Indonesia, the Philippines, and Sri Lanka. ODA has helped Vietnam to improve its infrastructure systems and ensure social security, particularly in mountainous and remote areas. The funds also helped to accelerate the technology transfer and management skills from developed countries. Moreover, they are also creating more jobs for local workers.

However, ODA has its shortcomings, particularly in the numerous restrictions from the donor countries. These issues often indicate that recipient countries must employ contractors and technologies designated by the donors. This practice has led to numerous problems for recipient countries, such as occasional incompatibility with newly introduced technologies and increased pressure on public debt because a big part of ODA has been repaid. Questions are also asked about the effectiveness of ODA projects, especially when recipient countries lack of the capacity to efficiently manage and utilize the projects. Mismanaged ODA-funded projects and corruption scandals have dented public trust about how this source of funding is being utilized by localities. It is the fact that almost of the corruption in ODA projects in Vietnam had been found by the side of the donors. For example, in 2008, the President of Japan Transportation Consultants (JTC) admitted that his company has paid 1.3 million US dollars in bribes to win the rights to projects funded by the Japanese ODA. Vietnam Railways, the state-owned operator of the rail-way system in the country, allegedly received 782 thousand US dollars for a Japan-funded project. In 2012, Denmark government stopped funding four ODA projects on climate change in Vietnam because they found a huge amount of these supports misused. These projects include: (1) Impact of Climate Change in Land Use change in Red River Delta and its Community Livelihood Change; (2) Assessing the Impact Trends of Climate Change on Physical and Environmental Conditions and Socio-Economic Development in Central Vietnam; (3) Climate Change and Estuarine Ecosystems in Vietnam; and (4) Improving rice tolerance of submergence and salinity to cope with climate change in coastal areas of Vietnamese Deltas. The total funding of these projects was 19.9 million kroners, equivalent to 3.45 million US dollars. So far, 2.45 million US dollars has been disbursed to the Vietnamese partners and according to the investigation, they misused 550 thousand US dollars or 23 per cent of the capital (Danish Foreign Ministry, 2012). The Danish Foreign Ministry indicated that all four projects committed misuse and 'all violations were committed by the Vietnamese side'. The frauds detected by the Danish authorities include use of Vietnamese consultancies for own benefits, overcharge of internal facilities and cash deficit compared to the balance of the cash book. In 2015, the Japan International Cooperation Agency (JICA) had requested the Vietnamese Transportation Department to return nearly 800 thousand US dollars due to briberies and corruption related to the Hanoi's 41 million US dollars railroad project (JICA, 2017). Vietnam is 2nd on the list of WB clients against whom there are corruption complaints with the transport, information communication and technology, and water sectors being the biggest offenders[11] (Thanhnien News, 21 January 2015).. Therefore, we can put a question about the corruption or the misused funds of ODA projects in Vietnam: "Why these problems were not detected by the agency in charge of the projects or public agencies administering ODA funds, but by the donors or by the media (in some cases by foreign media)"; "Why many corruption complaints for the ODA projects in Vietnam, but there were rarely cases under investigations or official launch to public". It is really difficult to recognize the misused funds in ODA projects, and even when they had been found by the investigations, the donors and the GoV probably could not revoke the finance to other projects. Donors, including Japan, have generally steered away from the Vietnamese internal conflicts[12] and focused on promoting and supporting free-market oriented policies and actions. Multilateral aid agencies, however, have at times used their aid as leverage to required increased economic reform. And, in the area of human rights, Western governments, particularly the United States and the EU, have been forceful in pointing out abuses and demanding improvements. The GoV has at times responded with positive change to these external forces (Edward, 2010). While the emphasis on infrastructure has generated significant returns, there is indication that the benefits have not been shared equally. The Kinh majority have fared significantly better than minority groups. This disparity has been one source of tension between ethnic groups and the GoV. ODA has also been an indirect source of disenchantment as corruption scandals emerge, one after another. According

[11] Anders Hjorth Agerskow, an expert of World Bank, told the conference in 2015 held by the Vietnam Ministry of Planning and Investment and the WB in that WB received 189 complaints about corruption at projects in Vietnam, was behind only India with 306 complaints

[12] Peasant protests have occurred, tensions between the GoV and ethnic minority and religious group have been persistent, labor unrest has happened during economic downturns and intr-party and extra-party individuals and groups seeking greater reform and fewer restrictions on freedoms have presented challenges to the Communist Party and the GoV.

to Edward (2010), while ODA appears to have reduced conflict within the Communist party and supported social stability through positive economic performance, its effects on inequality and corruption has contributed to polarization between the party and both non-party members and ethnic minorities. The main causes of slow disbursement in Vietnamese ODA projects are primarily due to lack of reciprocal capital[13]. The second cause is land clearance. The clearance in Vietnam is very difficult. To make the highways, railways or other infrastructure projects need to take up a huge area, so the clearance of land for the projects at central and local levels often meet difficulties due to the compensation is not uniform which takes the ODA disbursement long time. The third cause is the operation capacity and manner of management authority for central and local projects, especially usually unfixed and changeable ones in local.

In order to use ODA efficiently, together with managing public debts, Vietnam has been continuously perfecting its legal framework and method of managing and using ODA. The steps including planning, managing, using, supervising and reporting on the result of ODA programs and projects are regulated in order to ensure the quality of ODA use, direct the capital to the right destination, programs, projects, localities and aid in Vietnam's socio-economic growth (GoV, 2016). Based on the demand for investment and development orientation by sectors, fields and regions set out in the socio-economic development strategy and plans, the Government of Vietnam has launched the strategic orientation and policies to prioritize the use of ODA for each period. The priority areas of ODA utilization periods from 2006-2010 and 2011-2015 regulated by the Government include the agriculture and rural development (including agriculture, irrigation, forestry and fisheries combined with hunger eradication, poverty reduction), the constructing the social infrastructure (health, education and training, population and developing some other fields), protecting the environment and natural resources, enhancing the institutional capacity and developing the human resources, transferring technology, increasing the capacity of research and implementation (MPI, ODA proposal for periods of 2006-2010; 2011-2015; and 2016-2020).

ODA in Vietnam is mobilized and managed under *joint management of national ODA management agencies* (e.g. Ministry of Planning and Investment, Ministry of Finance, State Bank

[13] When the commitment is to have enough reciprocal capital, donors give Vietnam one US dollar (loans or grants), Vietnam usually needs to give out 0.2 US dollar, the average contribution rates around 80:20 generally. Therefore, Vietnam faces with the huge reciprocal capital cause the GoV invested in many giant infrastructure projects to boost its economic growth. However, the Vietnamese state budget is usually deficit which leads to low reciprocal capital source.

of Vietnam) and line agencies (line ministries and provinces). The Ministry of Planning and Investment of Vietnam took the central role in ODA planning and management. Line agencies (e.g. Ministry of Industry and Trade for trade policy and energy infrastructure support; Ministry of Agriculture and Rural Development for building capacity in agriculture, forest and fisheries; Ministry of Transport for transport infrastructure) submit requests of financial assistance to MPI for screening and inclusion in the ODA Request List before negotiations with interested donors for funding. In providing aid to Vietnam, most Development Projects or Programs develop country assistance strategies which may include trade-related initiatives. This structure keeps stable remaining in the field of ODA in Vietnam. However, there is a decentralization tendency in the role of central government by the involvements of local actors and other sectoral factors.

To summarize, Vietnam has experienced a robust increase of aid inflows over the period 1993-2017 (with a slight decrease at the end of the period). Being allocated to various socio-economic sectors, this external assistance is expected to play an integral role in spurring economic growth and development in Vietnam. However, the relatively low disbursement rate and the current trend regarding the disbursed aid modalities have emphasized the need to more effectively absorb and use this financial assistance. Moreover, it is the fact that the inflows of ODA in the future will cease growing and will gradually decrease together with the development level of the country.

3.2 Vietnam's socio-economic development achievements

When the 20-year Vietnam War ended in 1975, Vietnam's economy was one of the poorest in the world (World Economic Forum, 2018). By the mid-1980s, Vietnam had been a weak developing country with the limited capacity for growth (per capital gross domestic product was around 200 dollar) (WB, 2012). Vietnamese people lived in poverty, and hunger affected over 50 per cent of the population in 1993 (WB, 2012). In 1986, the Government of Vietnam (GoV) introduced "*Đổi Mới*", a series of economic and political reforms, and steered the country to becoming a "socialist-oriented market economy". After more than three decades of its economic reform, Vietnam has a rapid economic growth (average 5-6 percent annually during 1991 and 2016), and per capita gross domestic product (GDP) increased over 10-fold between 1990 and 2018, standing at above 2,700 US dollar in 2018 (IMF, 2018). Vietnam has attained the status of a lower middle income country since 2009. The poverty rates declined sharply from 37.4 percent in 1998 to 14.2 percent in 2010 and below 6 per cent in 2018 (GSO dataset, 2018). Between 1998 and 2018, Vietnam's Human Development Index (HDI) value increased from 0.475 to 0.693, an increase of 45.9 percent (UNDP, 2018). Vietnam has established trade relations with more than 200 countries and territories, and has been considered as one of the largest export-oriented economies in ASEAN (MPI, 2017).

A part of this achievement can be accounted to ODA which Vietnam has received from bilateral and multilateral donors (GoV, 2016).

3.2.1 Macroeconomic Performance

Vietnam's macroeconomic development during the past decades has been remarkably successful, with high growth rates and reasonably stable prices. Table 3.5 showed that, real annual GDP has placed around 6-7 percent over last decade, with official growth rate in 2018 reaching over 7 percent. As a result, real per capita incomes have quadrupled in quite short time, with the nominal per capita income growing from about 687 US dollar in 2005 to over 2563 US dollar in 2018. After some years of quite high inflation (over 8 percent), the inflation rates dropped to 0.88 percent in 2015 and 3.54 percent in 2018. Table 3.5 summaries the data on these achievements, together with some additional information about the structure of Vietnamese economy.

Table 3.5 Selected macroeconomic indicators of Vietnam

	2005	2010	2015	2018
GDP (billion $, current price)	57.633	115.932	193.241	244.948
Real GDP Growth (%)	7.547	6.423	6.679	7.076
GDP per capital ($, current price)	687.48	1317.891	2085.101	2563.821
Inflation rate (GDP deflator, %)	8.28	8.86	0.88	3.54
Exports of goods and services (billion $)	36.712	83.474	173.49	233.651
Imports of goods and services (billion $)	38.623	92.995	171.962	225.68
Current account (% GDP)	-0.972	-3.688	0.469	2.408
External Debt (% GDP)*	23.521*	28.236	26.346	25.723*
GDP composition by economic sector (% of GDP)				
Agriculture	19.3	18.378	16.992	14.573
Industry and construction	38.131	32.132	33.25	34.276
Services	42.569	36.942	39.733	41.17
GDP composition by ownership (% of GDP)				
State	38.42	29.34	28.69	27.67
Non-State	48.2	42.96	43.22	42.08
FDI	13.27	15.15	18.07	20.28
Structure of investment by ownership (% of total investment)				
State investment	51.5	38.1	37.5	33.35
Non-State investment	32.2	36.1	38.9	43.27
FDI	16.3	25.8	23.6	23.38

Source: World Bank database, 2019; GSO, 2019; Vinh Chi (2019)

Vietnamese economic reform has seen a more active role of different economic sectors and a better environment for business activities. State-owned enterprises (SOEs) are being restructured and are reducing in number. Collective economic entities have adopted new forms of cooperation more appropriate for market institutions. The private sector is also witnessing a rapid rise in the number of enterprises and an improve performance, creating many jobs and making a growing contribution to gross domestic product (UNDP, 2018). Foreign invested companies are also stimulated and have made significant contributions to job creation and export growth. Non-state enterprises now account for over two-fifth of GDP as well as around two-fifth of total investment (MPI, 2017). According to a report of the General Statistical Office (GSO, 2017), Vietnam has around 518,000 enterprises including 12,800 enterprises in the investment phase and 505,000 enterprises which were actually operating, a 55.5 per cent increase compared to 2012. The number of private enterprises dominated the market with nearly 500,000 units, up 52.2% from 2012, and saw an annual growth of 8.7 per cent. The number of SOEs in Vietnam has significantly decreased during the period 2011-2015 from 1,309 to 958 SOEs, with a further reduction planned to 190 SOEs by 2020. The foreign direct investment sector posted 14,600 enterprises, up 54.2 per cent compared to 2012, and a 9.2 per cent annual growth in the number of enterprises (GSO, 2017).

Vietnam is participating extensively and deeply in the globalization process and integrating deeply in the regional and world economies. Vietnam has integrated deeply into the world economy in diversified levels, conforming to global principles and standards. One of the important reforms in Vietnam was the revision of its trade and taxation policies. Various legal documents (such as the Enterprise Law, Investment Law and guiding documents) were issued and amended, with a view to create a more level playing field for enterprises of all forms of ownership. The GoV launched Project 30 (in 2017) and Resolution 19 (since 2014) which lead to reform administrative procedures as well as to improve the business environment and competitiveness of the nation in the context Vietnam’s deeper economic integration (Thanh, 2018). A part of the economic and trade achievements can be accounted for the rising of FTAs which Vietnam has signed. Vietnam’s FTAs have covered not only the movement of goods, but also trade in services, investment, and other trade related-aspects. Exporters in Vietnam have benefited from the enlargement of export markets as well as reduced tariff and non-tariff barriers, thanks to FTAs. By the end of 2017, Vietnam has signed 12 FTAs, of which eight have already become operational, and it is negotiating another four (16 FTAs[14] in total). The new generation of Vietnam's FTAs has a broader scope and its contents are beyond commitments on trade, services and partially investment, referring more to the institutional and legal issues in the fields of environment, labor, state-owned enterprises, intellectual property, government procurement, and "non-economic" or "political economy" rules. When coming into force, these FTAs will strongly influence Vietnamese stakeholders (MPI, 2018).

However, in spite of the overall success, there are areas where remaining challenges are serious. Macroeconomic stability is one of example. Given its high trade openness and limited fiscal and monetary policy buffers, Vietnam remains susceptible to external volatilities. Vietnam is one of the most trade-dependent countries in the region, with trade volume reaching twice the size of its GDP (ADB report, 2018). Escalating global trade tensions could cause a falloff in export demands while tightening global liquidity could reduce capital inflows and foreign investment. Domestically, a slowdown in reforming state-owned enterprises and banking sectors could undermine growth prospects and create public sector liabilities (WB report, 2018). While Vietnam has maintained macroeconomic stability, rising public debt and remaining public sector vulnerabilities need to be addressed to solidify macroeconomic stability and resilience. Institutional legacies, incomplete market institutions and a cumbersome investment climate have all become impediments to productivity growth, especially for the private sector. Structural reforms are important to lift the medium term growth potential of the economy. Vietnam's rising economic prosperity is impacting on its development financing landscape. In addition, Vietnam's access to international capital market is limited due to the current debt ceiling of 65 per cent of GDP (WB, 2018). Vietnam's rapid development has taken millions of people out of poverty. Yet there are downsides: environmental damage has assumed dramatic proportions, with heavy use of resources, serious air pollution and polluted soils and waterways.

[14] As of late 2017, Vietnam has signed 12 FTAs, of which eight have already become operational, and it is negotiating another four (16 FTAs in total). As a member of ASEAN, Vietnam has been involved in ASEAN Free Trade Area (ACFTA – 2004), ASEAN – South Korea Free Trade Area (AKFTA – 2006), ASEAN – Australia, New Zealand FTA (AANZFTA -2009), ASEAN – Japan FTA (AJFTA – 2003), and ASEAN – India FTA (AITIG – 2009). On the other hand, Vietnam has signed seven other FTAs as in independent partner, viz AFTA (1996), Vietnam – Japan FTA (2008), Vietnam – Chile FTA (2011), Vietnam – South Korea FTA (2015), Vietnam – EU FTA (2016) and TPP (2015, TPP11-2017). Additionally, Vietnam is negotiating four FTAs with trade key partners such as Israel, Hong Kong, the Regional Comprehensive Economic Partnership (RCEP) and EFTA.

3.2.2 Vietnam social development

Vietnam is experiencing rapid demographic and social change. Its population reached about 97 million in 2018 (up from about 60 million in 1986) and is expected to expand to 120 million before moderating around 2050. Currently, 70 per cent of the population is under 35 years of age, with a life expectancy of nearly 73 years (GSO, 2019). But the population is rapidly aging. There is an emerging middle class- currently accounting for 13 per cent of the population (GSO, 2019). Table 3.6 presented some selected development indicators in Vietnam.

Table 3.6 Selected development indicators in Vietnam

Indicator	2006	2017
Unemployment (% of total labor force)	2.2	1.9
Female labor force participation rate (%)	71.6	72.7
ODA (% gross national income)	2.6	1.1
Human Development Index (0-1)	0.62	0.7
Population (%) living below 1.90 USD per day (PPP)	19.5	2*
Population (%) living below 3.20 USD per day (PPP)	51.3	8.4*
Income (%) held by lowest 20%	7.2	6.9*
Income (%) held by lowest 40%	22.3	22.4*
Income (%) held by lowest 10%	2.9	2.6*
Income (%) held by highest 10%	27.7	27.1*

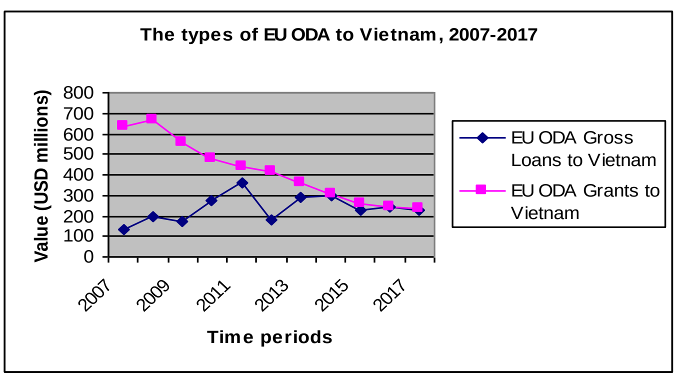
*Source: WB, World Development Indicators (2019); Note: * data collected in 2016*

Vietnam is today a significantly more educated and healthy society than 20 years ago, and these qualities are equitably distributed. Vietnam is ranked 48 out of 157 countries and territories in terms of human capital index (HCI), second in ASEAN behind Singapore. From 1990 to 2015, the maternal mortality rate fell from 233 to 58.3 deaths per 100,000 live births and infant mortality dropped from 44 deaths per 1000 live births to 15 - with no difference between male and female infants. Women’s labor force participation rate is within 10 per cent of that of men, a smaller gap than that found in most other countries. In addition, there has been an upward trend in the share of women in wage work, mostly driven by increased employment opportunities for women in foreign-owned export-oriented factories. Nevertheless, some gaps persist-particularly to women’s access to high level leadership positions and women ethnic minorities.

3.3 The EU-Vietnam development cooperation

Over the last decades, the EU has been a committed partner supporting Vietnam's integration into the global economy (EU Delegation to Vietnam, 2018). The EU, together with its member states, is currently one of the biggest donors of ODA in Vietnam (UNDP, 2018). EU aid to Vietnam includes the contributions of EU institutions and EU countries which are members of the OECD's Development Assistance Committee (DAC). For instance, the total ODA commitment from the EU institutions and the DAC-EU countries to Vietnam in the period 2007-2017 was over 8.2 billion US dollar (OECD database, 2018). Germany and France provided more than half of the total amount of ODA during this period. The amount of ODA from Non-DAC-EU countries to Vietnam is very small with the total assistance around 1.2 million US dollar for the period between 2007 and 2017(OECD database, 2018). As shown in Table 3.3, the aid from EU institutions combined with France, Germany, the UK, and Denmark accounted for about 15 percent of the total ODA commitment to Vietnam during the period of 2000-2015 (UNDP, 2018).

The total ODA commitment from the EU institutions and the DAC-EU countries to Vietnam in the period 2007-2017 was over 8.2 billion US dollar. The amount of ODA commitment from the EU to Vietnam averages around 747.55 million dollar per year during the period of 2007-2017. The ODA of the EU disbursed to Vietnam in this period reached over 85% of the total ODA commitment (see Appendix 2; 3). In the early part of this period, the EU ODA grants were significantly higher than ODA loans to Vietnam, but by the end of this period, loans started to dominate. This change can be explained by recent achievements of the Vietnamese economy, i.e. Vietnam reaching the threshold for a low-middle income country; and the influence of the financial crisis on the EU (see Figure 3.4).



Source: Calculated from OECD database

Figure 3.4: The types of EU ODA to Vietnam, 2007-2017

The EU considered Vietnam as its "aid darling" (Hoang, 2014) and Vietnam recognized the EU as a preferential partner in the field of development cooperation (Sicurelli, 2015). Based on the Vietnam's key development planning documents such as the 10-year socio-economic development strategy (SEDS) for 2010-2020 (adopted by the 11th National Congress of the

Communist Party of Vietnam), the 5-year socio-economic development plans for 2010-2015 (The National Assembly of Vietnam, 2010), the 5-year socio-economic development plans for 2016-2020 (The National Assembly of Vietnam, 2016), and Vietnam sustainable development strategy for 2011-2020 (GoV, 2012), etc., the EU institutions and its member states confirmed that EU development aid aims to support the sectors where Vietnam is seeking progressive reforms to maximize the impact of the relevant government policies. For example, the focus of Vietnam-European community strategy paper for the period 2007 to 2013 was on poverty reduction and health, and additional actions including trade-related assistance. The EU financial assistance aims to support Vietnam in reaching its overall objective of inclusive and sustainable growth, and integration into the world economy (EU Delegation to Vietnam, 2015).

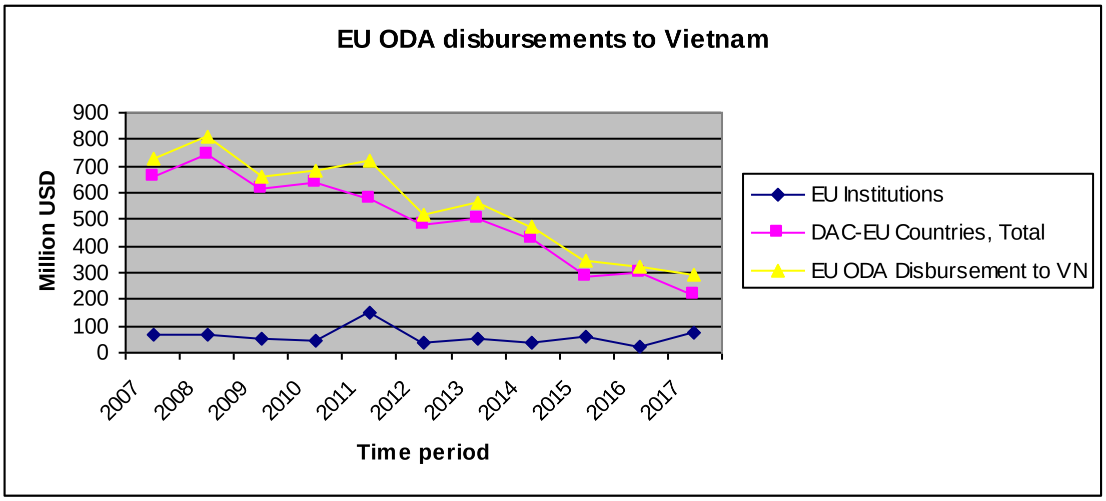


Figure 3.5 EU ODA disbursements to Vietnam, 2007-2017
Source: OECD (2018)

Figure 3.5 shows that EU ODA to Vietnam decreased significantly between 2007 and 2017. This downward trend can be explained by recent achievements of the Vietnamese economy (such as Vietnam reaching the threshold for a lower middle income country status in 2009), and the influence of the financial crisis on the EU which began in 2008 (OXFAM, 2019). The considerable decrease in the amount of EU ODA to Vietnam was the opposite of the trend in trade, with trade flows of both partners increasing. Furthermore, there was a probably relevant link between the aid flows from individual EU member with their bilateral trade value with Vietnam. In fact, the three biggest donors (including France, Germany, and the UK) are also the three largest trading partners with Vietnam. France had a colonial relation with Vietnam and it remained as a biggest bilateral donor to Vietnam among the EU members. Therefore, the present study will explore empirically the link between the aid flows and trade flows to partly analyze the relations of aid and trade between the EU and Vietnam in the Chapter six.

In particular, the EU institutions are the third-largest multilateral donor to Vietnam (MPI, 2017). The EU institutions took a central role in EU aid to Vietnam (EU Delegation to Vietnam, 2015). The EU institutions set up the common aid policies and created a coordinated aid management system for the EU in Vietnam (EC, 2009; 2016). The total assistance from the EU institutions to Vietnam for the period 2007-2017 reached 646 million US dollars in the form of grants (OECD, 2018). This amount made the EU institutions the largest grant donor to Vietnam. The EU institutions supported Vietnam in various sectors including economic infrastructure, social development, and trade-related assistance, etc (see Figure 3.6).

Recently, in the Multi-annual Indicative Program 2014-2020, the EU institutions contribute 400 million Euros to supporting Vietnam's socio-economic development by developing a sustainable energy sector and by strengthening governance and the rule of law. In the energy sector, the EU institutions promote efficient, clean and renewable energy. In 2017, the EU approved a total 108 million Euros for the first Energy Sector Support Program, mainly to support electrification in the rural areas of Vietnam. The EU Justice and Legal Empowerment Program in Vietnam (EU JULE, already under implementation) with a budget of 14 million Euros which aims to strengthen the rule of law in Vietnam through a more reliable, trusted and more accessible justice system. The Economic Governance Program (aims to improve fiscal discipline, strategic allocation of resources and domestic revenue mobilization, to foster sustainable development and inclusive growth including a business-friendly environment (20 million Euros, financing agreement to be signed in 2018). Healthcare has been a focal sector of the EU institutions aid in Vietnam for more than a decade. The Multi-annual Indicative Program 2007-2013 allocated more than 100 million Euros to improve the population's health status, especially the poor and most vulnerable, through a more effective, efficient and equitable health system. In continuing this successful program, for the period between 2015 and 2018, the EU institutions further contributed 114 million Euros to the EU-Vietnam Health Sector Policy Support Program-Phase 2, which is the largest health sector support program of the EU institutions in Asia. The EU's trade assistance cooperation between the EU institutions and Vietnam covers not just trade in goods, but also trade in services as well as intellectual property rights, export policy, and encourage foreign direct investment (EU Delegation to Vietnam, 2018) (see Table 3.7) .

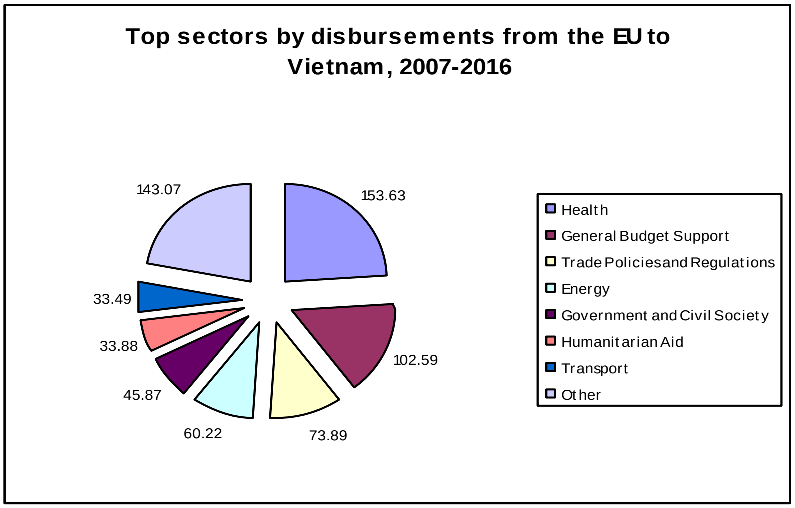


Figure 3.6: The EU institutions' aid allocation in Vietnam, 2007-2016
Source: UNDP Report (2018)

Table 3.7 The ODA projects of the EU institutions in Vietnam

No.	*The EU aid projects/programs to Vietnam*	*Value (Million Euro)*	*Period*	*Aims of Projects/Program*
1	Multiannual Indicative Programme	325	2014-2020	The program aims to support Vietnam's economic growth by developing a sustainable energy sector, and by strengthing good governance and the rule of law in the country
2	Energy sector policy support programme	108	2018	The Program aims to enhance access to sustainable energy sources in the rural, mountainous and island areas of Vietnam and strengthen the governance of the energy sector, and facilitate the shift to a more sustainable energy development path.
3	The EU-Vietnam Health Sector Policy Support Programme - Phase 2	114	2015-2019	It is the largest health sector support program from the EU to ASEAN. The program contributed to the achievement of key policy objectives as laid out in the national five-years plan for health sector, including the establishment of universal health covera
4	ARISE Plus Vietnam programme	6	2018	The program aims to maximise the benefits enjoyed by Vietnam from preferential trade regimes, such as the forthcoming EU-Vietnam Free Trade Agreement.

Source: Author's calculation

Moreover, there are many EU members (such as France, Germany, the U.K, Sweden, Denmark, and the Netherlands, among others) implemented the country development plans/strategies with Vietnam. They each have specific agencies to manage the aid projects in Vietnam. The priorities of aid allocation from the EU members to Vietnam are also diverse. For instance, French aid to Vietnam has a strong focus on education, agriculture, transport, and sustainable development, and climate change (Carillo et al., 2018). German development cooperation with Vietnam on the other hand focuses on three priority areas including technical and vocational education and training, energy, and environment (GIZ, 2018). In fact, Germany has been a consistently reliable contributor of ODA to Vietnam. Between 2007 and 2016 Germany allocated 1.38 billion US dollar in ODA to Vietnam. The bilateral development cooperation focuses on three priority areas: technical and vocational education and training (TVET), energy and environment. Through these efforts, Germany works to ensure that Vietnam has a well trained workforce, an efficient and sustainable energy supply and an economic growth path that preserves the country's environment and biodiversity. The institutions responsible for the implementation of Germany's development co-operations are Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the KfW Bank. Germany is also engaged in various projects co-funded by Australian and Swiss Governments as well as the EU.

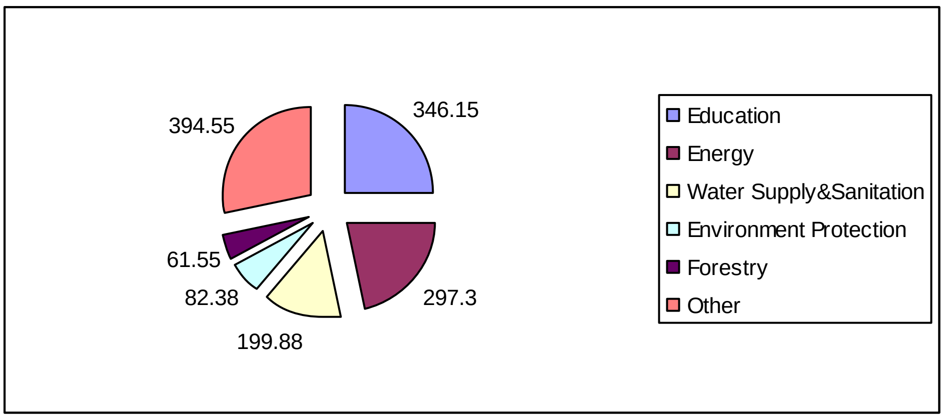


Figure 3.7: Germany aid allocation in Vietnam, 2007-2016
Source: UNDP Report (2018)

Energy sector is one of three priority areas of Germany's development cooperation in Vietnam (GIZ[15], 2016). This aid partly contributed to gearing Vietnam's Green Growth Strategy. In this way, Germany wants to help Vietnam to pursue growth which protects natural resources, preserves biodiversity and is in keeping with the goals of the Paris climate summit and 2030 Agenda for Sustainable Development. Between 2007 and 2016, Germany allocated 297.3 million US dollars in ODA to Vietnam's energy sector (accounted for over 21.5% of the total Germany

[15] Germany government established "The German Organization of International Cooperation" (Deutsche Gesellschaft für Internationale Zusammenarbeit_GIZ Vietnam) for building and running development cooperation programs and projects in Vietnam. GIZ is working to assist Vietnam in achieving its goal of becoming a middle-income economy by 2020. GIZ is jointly implementing several programs and projects to boost Vietnamese economic growth, create jobs and reduce poverty.

financial assistance in Vietnam) (UNDP, 2018). Through the support for energy sector, Germany assists to ensure that Vietnam has an efficient and sustainable energy supply and an economic growth path that preserves the country's environment and biodiversity (GIZ, 2016).

France is the second largest bilateral partner in development cooperation with Vietnam. From 2007 until 2016 it allocated 2.11 billion US dollar to the financing of development projects in Vietnam. Agence Française de Développement (AFD (AFD) is the operation of France's bilateral development finance mechanism. Almost 73% of the financial disbursements consist of sovereign concessional loans. Grants represent 27% of the total amount disbursed, with declining trend in recent years (OECD, 2018). With regard to the sectors for intervention, we see a strong focus on education, agriculture and transport. France also focuses on sustainable development and climate change as other key areas for intervention, such as environment protection, water management and urban development.

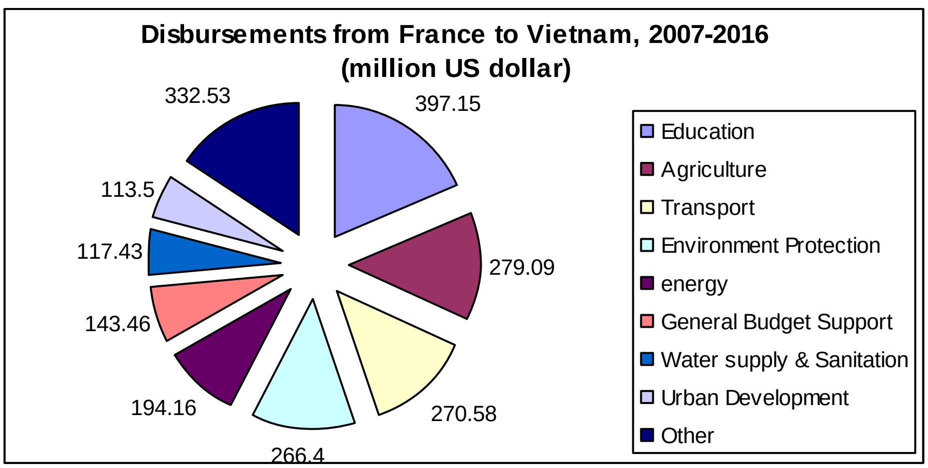


Figure 3.8 French aid allocation in Vietnam, 2007-2016
Source: UNDP Report (2018)

To summarize, the EU aid to Vietnam is still predominantly provided in the form of discrete projects. The most common way of judging the success is still probably whether aid projects achieve their immediate objectives, such as funding renewable energy and the contributions of electrical power, building roads, and supply clean water (Denmark, 2017; Finland, 2016; France, 2016; Sweden, 2015). Moreover, the previous studies (Kokko, 2011; Hoang, 2014; Sicurelli, 2015; Sandra, 2018; EC, 2015, 2018; among others) found that the main characteristics which enhanced the aid relations between the EU and Vietnam including the success of Vietnamese economic reform, the harmonization of aid policies, the good performance of Vietnam in using aid in general and using EU aid in particular, the strong ownership of Vietnam in aid issues, and the potential impacts of EU aid as well as the achievements of EU's self-interest in the financial assistance to Vietnam.

Vietnam mobilized and managed ODA projects under the joint management of national ODA management agencies (e.g. Ministry of Planning and Investment, Ministry of Finance, State Bank of Vietnam) and line agencies (line ministries and provinces). The Ministry of Planning and Investment of Vietnam (MPI) took the central role in ODA planning and management. However, the EU aid projects to Vietnam contributed to decentralization of the central government by the involvement of local actors and other sectoral factors (EU Delegation to Vietnam, 2015). According to Kokko (2011), the most important impact of the EU development cooperation with Vietnam is arguably related to the changes in Vietnam's central planning of aid management. Instead of channeling all EU aid through the Ministry of Planning of Vietnam (MPI) and central government, individual EU members have sought out local partners and established collaboration with various interest groups throughout the country. Furthermore, EU aid relies much more on technical assistance and support to institution building which can bring compromised interests to the EU. For example, Sandra (2018) indicated that the EU-MUTRAP project does not only support Vietnam's capacity building in the economic sectors, but also has a focus on the European market and the free trade agreement between the EU and Vietnam. Sicurelli (2015) also indicated that among the instruments used by the EU, technical assistance to Vietnamese national development strategies received more support than unilateral measures. Specifically, the EU's technical assistance projects, by promoting local ownership of the development process, have contributed to the drafting of the Vietnamese national export and service development strategies, helped building a national system of protection of geographical indications, and had a major impact also on Vietnam's consumer law.

As a result of rapidly increase trade relation, EU-Vietnam now is entering the new era of their cooperation development in which EU Aid for Trade (EU AfT) may take an important role to bring the mutual benefits for both sides (EU Delegation to Vietnam, 2015). As a rather new concept in Vietnam, and while there is no explicit AfT stategy as such, the various AfT elements and components are present in both the Vietnam's SEDP 2011-2015 and the OSF 2011-2015 and are reflected in individual donor projects. In response to the OECD-Aid for Trade Initiative, Vietnam formed the AfT Inter-Ministerial Working Group through Decision No. 27/Qd-UBQG dated 9/4/2012 (NIEC, 2012), chaired by MPI and with members from MoIT, MoFA and NCIEC as the first step in coordinating AfT projects/programs and improving the development results of AfT. As in the case of overall ODA planning and implementation, donor partners often build their AfT plans based on the country's development objectives and their own competitiveness and strengths. The EU institutions, for instance, emphasizes coherence between development and trade and continues to provide support to strengthen trade policy and regulations the development of economic opportunities and for the export-oriented development strategy for Vietnam, as it considers Vietnam to be one of its foremost economic partners in ASEAN. In addition, a number of development partners are promoting regional integration (e.g. ASEAN regional integration support by the EU, the Mekong Private Sector Development Facility III by Finland, Trade Capacity Building in Mekong Delta Countries by Norway).

Table 3.8, 3.9, 3.10 presented the EU AfT flows into specific sectors to Vietnam between 2007 and 2017. There was an opposite tendency between the amounts of EU AfT to building productive capacity and the amounts of EU AfT to Vietnamese economic infrastructure during the 2007-2017 periods. While the flows of EU AfT to Vietnamese economic infrastructure increased significantly (from 25.21 million US dollars in 2007 to 157.35 million US dollars in 2017), the flows of EU AfT to building productive capacity decrease notably.

The new achievements of the EU and Vietnam trade cooperation may come from the EU-Vietnam Free Trade Agreement (EVFTA) (Baker et al, 2014; Duong, 2016). The FTA between the EU and Vietnam is expected to contribute to a stable and predictable entrepreneurial environment, which in turn promotes growth and employment, enhances trade liberalization and a better market access (EC, 2019). The EU institutions granted to some AfT projects to Vietnam (such as the European Trade Policy and Investment Support Project) to support the negotiation process of this agreement. The EU also used these projects to achieve the EU self-interests in the trade agreement with Vietnam. Thus, the dissertation will continue to analyze the selected EU AfT projects which supported to the negotiation process of EVFTA in chapter six.

Table 3.8 EU AfT building productive capacity to Vietnam (USD millions), 2007-2017

Time period	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU AfT Agr+Forestry+Fishing	59.05	53.56	47.28	50.89	88.41	68.62	41.89	30.82	22.95	22.55	15.95
EU AfT Industry+Mining+Construction	35.27	18.33	23.33	13.51	8.78	5.26	3.60	2.15	2.66	3.01	3.98
EU AfT Tourism to Vietnam	1.16	2.92	2.84	2.74	1.67	1.65	3.50	3.09	3.16	1.70	0.59
EU AfT Banking and Financial Services	26.61	20.60	12.09	18.92	49.11	7.51	5.78	9.28	3.73	5.85	10.12
EU AfT Business and Other Services	9.96	16.25	10.94	5.91	5.68	7.16	4.59	3.97	0.64	3.40	3.29
EU AfT Bulding Productive Capacity to Vietnam	***132.06***	***111.66***	***96.48***	***91.97***	***153.66***	***90.20***	***59.37***	***49.31***	***33.14***	***36.50***	***33.92***

Source: Calculation of the author based on the information from OECD database, 2018

Table 3.9 EU AfT to Vietnam's economic infrastructure (USD millions), 2007-2017

Time period	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. EU AfT Transport and Storage to Vietnam (I1)	12.34	17.53	48.54	26.15	14.52	37.71	63.2	40.3	47.25	63.73	88.21
2. EU AfT Communications to Vietnam (I2)	6.91	5.2	1.63	5.02	3.92	3.28	1.8	1.29	3.3	0.14	0.03
3. EU AfT Energy to Vietnam (I3)	5.96	25.73	17.71	9.43	43.05	4.19	76.75	118.83	121.28	110.38	69.11
EU AfT Economic Infrastructure to Vietnam	***25.21***	***48.46***	***67.88***	***40.6***	***61.49***	***45.18***	***141.75***	***160.42***	***171.83***	***174.25***	***157.35***

Source: Calculation of the author based on the information from OECD database, 2018

Table 3.10 EU AfT to Vietnam (USD millions), 2007-2017

Time period	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU AfT Economics Infrastructure Vietnam	25.21	48.46	67.88	40.6	61.49	45.18	141.75	160.42	171.83	174.25	157.35
EU AfT Trade Policy & Regulation& Trade-related Adjustment to Vietnam	1.78	3.87	1.99	3.13	40.53	4.11	3.75	4.09	4.40	2.17	2.07
EU AfT Bulding Productive Capacity Vietnam	132.06	111.66	96.48	91.97	153.66	90.20	59.37	49.31	33.14	36.50	33.92
Total EU AfT to Vietnam	**159.04**	**164.00**	**166.35**	**135.70**	**255.67**	**139.49**	**204.86**	**213.81**	**209.37**	**212.92**	**193.34**

Source: Calculation of the author based on the information from OECD database, 2018

Chapter 4 Literature Review of Aid for Trade (Aid and Trade relations)

This chapter presents a brief review of the literature relevant to causal links of aid and trade. It also demonstrates a debate on the impact of AfT on trade performance in general and in the case of the aid and EU aid to Vietnam in the previous studies

4.1 Causal links of aid and trade

To evaluate the impact of aid in general and AfT in particular on trade performance, it is a necessary to explore the causal links of aid and trade (Osei et al, 2004). The theoretical basis for the AfT initiative can be traced back to theories ranging from trade to political economy (Lemi, 2016). Trade and growth theories suggest that trade can be an engine of growth. However, institutional economics claims that good institutions are necessary to generate gains from trade. As such, AfT must be targeted to improving institutions that are likely to increase gains from trade. Theories of political economy present a different perspective, in that donors may have their interests in attempting to help improve the trade performance of recipient countries. The theory of change[16] was also one of the typical theories used to determine the causal relationship between aid and trade performance (OECD, 2011). Based on this theory, Suwa-Eisenmann and Verdier (2007) presented the aid and trade interactions. According to these authors, the possible causal relationships between aid flows and trade performance need to be considered. They drew the interactions among aid flows (and or aid policies) and trade flows (and or trade policies) of donors and recipients to the outcomes of recipient countries. The interactions were graphed by figure 4.1 as follows. These authors explained that the linkage may relate aid and trade flows (arrow A1 in Figure 4.1). It can also go from aid policy to trade flow (A2). The donor’s aid policy can intend to influence on trade policy of donor countries (A3) or recipient countries (A4). All these linkages determine together the joint impact of aid/trade policy on the welfare of the developing countries (A5).

[16] The theory of change was used to enlarge and analyze for references to outputs, outcomes, and impacts, which together with the inputs and the activities from the basics of the results chain. A result’s chain shows how changes happen to achieve the desired objectives, starting with inputs, moving through activities and outputs, and culminating in outcomes and impact.

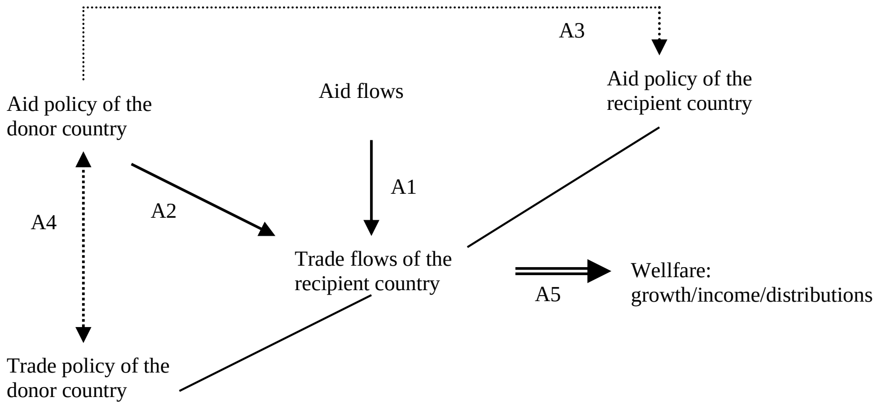


Figure 4.1 Aid for trade interactions

Source: Suwa-Eisenmann and Verdier (2007).

Indeed, aid flows may effect trade flows, either because of the general economic effects on the recipient country, or because the aid is directly linked to trade, or because it reinforces bilateral economic and political links (or a combination of all three). White (1992) indicated that aid supplements recipient's domestic savings, leading to higher investment which contributes to higher rates of economic growth. This growth induces a greater capacity of recipient countries to absorb foreign goods and services, including those originating from donors. Along this line, aid flows are likely, in the medium-run, to generate more international trade flows in the recipient country. Aid is also linked to the implementation of structural economic reforms, especially the liberalization of foreign trade regimes (Morrissey, 1995). When the reform targeted by aid is trade liberalization, the effect of aid on trade is direct. But it could also be indirect as long as reforms stimulate growth, which in turn may increase the import capacity of the recipient country. By contrast, this can have an indirect effect on donor exports (donor trade flows), in the sense that reductions in trade barriers can increase the donors' access to markets in developing countries and/or the aid financing averts import compression. Thus, aid flows may enhance donor exports as well. Kim (2016) argued that the most direct link between aid and trade is formal tying, where the provision of aid is dependent upon the recipient purchasing goods from the donor. The story is quite well known: aid flows will be used to finance expenditures on non-tradable goods and services. With the price of tradeable goods given, there will be a relative price shift in favor of non-tradeable sectors (a real appreciation of the exchange rate). The immediate effect on the demand side, where more of the cheaper tradeable goods (especially imports) will be demanded, leading to a deterioration of the external balance, which in turn will require more aid flows ('aid dependency effect'). At the same time, the real appreciation if the real exchange rate leads to an inter-sectoral resource transfer from the tradeable to the non-tradeable sector, causing squeeze on the export-producing sectors ('Ductch disease' effect) (Suwa-Eisenmann and Verdier, 2007).

The view that trade can lead to aid is generally attributed to effects of aid allocation policies of donors. These policies, in turn, are argued to be the result of the various pressures, exerted by domestic lobby groups, to which policy formulation is subject. Business groups and sections of the donor bureaucracy concerned with trade promotion are particularly active in this regard (Morrissey et al., 1992). Trade can lead to further aid if donors give preference in the allocation of their aid to countries with which they have the greatest commercial links. With respect to the geographical allocation of aid, one would therefore expect that, ceteris paribus, the greater the value of donor exports to a given recipient, the greater the amount of aid it would be allocated by the donor. In these events, the donor is rewarding the recipient for purchasing its exports, or seeking to consolidate and/or expand its market in the country through the expectation that aid will have a trade-inducing's effect.

More recently, Cadot et al. (2014) surveyed two main channels through which AfT could be expected to have an impact on trade. The first channel is through a reduction in trade costs by improving hard infrastructure (such as ports and roads) and soft infrastructure (such as customs regulations and procedures), both of which have benefited from AfT. The second channel is potential impact-through direct support to exporters. This channel includes clinical trade competitiveness programs such as export promotion schemes through matching grants for supporting export business plans, through export-credit guarantees, or firm-level technical assistance for technology upgrading, for the acquisition of international quality certifications or to meet other standards (see Figure 4.2).

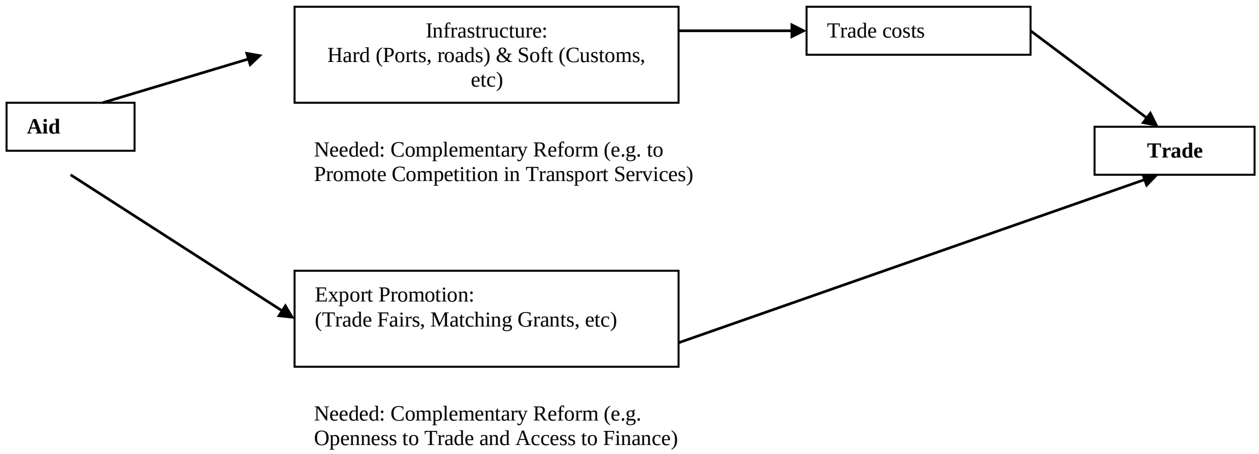


Figure 4.2 Aid for Trade-Channels of Intended Impact
Source: Cadot et al. (2014)

According to Alonso (2016), AfT could impact on countries' development through diverse causal links (see figure 4.3). AfT could: i) improve countries' soft and hard infrastructure, reducing trade costs and encouraging trade; ii) strengthen countries' productive capacity, promoting export diversification and increasing productivity; and iii) support export promotion activities. Even if there is not an unequivocal direct of causality between trade and economic growth, there is no case of long-run growth without an increase in a country's capacity to export. Therefore, it is expectable that the expansion of trade would allow countries to increase their rates of growth and, through this process, to reduce poverty.

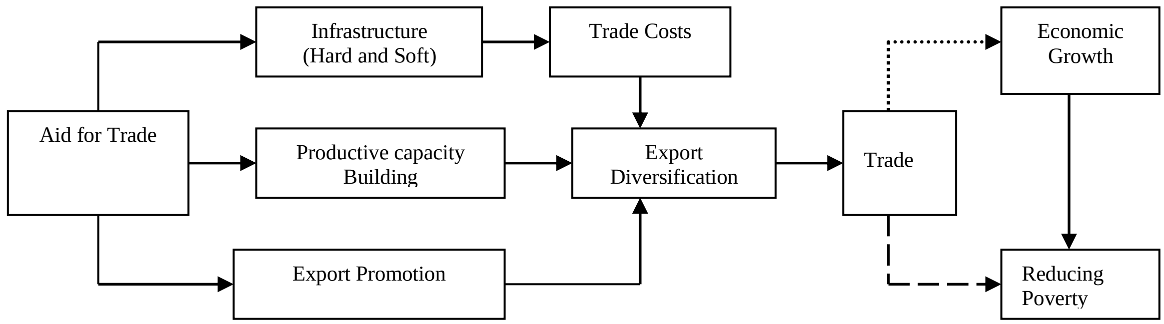


Figure 4.3 Causal links between AfT and trade/growth
Source: Alonso *(2016)*

As discuss above, researchers have identified the causal relationships between AfT and trade performance among donors and recipients to address two main issues: (i) AfT leads to trade (meaning that donors use aid to increase their trade benefits with recipients and/or (ii) trade leads to aid (meaning that trade as a determinant of AfT allocation decisions of donors). The following section presents the main findings of the recent studies on the relations of AfT and trade performance.

4.2 Recent studies on the relations of AfT and trade performance

There were plenty of studies investigating the impacts of AfT (or some of its components) on trade-related outcomes (basically, on exports) in specific case studies on the country level as well as conducting research on multi-country level (OECD, 2011). Nevertheless, the results obtained in the previous studies differ from each other (OECD, 2011). Cadot et al. (2014) focus on the literature AfT to investigate the link between aid and trade. These authors also confirmed that empirical results differ substantially. Therefore, it can be seen that there is an intensive debate on the impacts of AfT and trade performance.

The majority of researches concluded that AfT is beneficial for trade flows, especially exports (Cali and te Velde, 2011; Helble et al., 2012; Pettersson and Johansson, 2013; Hühne et al., 2014; Ghimire et al., 2016; among others). However, some others cannot find any effects of AfT on the trade outcomes in their investigations or some give the results of negative effects (Silvia and Nelson, 2012; Cali and Razzaque, 2013; Cirera and Winters, 2015; among others). Furthermore, there were studies pointed out the selfishness of donors and stated that AfT flows are mainly given with a hidden agenda of benefiting from the potential trade with the recipient countries (Pettersson and Johansson, 2013).

The scholars used different approaches and econometric methods to estimate the effects of AfT and trade performance such as gravity models (Helble et al., 2012; Pettersson and Johansson, 2013; Nowak-Lehmann et al., 2013; Hühne et al., 2014); cross-country analysis (OLS, 2LS) including those with instrument variables (Vijil and Wagner 2012; Ferro et al., 2014) or panel data (Busse et al., 2012) or dynamic panels through the generalized method of moments (GMM) (Cali and te Velde, 2011; Kim, 2012; Massa, 2013; Ghimire et al., 2016); or case studies (at macro and or micro levels) (Brolén et al. 2007; Lederman et al., 2010; Volpe, 2011). A large number of scholars used the OECD identified AfT components and the OECD database to apply for their studies (OECD, 2011). Albeit, there is a fact that limited available data of AfT and the absent records in some periods or regions led the scholars frequently to choose the first three components of the OECD AfT category to calculate their conduct (Cali and te Velde, 2011).

As mentioned above, the positive impact of AfT on trade performance has been confirmed by many scholars. For instance, Helble et al. (2012) based on elasticities estimated over 16 years of trade data (between 1990 and 2005) for 40 donor countries and about 170 country trading pairs. These authors found that aid spent on promoting trade is positively associated with global trade. The aid for trade facilitation is relatively more strongly associated with recipient exports than their imports. The findings suggested that a 1per cent increase in this type of aid (of about 220 million US dollar in 2008) correlates to about 290 million US dollar of additional exports from the aid receiving countries. Kim (2012; 2017; 2019) argued that export diversification is one of the most crucial components in measuring the effectiveness of AfT. For instance, this author (2012) used a sample of 151 recipient countries between 1996 and 2010 to apply for a panel regression. The results proved that AfT appears to have some positive impacts on diversifying exports but this diversification did not spread to exports associated with higher income. Massa (2013) used a sample of 58 low-income and lower middle-income countries over the period of 1996-2011 to examine the impact of AfT facilitation on export performance. The results pointed to a significant effect of AfT facilitation on export flows. Specifically, AfT facilitation is found to be associated with a 0.02% increase in export flows Pettersson and Johansson (2013) investigated the general link between aid and trade and found a strong positive relationship. When the focus is put on AfT, these authors again confirmed the positive view but the positive impact of AfT is smaller than the overall aid. Bearce et al. (2013) focused on the evaluation of the USA AfT. They concluded that one dollar growth in AfT results in 65 US dollar trade expansion in the recipient country. Furthermore, the impact of AfT may be higher in needy countries (such as poorer, landlocked countries). Ghimire et al. (2016) used the system-GMM technique to examine whether AfT helps aid-receiving countries improve their export performance. The export performance is measured by export level, export growth, and the change in export-GDP ratio of the recipient. They analyzed an annual level longitudinal dataset of 121 AfT-recipient countries over a period of 16 years (from 1995 to 2010). They concluded that AfT has a significant positive effect on multiple measures of export performance in developing countries. However, the targeted AfT is found to exhibit diminishing returns, thus reinforcing the idea of AfT's importance but limited role in the export promotion of the recipient countries. More specifically, a research of the OECD and WTO (2013) found that one US dollar invested in AfT is on average associated with an increase of nearly eight US dollars in exports from all developing countries and an increase of twenty US dollars in exports from the poorest countries.

In addition to overall AfT, the subcategories AfT for economic infrastructure, AfT for building productive capacity, and AfT for trade policy and regulation are frequently investigated in the literature. The results of these subcategories are not as clear as overall AfT (Cadot et al, 2014). Among the papers discussed below only Hühne et al. (2014) found a positive relationship between all subcategories and exports. When the focus is put on AfT for economic infrastructure, several estimations confirmed the positive impacts (Vijil and Wagner 2012; Cali and te Velde, 2011; Heble et al., 2012; Martínez-Zarzoso et al., 2017; among others). Vijil and Wagner (2012) indicated that an increase of 10 percent in AfT for economic infrastructure leads a rising of 1.22 percent of the recipient's export. Cali and te Velde (2011) also indicated that AfT supporting to economic infrastructures results in the export growth. Martínez-Zarzoso et al. (2017) studied the AfT and trade links with an application of a panel quantile regression approach. They asserted that AfT devoted to infrastructure only exhibits positive and significant results at the lowest quantile of the conditional export distribution. This means that AfT benefits disadvantaged economies (meaning that AfT support is provided where it is needed the most). The evaluation changed slightly when it comes to the scope of AfT for building productive capacity. Martínez et al. (2017) and Hühne et al. (2014) confirmed the positive impact, whereas Cali and te Velde

(2011) found a mixed results for this AfT category. There was also a conclusion that AfT for building productive capacity had no impact on trade performance (Cali and Razzaque, 2013; Cirera and Winters, 2015). The empirical findings of AfT for policy and regulation are again mixed. Cali and te Velde (2011) and Heble et al. (2012) found a positive effect whereas Martínez-Zarzoso et al. (2017) stated that there is no effect of this AfT category on the trade flows.

Another focus in the empirical result is the estimation of the main beneficiaries of AfT. Some researchers claimed that donor countries act out of its self-interest and only according to their advantages (Hühne et al., 2014; Petersson and Johanson, 2013). For example, Pettersson and Johansson (2013) analyzed the recipient and donor perspectives by evaluating the effects of AfT on the bilateral trade in both directions (the trade flows from the recipient countries to donor countries and vice versa). They concluded that AfT increases recipient exports to donors as well as recipient imports from donors (the first effect tends to dominate the latter). Brazys (2013) found considerable variation in the export effects of the AfT programs, ranging from programs with no impact on the recipient country exports to programs that are positively correlated with recipient country exports to the donor country and/or the rest of the world. Hühne et al (2014) also evaluated the impact of AfT on both donor and recipient countries. In the quantitative terms, their baseline estimation suggests that a doubling of AfT would imply that recipient exports increase by 5 per cent and recipient imports increase by about 3 per cent. Regarding recipient countries, they found overall AfT and its components (including AfT for economic infrastructure, AfT for building productive capacity, and AfT for trade policy and regulation) to be all effective. However, when splitting the sample into groups, by income and region, the results become mixed. AfT tends to favor the richer developing countries and countries in Asia and Latin America. The researchers noted that the effect is stronger on exports of recipients than on their imports from donor countries. On the contrast, Hoeffler and Outram (2011) stated that donors are self-interested. Donor countries tend to give more AfT to recipient countries that vote the same in the UN and who are already trade. However, donor countries do also take the needs of the recipients into account.

The impact of AfT on trade was also explored by the OECD and WTO. An annually study of OECD and WTO about AfT (namely aid for trade at a glance) presented the results of AfT in a specific aspect such as value chains (2013), reducing trade costs (2015). These studies provided the contribution of AfT by categories, AfT in sectors, AfT in regions, and AfT in selected case studies. The results stressed on the important role of AfT for a specific topic. Furthermore, various scholars contributed to access the impact of AfT on the country or regional level. For example, the scholars of International Centre for Trade and Sustainable Development (ICTSD) made a series of studies to evaluate the impacts of AfT at the country level such as evaluating aid for trade on the ground with lessons from Cambodia (Shipana et al., 2011); Malawi (Said et al., 2011); Bangladesh (Khatun et al., 2013); Ghana (Danchie et al., 2013). Among these studies, an evaluation of AfT in Malawi found that the impact of AfT is close to negligible with respect to Malawi's trade deficit and export growth, largely because of a fragmented approach to aid that does not tackle Malawi's export constraints in a comprehensive manner (Said et al., 2011). However, an analysis of the major AfT projects in Cambodia suggested that the positive impact and overall effectiveness of AfT. It is also recorded the contribution of AfT to the reduction in bureaucracy and cost for import/export procedures (Shipana et al., 2011).

Particularly, the EU institutions and the EU member states together provide over 50 per cent of the world's ODA (OECD, 2012). The EU also is one of the largest providers of AfT (EC, 2017). As the biggest AfT donor, the EU needs to monitor its transfer to enhance the benefits of AfT outcomes. Therefore, many scholars contributed their analysis to enhance the effectiveness of the EU AfT to its recipients (Turner et al., 2012; Udvari, 2014, 2016; Brazys and Lightfoot, 2015). They had results of analysis and evaluations from the global level to a case study which included theoretical and empirical contents. For example, Beáta (2014) evaluated the relations of aid and trade among the EU old or new member states with their recipient countries. The results of the gravity model indicated that the EU-15 (old members) is a more attractive market to the recipients than the new member states. The AfT provided to the recipients positively influences on the exports to EU-15, while it has no significant impact on trade with the new member states. Brazys and Lightfoot (2015) examined the emergence of the AfT norms using "Europeanization framework". The study demonstrated that the EU has uploaded AfT norms into multilateral processes rather than downloading and then disseminating them across the Union.

To sum up, the scholars used empirical methods which can provide the linear (regression) approaches to analyses the correlations between AfT with trade outcomes and/or the changing of exports; to investigate the impact of AfT on the costs of trading; and to measure the effects of AfT on the diversified products in trading. Evaluation has progressed significantly from accountability (based on the OECD categories AfT to conduct the effects of its types on the trade's outcomes and the benefits of trading for both recipient countries and donors) to the prediction of future's contribution of AfT, but no agreement has been reached so far as to the main frameworks to be used to measure outcomes of AfT.

4.3 Recent studies of the impact of foreign aid to Vietnam

The majority of studies of aid effectiveness on Vietnam focused on the overall foreign aid and its impacts on Vietnamese development. Since the "Doi Moi" reforms, Vietnam pursued an export-oriented industrialization strategy that seeks also to attract foreign investment (FDI), integration into the global economy. This produced rapid growth in the real GDP, exports, FDI, and domestic private investment, and a significant fall in the share of the state-owned sector in the economy (Lim, 2014). Therefore, the contribution of foreign aid to Vietnamese economic growth can also more or less indirectly improve the country's trade performance (Clarke et al., 2017).

4.3.1 Recent empirical studies of aid effectiveness to Vietnam

The debate on whether foreign aid in actuality has been effective in Vietnamese economic growth has been intensified over the years. However, the conclusion about the positive impact of foreign aid on Vietnamese economic growth remains controversial. Chengang and Balasubramanyam (2011) explored the complementary between foreign aid and foreign direct investment (FDI) in Vietnam. They used data from the provinces of Vietnam for the period between 1985 and 2008. The statistical analysis suggested that aid has a positive impact on FDI inflows and aid can complement FDI in promoting economic growth. Whilst aid in itself harms on growth, it does have a positive significant impact on growth conjunction with FDI. Provinces of Vietnam that receive relatively high volumes of aid also appear to receive high volume of FDI. Foreign companies are likely attracted to the provinces which have used aid monies to promote infrastructure facilities and labor skills. An alternative explanation is that aid donors may have tied aid to specific projects which facilitate the operations of the firms from their countries which invest in Vietnam. Mun and Yee (2013) explored Autoregressive Distributed Lagged (ARDL) model to investigate empirically the effect of the three independent variables (including the ODA, FDI flows, and the trade openness) on the Vietnamese economic growth which is denoted by the real GDP with the time series data from 1993 to 2009. They concluded that there was a negative long run relationship between foreign aid (ODA) and growth in Vietnam. Trinh (2014) investigates the relationship between foreign aid and economic growth in Vietnam from 1993 to 2012. In this study, growth accounting analysis is conducted to recognize the contributions of foreign assistance to production factors in Vietnam. An empirical model is also estimated using ARDL approach to co-integration to evaluate the direct impact of aid on the final economic outcome. The empirical results indicate that foreign aid has a significantly positive role in promoting economic growth in Vietnam. The results of growth accounting exercise and the analysis of fundamental channels through which foreign aid has contributed to Vietnam development outcomes, especially on macroeconomic management, infrastructure, and human capital accumulation. It produced more evidence supporting the beneficial impacts of aid to Vietnam. However, at the same time, such aid-related problems as high volatility and unpredictability of the inflow, absorptive capacity constraints, and rent-seeking behavior could burden the recipient's administration and in turn, undermine the aid effectiveness on Vietnamese economic development. Tram (2016) investigated the impact of the long-term and short-term international capital flows on Vietnamese real GDP growth. The Autoregressive Distributed Lagged (ARDL) bound testing method is applied to examine the empirical relationship. Time series data from 2007 to 2015 is used to estimate long-term equilibrium and short-term movement with the ARDL bound testing method. Advanced econometric techniques are applied to diagnostic checking in time series data. Later estimates are implemented to find out short-run and long-run elasticities. The empirical results show that ODA brings a negative impact on Vietnam's economic growth in the short-term, but it brings a positive impact in the long-run. The results show that when foreign aid increases 1 percent, Vietnam's economic growth will rise by 0.4 percent. Quy (2016) analyzed statistic data of ODA and GDP growth of Vietnam during 23 years from 1993 to 2015. The author indicated that between 1993 and 2006, aid had fairly positive impacts on the Vietnam economy. However, from 2008 up to 2015, the relation diagram between these two factors has not been following any certain principle, even in inverse proportion to each other. The analysis of Pearson's correlation coefficients between ODA and GDP growth showed that foreign aid and economic growth in Vietnam has a negative relationship. Duc & Lan (2019) complemented studies on the causal relationship between ODA and economic growth using new empirical evidence through case studies in the provinces of Vietnam. The study uses panel data of ODA and GDP from 63 provinces of Vietnam by using the Granger Causality test. The results showed that ODA has a causal effect on economic growth (GDP) and vice versa, economic growth decides to attract ODA in provinces in Vietnam. This result is a fairly basic characteristic in Vietnam because Vietnam is one of the few countries use ODA for good development goals, especially in sustainable poverty reduction. Vietnam has made good use of funding, boosted the growth of localities and the economy, which has encouraged the donor community to continue providing ODA to Vietnam. Moreover, economic growth creates resources for reciprocal capital in ODA projects. The empirical results show that any efforts to attract more ODA from the localities have an impact on economic growth.

To summarize, foreign aid can make a significantly positive impact on Vietnam's economic performance and or aid can give benefits with conditions (such as good governance and policy reforms) to Vietnam. However, Vietnam's economic development can also get negative impacts from its external financial assistance.

4.3.2 Recent evaluations of the impact of EU aid and AfT to Vietnam

OECD (2011) used Vietnam as a case study to evaluate the impact of AfT to the country development. The results showed a positive synergy in Vietnam in terms of the clear linkages between Vietnam's WTO accession and the implementation of the AfT agenda, or an increase of donor commitment to Vietnamese trade and business development. However, the evaluators proved unable to provide a robust impact assessment of AfT on trade performance. Even though the relevance of many AfT operations was beyond doubt in the context of positive impact of AfT on Vietnam, it remained difficult to infer any direct causality between the implementation of AfT operations and Vietnam's positive economic and trade dynamic (OECD, 2011). Another OECD study (2013) was about the AfT management framework in Vietnam. Using an EU AfT project (which is called Multilateral Trade Assistance Project III-MUTRAP III) to Vietnam, the study concluded that AfT gave specific results such as supporting Vietnam's implementation the WTO commitment, raising the trade-related awareness, trade policy in line with the objectives of Vietnam and with international commitments, initiating Vietnamese private sector to participate to the trade policy formulation, helping the curriculum of Vietnam's universities focused on trade-related subjects. Expanding to other EU AfT projects, the study indicated that these AfT projects promoted Vietnam as a fully pro-active member of the international trade and economic community (OECD, 2013). Kim et al (2020) used Vietnam as an example to illustrate the importance of the economic environment in which AfT initiative is implemented. These authors indicated that the strategic economic policies implemented by the GoV have moved its centrally planned economy to a market-based economy, thus promoting integration with the global economy and creating a compatible environment for AfT. As a result, Vietnam was one of the largest recipients of AfT.

There were some studies analyzed the EU aid to Vietnam (Kokko, 2011; Hoang, 2014; Sicurelli, 2015, among others). The results showed the contributions of EU aid to Vietnamese economic growth in general and to the economic transition of Vietnam as well as to the improvement trade benefits between the EU and Vietnam in particular. However, there is still no empirical estimation for the EU aid to Vietnam. Most assessments of the EU aid in Vietnam, including the EU institutions and EU member countries, have focused on the performance of aid given by particular donors or groups of donors rather than on its overall impact. EU donors also conducted some studies on their aid impacts in Vietnam from national to regional and local level or specific scope. However these studies have prominently been assessments of their aid interventions at the particular level and not of all aid. Additionally, immediate project success (the most common of such studies) does not necessarily mean permanent success. Some EU member states evaluate their aid and AfT projects in Vietnam such as Finland, France, Germany, the Netherlands, and Denmark. More or less, these evaluations depend on their own goals in development cooperation with Vietnam to express the results as well as to conduct the impacts of their aid projects/programs in Vietnam.

In summary, it seems there were no studies that have done any direct empirical evaluation on AfT impacts on Vietnam’s trade performance. The evaluations of individual AfT projects were included in the studies as a case-studies, mostly based on secondary data (project, reviews, reports of specific projects). It is the same tendency in the evaluation of the EU aid to Vietnam.

Chapter 5 Methodology and Data collection

The dissertation employs a mixed-methods approach that combines both qualitative and quantitative methods in a complementary way to explore different types of evidence about the context, progress, and outcomes of the impact of EU AfT on level of trade between the EU and Vietnam. This chapter is organized as follows: Section 5.1 provides an overview of the qualitative case study method. It also provides details data collection and data analysis for the case study. Section 5.2 discusses the methodology for the quantitative analysis, by providing a model specification of the Gravity model for trade as an empirical approach for estimating the relationship between aid flows and trade flows among Vietnam and the EU-DAC countries. Section 5.2 also presents data collection and data analysis methods for these empirical models.

5.1 Qualitative case study methodology

A qualitative case study is defined as a "qualitative approach in which the investigator explores real-life, contemporary bounded system (a case) or multiple bounded systems (cases) over time through detailed, in-depth data collection involving multiple sources of information (e.g., observation, interviews, audio-visuals, materials, documents, and reports), and reports a case description or case themes (Creswell and Poth, 2018: p.96). In the same manner, Gerring (2007) stated that case studies can be composed of one case that is represented by one observation or by multiple within-case observations. Specifically, the dissertation uses the EU AfT to Vietnam case is an example of the wider AfT-trade relationship. A case study of the EU AfT to Vietnam would provide a further in-depth understanding of this phenomenon. Thus, this research uses a case study with various within-case observations.

Additionally, Yin (2014) indicated that case samples can be examined within specific boundaries, which could be a place or time boundary or both. The temporal boundaries of this dissertation are limited to the period of 2007-2017. The starting point for analysis is 2007, as the EU's AfT strategy for the period of 2007-2013 was launched in this year, where the EU AfT category was identified specifically. The endpoint of 2017 was chosen for pragmatic reasons to allow the researcher to take sufficient time to assess the data without constant changes in data measurement such as the methodology to calculate data on donors' ODA/AfT of the OECD's Development

Assistance Committee[17] and the withdraw in terms of ODA of some EU countries out of Vietnam.

Furthermore, a case study provides a useful tool when seeking answers to the research questions of “how and why” (Yin, 2014: p.50). A case study is commonly regarded as a form of the qualitative technique, however it can contain elements of quantitative research method (Pietsch, 2016). Using a qualitative case study, researchers can investigate the contexts or relationships and processes of the issue through a comprehensive examination of the information gathered over a given period or within a particular context (O’Gorman et al., 2014). According to the OECD (2011), measuring the impact of AfT is never going to be easy, given the difficulty in establishing the counterfactual, and because of the other factors which may come into play (political, economic, and social factors). For this reason, case studies about the relationship between AfT and trade performance present a useful way of establishing what works, what does not work, where improvements are needed, and what type of impacts AfT can have (OECD, 2011). The main part of this dissertation seeks examine the impacts of the EU AfT projects to Vietnam: “*How the EU AfT projects can effect to trade relations between the EU and Vietnam?* Therefore, we select EU AfT projects to Vietnam to provide a better understanding of the effectiveness of EU AfT in Vietnam.

Cadot and Newfarmer (2011) also mentioned the intensive difficulty of evaluating AfT effectiveness because of the multiple intermediate objectives on the path to the overarching objectives of trade outcomes. The trade outcomes are ranging from increasing exports, diversification, and intraregional trade, to raising the income of small-scale traders, or, in the case of infrastructure, improving competitiveness through wider and cheaper access to power, transport, and telecommunication services). Therefore, qualitative case study approaches usually work with small samples that are selected purposively rather than randomly (Huberman and Miles, 1994). Purposive sampling, i.e. selecting cases for their richness of information concerning key periods, people, events, and impacts, is relevant here for three reasons. First, such sampling is consistent with the theory of change, where cases are selected for their likely contributions to understanding the impacts of EU AfT to Vietnam on the trade outcomes. Second, purposive

[17] Starting with 2018 data, the OECD’s Development Assistance Committee is using a new methodology to calculate data on donors’ official development assistance (ODA). Called the ‘grant-equivalent’, the methodology aims to better reflect donors’ real financial effort when disbursing ODA loans. It is the OECD DAC’s new standard for publishing headline ODA figures and has a concrete impact on how much of a donors’ loan can be counted as ODA.

sampling enables the richest access to data given the available time and resources. Third, the effectiveness of EU AfT needs to show the mutual benefits for both the EU and Vietnam. Moreover, the international development community endorsed the 2005 Paris Declaration on Aid effectiveness which identifies core principles (i.e. country ownership, donor alignment, donor harmonization, managing for results, mutual accountability) and indicators against which future donor activities might be assessed. OECD (2012) indicated that effectiveness in AfT requires proper sequencing and policy coherence. Once a country has identified the most binding constraints making sure that reform is should implement reform designed to tackle these specific constraint making sure that reform is (i) sustainable and (ii) supported by complementary reforms that will increase its impact on economic growth. As much as possible, proper sequencing and policy coherence should be reflected in the design of AfT. This cannot be achieved without adequate coordination and alignment on country priorities. In the light of these requirements, we created five criteria to analyze the effectiveness of EU AfT in the case study, namely (*i*) Vietnam's needs in term of improving trade performance; (*ii*) The EU's self- interests in terms of trade with Vietnam; (*iv*) Coordination between the EU and Vietnam in the AfT projects (from design to implementation to evaluation); (*iv*) Absorptive capacity; and (*v*) Sustainability (the expected longer impact of AfT project). The next part presents a discussion of how to measure and analyze these criteria for the cases.

Adhikari (2011) proposed a methodology to conduct the impacts of a given set up AfT project or program in a sector or category (micro-level analysis or AfT case study). The author suggested a need to review the recent economic and trade performance of the recipient country emphasizing the sectors and regions covered by the set of AfT projects, the institutions and prevailing policies in the project environment, and external cooperation in the project's realm. It must also be checked whether or not the project has a high priority for the country at its inception. Based on these suggestions, we explore Vietnam's needs in the related sector/category of the EU AfT cases/examples. We investigate the relevant documents of the Vietnamese government and agencies as well as other resources (such as strategies, plans, evaluations, etc.) to determine Vietnam's needs in the sector/category related to the EU AfT cases. For example, we indicate the link between Vietnamese national plans and the EU AfT project.

In the donor-interests criteria, EU aid has a strong emphasis on economic growth, export and import business, and investment flows through supports for the legal and regulatory framework, productive and sustainable investments, the domestic banking system and local capital markets in developing countries (EC, 2010). Therefore, the case study investigates the EU's self-interests in the selected AfT category as well as in the selected project. It explains the benefits which the EU wanted to approach in Vietnam through the implementation of the AfT projects. Saifur and Lukas (2017) introduced five indicators to determine the donor-self's interests including (1) drawing on consultants as well as products and services from the donor's country; (2) expanding favorable markets for the donor's economy; (3) increasing the donor's geopolitical as well as policy influence in recipient countries; (4) obtaining information that is independent from the recipient government; and (5) shaping good governance as a prerequisite for financial support from donor countries. We based on these indicators to examine the self-interest of the EU AfT projects in Vietnam. Using the relevant documents to the cases from the EU institutions and the related EU member states (such as strategies, plans, project implementation, and project report) as well as other materials (such as independent evaluations, academic studies) we answer whether or not the EU donors obtain these indicators through the case.

Another issue emerging from the AfT effectiveness studies is the coordination among relevant ministries and government agencies in the design and implementation of AfT programs/projects. It involves harmonizing and streamlining the activities of different aid agencies. Mutual accountability between donor and recipient countries are necessary for aid to be harmonized and effective (Adhikari, 2011). The case is used for analyzing the coordination among the EU AfT agencies and Vietnamese related AfT stake-holders in the process of the AfT project. Based on a study of Basnett et al. (2012), we apply five indicators to analyze the coordination for the case study including (1) Joint EU donor and Vietnam coordination on designing and implementing for the AfT project (from the macro-level to micro-level such as from governments to agencies to private sectors related to the project); (2) Joint EU donor and Vietnam coordination on monitoring and evaluating for the AfT project; Joint EU donor and Vietnam coordination on financing for the AfT project; (4) Intra-donor coordination: the coordination among the EU institutions and EU member states on the AfT project in Vietnam; (5) Inter-recipient coordination: the coordination among Vietnamese ministries and Vietnamese agencies as well as other Vietnamese stakeholders related to the AfT project. Using the relevant documents to the cases from the related EU donors and Vietnam (such as strategies, plans, project implementation, and project report) as well as other materials (such as independent evaluations, academic studies) we find evidence to determine whether or not these indicators appear in the case.

Absorptive capacity is a primary criterion to evaluate the effectiveness of AfT which was mentioned by other scholars (Bourguignon and Sundburg, 2007; Adhikari, 2011; Feeny and McGillivray, 2011; Feeny and Silva, 2012; Choi et al., 2013; among others). Absorptive capacity refers to "the ability to use additional aid without pronounced inefficient of public spending and induced adverse effects" (Bourguignon and Sundburg, 2007). Absorptive capacity involves not only the ability of a recipient country to absorb aid in a way that achieves a given objective, but also the ability of donors to correctly assess the recipient's characteristics and absorptive constraints and to design an effective project, given the context (Choi et al., 2013). These authors also emphasized that absorptive capacity can only be understood with a specific objective, as each given objective will have a unique set of constraints that could undermine its achievement. Furthermore, Adhikari (2011) mentioned that absorptive capacity refers to the institutions and human capacity needed to effectively manage AfT flows and AfT projects. Thus, we consider absorptive capacity in the case study to imply to Vietnam's capacity to employ AfT for projects with *acceptable returns*. The returns are about presenting outputs and outcomes of the projects, following the indicators in the projects' expected results, and comparing expected and real results. Choi et al. (2013) applied the theory of change for analyzing absorptive capacity in the case of foreign aid projects. These authors stated that a project's theory of change reflects donor and recipient rational throughout the planning and design of a project. Imbedded in the theory of change are the assumptions that stakeholders have made concerning how and why the planned project interventions will achieve the overarching objectives. We follow this application to assess the absorptive capacity of the AfT project in the cases. There are five main components to a project's theory of change including inputs, outputs, outcomes, input prerequisites, and outcome prerequisites that are applied to analyze in a case. Thus, we use the related documents of a case/project to provide data, information, activities, evaluations, and results for each component.

Sustainability depends primarily on the performance of the AfT projects and the ability of the GoV and other stake-holders to contribute the financial and human resources necessary for the continuation of project activities. Thus, we examine the performance of the project, i.e. whether they have been able to achieve the objectives stated in the project document. Afterward, we analyze the sustainable expectations about the longer influences of the AfT project's outcomes. For instance, an institutional capacity or a trade service created through an EU AfT project can be maintained and continuously contribute to enhancing the trade performance of Vietnam without the need for further external support. Based on the relevant documents of the case and an application of the project's theory of change (Choi et al., 2013) we analyze the sustainability of the selected EU AfT project to Vietnam. Additionally, we use these documents to find evidence of the contributions of the AfT project to sustainable development goals (SDGs) in Vietnam.

It is important to stress that the selected cases do not necessarily represent the highest effectiveness of EU AfT to Vietnam. Indeed, these cases are unusual or special projects thoroughly covered the evaluation of the EU AfT to Vietnam. Unusual or special cases may be particularly troublesome or especially enlightening, such as outstanding success or notable failures (Patton, 1990). More specifically, Vietnam initiated a transition from a centrally planned economy to a market-oriented economy where the GoV would keep playing a leading role (WB, 2013). These renovation ('Doi moi') policies were successful at generating economic growth and reducing poverty (OXFAM, 2019). In the recent ten-year socio-economic strategy, the Vietnamese authorities further articulated their development objectives in terms of economic growth and poverty reduction (GoV, 2010). To reach these objectives, the GoV indicated that its structural reform priorities were to change Vietnam's trade and financial policies, liberalize the climate for private investment, increase the efficiency of public enterprises, and improve governance. Additionally, following the priorities of EU trade policies towards Vietnam, the EU uses AfT projects to support and to change the context of Vietnamese trade environment (EC, 2009). *Therefore, we use case study to employs a theoretical framework to help analyze how EU AfT projects intervene within Vietnam's trade policy reforms, and how their contestation shapes the outcomes of such projects*. According to the OECD (2011), measuring the influence of AfT is never going to be easy, given the difficulty in establishing the counterfactual, and because of the other factors which may come into play (political, economic, and social factors). For this reason, case study about the relationship between AfT and trade policy interventions presents a useful way of establishing what works, what does not work, where improvements are needed, and what type of interference of AfT can have (OECD, 2011). Specifically, this paper uses '*European Trade policy and Investment support Project'* (EU-MUTRAP) case is an example of the wider EU AfT and trade policy intervention in Vietnam. Therefore, a part of this section seeks examine the interference of the EU-MUTAP to Vietnam trade policy reform: "*How the EU-MUTRAP* *from the EU institutions can interfere with Vietnamese trade policy?* The EU-MUTRAP project is proof of the significant assistance that the EU has provided for Vietnam, supporting Vietnam to integrate deeper into the regional and global trade system, promoting EU-Vietnam trade and investment interrelationships (Mangini, 2015; Habel, 2018). In particular, a large extent of the results of the EU-MUTRAP accounted for the EU and Vietnam negotiation achievements of a bilateral agreement for free trade (EVFTA[18]) (Nguyen, 2018). Recently, The EU and Vietnam signed the EVFTA after several rounds of negotiation with high hopes of creating mutual benefits for both sides[19] ((Baker et al., 2014; Baker, 2015; Nguyen, 2014, 2016; Nga et al., 2020). The EU-MUTRAP has committed an even larger portion of funding to aiding the preparation, negotiating and implementation of EVFTA. Indeed, there was much financial support for policy reform has focused on trade-related capacity building such as EVFTA negotiating capacity, EVFTA negotiation process, and customs procedures. Especially improvements in regulatory quality appeared to play their intended role in the allocation of EU aid for trade, together with the improvement of the business environment (EU-MUTRAP Report, 2016). Admittedly, through EU-MUTRAP, the EU supports Vietnam while extending market access for European exporters and investors, however, average tariffs have fallen substantially, a part of it thanks to the EVFTA negotiation achievements (Nga et al., 2020).

Table 5.1: The main data resources of the case study

Case study	Data collection
The EU AfT to trade policy and regulation to Vietnam *"European Trade policy and Investment support project"*	EU Aid for Trade: Progress reports (EC, 2015, 2017, 2018c) Managing Aid for trade and development results: Vietnam case study (OECD, 2013) Vietnam's Foreign Policy under Doi Moi (Hiep & Tsvetov, 2018) Trade for all: Towards a more responsible trade and investment policy (EC, 2015b) Project reports and evaluations Academic studies related to the case such as The transformation of Vietnamese trade policy (Minh, 2019); Vietnam's trade policy: a development nation assessment (Clarke et al., 2017); Aid for trade as contested state building intervention: the cases of Laos and Vietnam (Schippers,, 2017); among others.

Source: Author's calculation

[18] EVFTA is a comprehensive free trade agreement between Vietnam and the EU. Considering both the scope and level of commitments, EVFTA goes further than WTO, with commitments not only in traditional sectors, such as trade in goods, trade in services but also in the fields of investment, intellectual property, public procurement, and competition policy. EVFTA full text (2016) is available at http://trade.ec.europa.eu/doclib/press/index.cfm?id=1437.

[19] The goals of this agreement are to create a stable and predictable entrepreneurial environment, which in turn promotes growth and employment. It has the potential to expand trade relations and investment by means of trade liberalization and better market access and by improving the business environment (Baker et al., 2014; Baker, 2015). Nguyen (2014, 2016) applied the gravity model for trade to estimate the changes in overall trade flows between the EU and Vietnam under the conditions of EVFTA. In the model, the coefficient explains that a decrease of 1% of EU's tariff/Vietnam's tariff leads to an increase of 0.52%/0.95% of Vietnam-EU trade.

5.2 Quantitative methodology

This dissertation uses the gravity model for trade to estimate the impact of EU ODA and EU AfT on the trade flows between the EU and Vietnam. Particularly, an augmented gravity model is applied to point out the causal relationship between ODA and or AfT and trade values of Vietnam and twenty EU-DAC countries.

5.2.1 Gravity model for trade

The gravity model of trade is a structural construction with strong theoretical foundations. Indeed, most major economic theories of international trade can be shown to lend support to the gravity model (Shahriar et al., 2019). The basic idea of the gravity model is based on Newton's law of gravity which states that two masses attract each other (Boriss and Schumacher, 2007). In other words, it indicates that the gravitational attraction between two objects is proportional to their masses and inversely relates to the square of their distances. The basic gravity model is expressed by formula 6.1 as follows:

$$F_i = \frac{M_i M_j}{D_{ij}^2} \qquad (4.1)$$

where: F_{ij} is the gravitational attraction. M_i *and* M_j are the mass of two objects. D_{ij} denotes the distance.

The application of the gravity model to international trade theory aims at explaining the bilateral trade flows and patterns between two economies by taking each of them as an organic body that attracts each other in proportion to their economic size and inversely to their distance. Tinbergen was one of the first scholars who applied the gravity model to analyze international trade flows in 1962. In his model, while dependent variable was the trade flow between country A and country B, GDP and geographical distance were independent variables. The estimated results showed that the GDP variable has a positive effect while distance has a negative impact on the trade flow between two countries. The results mean that countries with larger economic sizes and closer distance tend to trade with each other more.

Following the work of Tinbergen (1962), works by Anderson (1979), Deardorff (1995), and Eaton and Kortum (2002) notably contributed to the establishment of a theoretical foundation for the gravity model by showing that the gravity equation can be derived from a number of different international trade models (Shahriar et al., 2019). Additionally, Anderson and van Wincoop (2003) and Helpman et al. (2008) provided the most completed formulations of theoretical models with gravity-style bilateral trade patterns (Yotov et al., 2016). As a result of the strengthened theoretical framework of the gravity model of trade, many economists developed the gravity model by adding new variables, called the extension of the model. And thus, the gravity model of trade has emerged as an important and popular model in explaining and predicting bilateral trade flows. It is among the most robust empirical regularities in economics (Thomas, 2018). The model has been used to analyze the economic impacts of trade, investment, migration, currency union, regional trade agreements, etc. It has become a toolkit and a workhorse of applied international trade assessment (Head and Mayer, 2015; Yotov et al., 2016). The next section is about these extensions.

Extensions of gravity model for trade

Krugman and Obstfeld (2005), among others, utilized the gravity model for bilateral trade and they introduced a common model as follows:

$$T_{ij} = A \frac{Y_i Y_j}{D_{ij}} \qquad (5.2)$$

In the formula 6.2, A is the constant; T denotes for trade flow; D stands for the distance, and Y stands for the economic dimensions of the countries that are being measured. The equation can be changed into a linear form for econometric analyses by employing logarithms. In its linear form, the equation of the gravity model for trade would be as follows:

ln(Bilateral Trade Flow) = a + βln(Gross Domestic Product of Country1) + βln(Gross Domestic Product of Country2) + βln(Distance) + e (5.3)

In the formula 4.3, β coefficients represent the impact of each factor on bilateral trade. For example, on average, the GDP of country j increases one percent, export values are expected to increase $\beta 2$ percent, holding other factors constant.

The dependent variable of the gravity equation is usually a trade variable (export/import value or total trade amount). Economics masses of exporting and importing countries are usually measured by GDP, GNI, or GDP per capita in several augmented models (Guo, 2013). The underpinning idea is that countries with higher income tend to trade more and those with lower income trade less. Furthermore, some scholars added population and land areas in the gravity model as proxies for economic size (Sohn, 2005; Stack and Pentecost, 2011; Jošić and Metelko, 2018; among others). Distance is another commonly used variable in the gravity model. Distances are the geographical distances between countries (Jošić and Nikic, 2013). It is also a proxy for transport costs. Distances are usually measured as the straight-line distances between the countries' economic centers (usually capitals). However, it is not a very accurate measure in some cases. For instance, the distances between Beijing, capital of China, and other trading partners are under or overestimated because China has many economic centers that are thousands of kilometers apart. Dummy variables such as common language, common borders, adjacency, landlocked countries, or isolated islands can also be included to represent geographical, historical, and cultural factors (Nuroğlu, 2013; Yotov et al., 2016). Other factors relevant for explaining bilateral trade including tariff, trade agreements, trade facilitation, and non-tariff barriers, etc. were also added in the gravity model (Genç and Law, 2014; Zhou et al., 2019). Besides these variables, additional further variables such as exchange rate or business cycle were employed when working on the model (Nuroğlu, 2013).

The contribution of these authors, and several others, who studied the gravity model led to the conclusion that the gravity model can have different specifications and variables, and that the usefulness of the model depends on the specification and variables used in the augmented model. Martínez-Zarzoso (2019) indicated that the gravity model of trade provides a suitable theoretical framework to evaluate the determinants of bilateral trade and, more specifically, to evaluate the trade-aid relationship. In fact, many studies applied a modified version of the standard gravity model for trade to evaluate the aid-trade relationship (Cirera and Winters, 2015; Hühne et al., 2014; Heble et al., 2012; Pettersson and Johansson, 2013; Udvari, 2014, 2016; Vijil, 2014). In most of these studies the gravity model is log-linearized and estimated using Ordinary Least Squares (OLS). Country and time fixed effects are included in the model to control unobserved effects from time or country. The studies differ substantially when it comes to the control variables. The parameters range from market potential measures to governance indicators. There are also different estimators used in these studies such as the Generalized Method of Moments (GMM) or Poisson Pseudo Maximum Likelihood (Hühne et al., 2014; Martínez-Zarzoso et al., 2017; Cali and Razzeque, 2015). Moreover, some studies included lagged values of the AfT variables to consider to control for endogeneity (Cali and Razzeque, 2015; Udvari, 2016). The endogeneity in the aid-related regression models means that dependent variables highly correlate with the error term (Udvari, 2016). Therefore, the lagged independent variables are used to calculate in the aid studies as the most common tool to solve the endogeneity problem (Razzaque and te Velde, 2013). Especially, the effects of AfT flows might have on trade performance or economic growth are not immediate. AfT takes time for full influence or AfT received in the previous year leads to trade expansion which appears in the following year's performance. For this reason, when including AfT variables, most empirical studies use varying periods' lagged value of AfT (Razzaque and te Velde, 2013). The problem of zero trade flows is also addressed using different methods ranging from truncation to the use of specific estimation methods (Martínez-Zarzoso et al., 2017). A deeper analysis of using the gravity model to evaluate the impacts of AfT on trade performance will be provided in the final dissertation.

5.2.2 The Gravity Model Specification

The gravity model is chosen to estimate the trade flows between Vietnam and twenty trading partners of the EU-DAC[20]. The augmented model applied for this dissertation is an extension of the standard gravity model of Krugman and Obstfeld (2005).

5.2.2.1 Hypothesis 1: EU ODA to Vietnam made a positive impact on the trade flows

The first hypothesis is that the EU donors increase the volume of ODA to Vietnam lead to an increase in the trading outcomes between the EU donors and Vietnam.

To prove this hypothesis, the model is augmented first by adding gross domestic products (being a proxy for economic mass) and population of original and target countries (proxy with the market size) as additional mass for bilateral trade then by including a finance variable, the amount of ODA from each country of the EU-DAC to Vietnam. The distance between Vietnam and country *j* is also included (a proxy of transport costs). Finally, the historical relation between Vietnam and each country of the EU-DAC is included in the gravity model as a dummy variable where *1* marks if the country has historical relations (referring to the former colonies or the former members of Warsaw Pact) while *0* is the opposite. The empirical study assumes a log-linear functional form for this specific gravity equation. A log-linear relationship can estimate the links of the trade flows between two countries (Vietnam and each country of the EU-DAC) to

[20] The remaining member states were left out as there was no available data whether they supported any AfT to Vietnam or not between 2007 and 2017 (based on the OECD CRS database).

economic determinants, geography, aid variable, and other dummy variables. The model is defined and then estimated as follows:

The impacts of EU ODA on the trading flows are separated into three specific models to estimate the total trade values, the flow of imports, and the flow of exports.

Model 5.1.1 Impact of ODA on the total trade values between Vietnam and the EU-DAC

$Log(T_{jt})=\alpha_0+ \alpha_1 Log(Y_{it}Y_{jt})+ \alpha_2 Log(P_{it}P_{jt})+ \alpha_3 LogO_{jt}+ \alpha_4 D_{ij}+ \alpha_5 His+ +e$

Model 5.1.2 Impact of ODA on the Vietnamese import flows from EU-DAC countries

$Log(Imp_{jt})= \alpha_0+ \alpha_1 Log(Y_{it}Y_{jt})+ \alpha_2 Log(P_{it}P_{jt})+ \alpha_3 LogO_{jt}+ \alpha_4 D_{ij}+ \alpha_5 His+ +e$

Model 5.1.3 Impact of ODA on the Vietnamese export flows to EU-DAC countries

$Log(Exp_{jt})= \alpha_0+ \alpha_1 Log(Y_{it}Y_{jt})+ \alpha_2 Log(P_{it}P_{jt})+ \alpha_3 LogO_{jt}+ \alpha_4 D_{ij}+ \alpha_5 His+ +e$

Where:

(i) is always Vietnam and (j) denotes 20 countries of the EU-DAC (including Austria; Belgium; Czech Republic; Denmark; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Luxembourg; Netherlands; Poland; Portugal; Slovak Republic; Slovenia; Spain; Sweden; United Kingdom while (t) denotes time (between 2007 and 2017). T_{jt} represents Vietnam' total trade value with country *j*. Imp_{jt} are the imports of Vietnam from *j*. Exp_{jt} are the exports of Vietnam to *j*. Y_{it} is Vietnam GDP in year *t*. Y_{jt} is country *j* GDP in year *t*. P_{it} indicates the population of Vietnam in year *t*. P_{jt} presents the population of country *j* in year *t*. O_{jt} is ODA from country *j* to Vietnam in year *t*. D_{ij} is the distance in kilometers between Vietnam and country *j*, which is time-invariant. *His* is a history dummy variable. *e* is an error term.

5.2.2.2 The second hypothesis states that there is a positive impact of EU AfT on trade flows between the EU-DAC countries and Vietnam.

With a slight modification of equation model 5.1, we can get answers about whether AfT from the EU-DAC to Vietnam increases trade flows. The second hypothesis denotes that the EU donor increases the volume of AfT to Vietnam leads to an increase in the trade values between these partners.

Model 5.2 Impacts of EU AfT on the trading flows are also separated into three specific models to estimate to the total trade values, the flow of imports, and the flow of exports.

Model 5.2.1 Impact of AfT on the total trade values between Vietnam and EU-DAC countries

$Log(T_{jt})=\alpha_0+ \alpha_1 Log(Y_{it}Y_{jt})+ \alpha_2 Log(P_{it}P_{jt})+ \alpha_3 LogA_{jt}+ \alpha_4 D_{ij}+ \alpha_5 His+ +e$

Model 5.2.2 Impact of AfT on the Vietnam's import flows from EU-DAC countries

$Log(Imp_{jt}) = \alpha_0 + \alpha_1 Log(Y_{it}Y_{jt}) + \alpha_2 Log(P_{it}P_{jt}) + \alpha_3 LogA_{jt} + \alpha_4 D_{ij} + \alpha_5 His + +e$

Model 5.2.3 Impact of AfT on the Vietnam's export flows to EU-DAC countries

$Log(Exp_{jt}) = \alpha_0 + \alpha_1 Log(Y_{it}Y_{jt}) + \alpha_2 Log(P_{it}P_{jt}) + \alpha_3 LogA_{jt} + \alpha_4 D_{ij} + \alpha_5 His + +e$

Where: A_{jt} is the amount of AfT from country *j* to Vietnam in year *t*

We estimate our baseline gravity model using country-pair specific fixed effects to control for unobserved heterogeneity in the bilateral trade relationship.

According to Kerr and Gaisford (2007, p.47), the base-line gravity model approach makes an assumption that the level of bilateral trade depends only on the included economic features of a given pair of countries. However, the level of export from country i to country j and k maybe different even if countries j and k have the same GDP levels and they are equally distance from country i. These differences can be explained by political factors, historical links, cultural similarities, and so on, that are correlated with levels of bilateral trade and with the baseline gravity variables. Omission or misspecification these variables will lead to omitted-variables bias or the so called heterogeneity bias. The country-pair intercepts include the effects of all omitted variables that are cross-sectionally specific but remain constant over time, such as distance, contiguity, language, culture, etc (Cheng and Wall, 2005). To eliminate the heterogeneity bias Cheng and Wall (2005) adopted a model which includes both the country-pair and year specific effects. The term which is common to all years, but specific to the country pairs is used to take into account the specific country-pair effects between the trading partners, such as distance, border, language, culture, and so on. They will catch all the omitted factors that affect bilateral trade, are constant across trading pairs and vary over time. The main benefit is that it helps to control for omitted variables that are unobservable or difficult to quantify. Adopting this method will provide a robustness check, which will help avoid misinterpretation of empirical results from the simpler formulations of the model. Thus, we estimate our baseline gravity model using country-pair specific fixed effects to control for unobserved heterogeneity in the bilateral trade relationship.

To tackle the potential reverse causation problem and to account for the lagged effect of AfT on trade, we use one-period lagged values of AfT flows. Using the lagged values of aid flows seems particularly reasonable since the realization of the impact of AfT on trade volumes probably take some time (Dinç and Özenç, 2014). For instance, infrastructure as productive capacities have to be built and improved, and reforming trade policy and regulations may involve time-consuming bargaining with interest groups. It could be expected that the effects on recipient exports/imports need more time to materialize, while donors may be better equipped to react immediately to aid-induced export opportunities (Hühne et al., 2013). This could bias the estimated results of the model 5.2 which is expected a positive effect of AfT on Vietnamese exports to the EU-DAC, relative Vietnamese imports from the EU-DAC. Additionally, we mitigate endogeneity concerns by extended lags for the AfT variable.

Thus, we modify model 5.2 with one-period lagged values of AfT flows to consider the impacts in the form of Model 5.3 as bellows:

Model 5.3 Impact of AfT (with one-period lagged values of AfT flows) on the total trade values between Vietnam and EU-DAC countries

$$Log(T_{jt})=\alpha_0+ \alpha_1 Log(Y_{it}Y_{jt})+ \alpha_2 Log(P_{it}P_{jt})+ \alpha_3 LogA_{jt-1}+ \alpha_4 D_{ij}+ \alpha_5 His+ +e$$

5.2.2 Data collection and Data analysis

Data collection

The dataset contains information on the trade flows, GDPs, population, ODA, AfT, and distance of Vietnam and 20 countries in the EU-DAC from 2007 to 2017. Vietnam's bilateral trade is measured by the annual total value of Vietnam's exports and imports (in US dollars) obtained from the General Statistics Office of Vietnam (GSO) and Trade map database. The Gross Domestic Product (GDP) of Vietnam and each country of the EU-DAC in time t is used as a measure of economic size. This variable is expected to be positively and significantly related to trade. Gross domestic product (GDP) of EU-DAC countries and Vietnam are obtained from the on-line database of World Bank (2018) all of them are in constant 2010 US dollars. The population is included to estimate the market size, another dimension to the concept of "country mass". The larger the market is, the more it trades; therefore, market size is expected to turn out with positive signs. The population data of both Vietnam and countries of the EU-DAC are taken from the on-line database of World Bank (2018).

The amount of ODA or the volume of AfT from each country of the EU-DAC in time t is used as a measure of financial support from these donors to Vietnam. This variable is expected to be positively and significantly related to trade. The amounts of ODA and AfT from the EU-DAC to

Vietnam are extracted and calculated from the OECD database. The aid flows (including ODA and AfT) from the EU-DAC to Vietnam were complied from the OECD Creditor Reporting System (CRS) database. This database allows studying the distribution of ODA and AfT by sector, donor and recipient countries.

Distance is involved in the analysis as a proxy for transport costs between Vietnam and each country of the EU-DAC; it is calculated between Hanoi, the capital of Vietnam, and the capital city of each country of the EU-DAC. Data on the distance are taken from great circle distance between capital cities where distance is measured as the minimum distance along the surface of the earth. Geographical distances are obtained online from the chemical-ecology.net website. This variable is expected to have a negative effect to trade as transport costs increase with the distance between countries.

A common problem when estimating the gravity equation is the impossible step in taking the log any value of zero. Hence, zero trade flows will drop out of the estimation when the logarithm is taken (WTO & UNCTAD, 2012). In the literature there are several approaches, which can be used to deal with zero trade flows. Common practices are the *truncation of the dataset*, which means to drop all zero trade flows and the *censoring method* where a small constant is added to the trade flow such that it does not drop out when the logarithm is taken. However, these methods can lead to inconsistent results. There might be a loss of information due to omitting zero trade flows. Furthermore, adding a small constant can result in measurement errors as well as in selection bias (Kareem et al., 2014). Choosing the best estimation approach also depends on the assumed origin of the zero trade flows. They can occur due to rounding errors, missing observations, or deliberate decision not to trade (WTO & UNCTAD, 2012). Due to the lack of data of trade flows, AfT, and ODA from the EU to Vietnam during the period of 2007-2017, we use the truncation of the dataset. The United Nations Conference on Trade and Development (UNCTAD) and the Secretariat of the World Trade Organization (2012) stated that truncating method is correct if the zeros are randomly distributed, e.g. when zeros are random missing data or random rounding errors. The intuition for this is that these zeros are not informative, therefore they can be dropped. Since the zeros of trade flows and aid for trade from the EU-DAC countries to Vietnam are random missing data then the truncation is a suitable method for the present dissertation.

Estimation issues

The empirical work on applying only one estimation method for the gravity model does not give a clear answer. Therefore, the trade equation will be estimated by all three methods including pooled estimation, random and fixed effects that does give more efficient results. And then we can use F statistic test or Hausman test (Verbeek, 2004) to select the most efficient method for interpreting the estimation results.

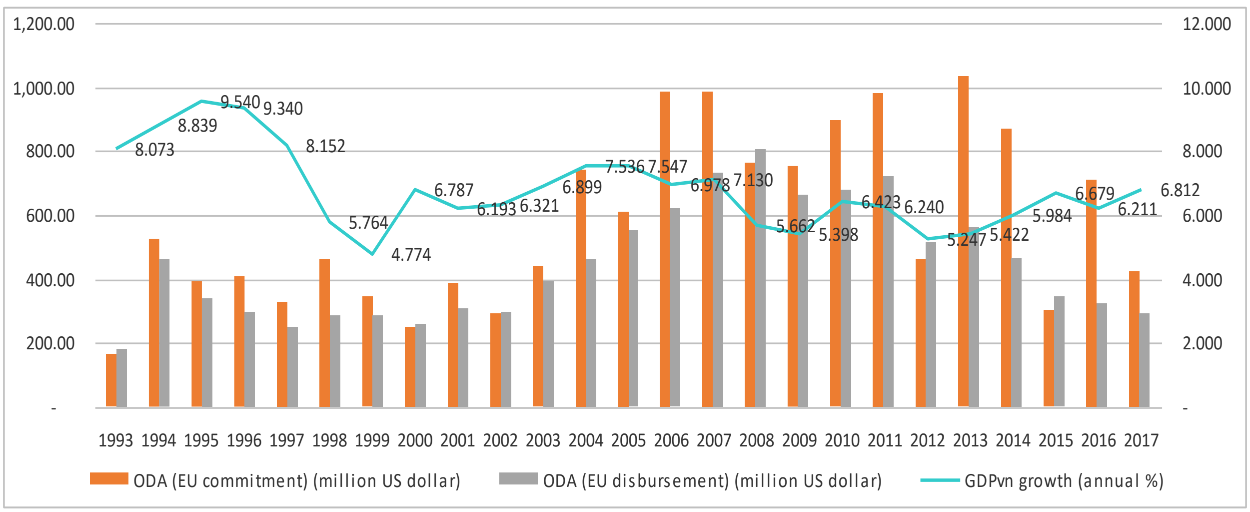
We use STATA software to run the model and present the results in the next chapter.

Chapter 6 Preliminary Empirical Results and Discussion

In this chapter, the results of the earlier induced augmented gravity model analysis are presented and relevant figures are closer described. Additionally, a discussion for the estimated results is illustrated. The qualitative results will be presented in the final dissertation.

6.1 The impacts of EU ODA on Vietnamese trade performance

Before presenting the estimates of the gravity models, it is worth showing the trends of EU ODA to Vietnam and Vietnamese GDP growth rates in the last 25 years[21] (between 1993 and 2017). Figure 6.1 demonstrates the EU ODA commitments and EU ODA disbursements to Vietnam and the annual growth rate of Vietnam's GDP during the period.



Source: OECD and WB (2019)

Figure 6.1: EU ODA for Vietnam and Vietnam's GDP annual growth in the period of 1993-2017

Figure 6.1 shows that the flows of EU ODA to Vietnam fluctuated during the period 1993-2017. Initially, the amount of EU ODA to Vietnam was low (around 164.75 and 182.82 million US dollars disbursement in 1993). These amounts increased gradually and reached peaked in 2013 (nearly 1,033.19 and 560.80 million US dollars disbursement). The period of 2007-2013 saw an average of the level of disbursement usually accounts for around 60 percent to 80 percent of the aid budgets as committed by the EU for Vietnam. Afterwards, EU ODA decreased notably at the

[21] The EU and Vietnam launched the official diplomatic relation in the early 1990s. Therefore, the statistical data of the EU ODA between 1993 and 2017 can be considered as the whole amount of ODA that the EU provided to Vietnam during the period under study.

end of this period. Meanwhile, the growth rates of Vietnam's GDP fluctuated between 5 percent and 9 percent.

6.1.1 Pearson's correlation coefficient results

In order to simply assessing the relationship between EU ODA to Vietnam and the total trade of the EU and Vietnam, we employ Pearson's correlation coefficient. We analyze two correlation coefficients between two types of EU ODA (the ones commitments and disbursements) and each variable (Vietnam's GDP growth; the EU and Vietnam total trade values; the EU export flows to Vietnam; and the EU import flows from Vietnam). Moreover, we also observe the impacts of EU ODA Grants on these variables. Statistical data relating to Vietnam's GDP (in constant 2010 US dollar) is collected from the World Bank database (2019); the EU ODA is gathered from the OECD CRS database (2019); trade values (including the value of EU exports to Vietnam and the EU imports from Vietnam) is collected from the IMF database (2019). All these data are calculated annually for the period between 1993 and 2017. The results of the Pearson correlation coefficient are presented in Table 6.1. The results showed that the Pearson's correlation coefficient between Vietnam's GDP growth and EU ODA commitment was ***0.4104***; the one between EU ODA commitment and the total trade of EU and Vietnam was ***0.4190***; both were statistically significant at the 95 percent and 99 percent levels. These positive relationships imply that the more strongly EU ODA commitment to Vietnam, the more Vietnam's GDP grows. Similarly, they indicate that the more largely EU ODA commitment to Vietnam, the more the values of EU exports to Vietnam increase. However, there was an insignificant result of the Pearson correlation coefficient between EU ODA disbursement and Vietnam's GDP growth. The relationship between EU ODA disbursement and the total trade of the EU and Vietnam was also insignificant. Albeit, the grants of the EU to Vietnam had an insignificant impact, which indicates a negative effect on total trade values as well as the flows of EU imports from Vietnam.

In the next section, we use the gravity model for trade to analyze the impacts of EU ODA and EU AfT on the trade performance between the EU-DAC and Vietnam.

Table 6.1 A matrix of bivariate correlations

pwcorr at sig 0.05

	GDPvn	Total_Trade EU&VN	EU_Imports _vn	EU_Exports _vn	EU ODA_ Comt_vn	EU ODA_ disb_vn	EU ODA_ Gcomt_vn	EU ODA_ Gdisb_vn
GDPvn	1.0000							
Total_Trade EU&VN	0.9889*	1.000						
EU_Imports_vn	0.9838*	0.9988*	1.000					
EU_Exports_vn	0.9881*	0.9845*	0.4190*	1.000				
EU ODA_comt_vn	0.4104*	0.3356	0.3110	0.4190*	1.000			
EU ODA_disb_vn	0.2792	0.1761	0.1437	0.2910	0.8384*	1.000		
EU ODA_Gcomt_vn	0.0337	-0.0312	-0.0576	0.0655	0.7762*	0.8454*	1.000	
EU ODA_Gdisb_vn	0.1196	0.0325	0.0034	0.1381	0.7383*	0.9456*	0.9132*	1.000

*Note: *significant at 5%*

Source: Own calculation[22]

[22] Author uses STATA software to run model and calculate estimated results

6.1.2 The impacts of EU ODA on the trade flows between Vietnam and the EU-DAC

The estimated results of the Model 5.1.1 are summarized in Table 6.2.

Table 6.2 Estimated Results of the Model 5.1.1

VARIABLES	Total Trade Fixed effects	Total Trade Random effects	Total Trade OLS
Lnyy	2.694e+06	2.956e+06***	3.052e+06***
	(2.101e+06)	(760,258)	(336,338)
Lnpp	-273,663	-1.590e+06***	-1.656e+06***
	(8.294e+06)	(596,419)	(259,725)
lnO	-124,070	-144,873	-167,578***
	(220,267)	(117,525)	(51,326)
DISij	-	-53.61	-69.56
		(170.5)	(80.49)
HISij	-	1.279e+06**	1.295e+06***
		(644,082)	(259,295)
Constant	-2.607e+07	-1.956e+07***	-1.998e+07***
	(3.914e+07)	(4.011e+06)	(1.728e+06)
Observations	188	188	188
R-squared	0.420		0.743
Number of id	19	19	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*
Source: Own calculation

Estimated results provided through three estimation methods shows to be consistent, estimated coefficients have nearly all the expected signs, except for distance and historical relation. However, the results are not so persuasive because the ODA variable does not have significant impacts on the trade flows (excepting in the OLS method).

The estimated results of the OLS method

The determinants of the trade flows between Vietnam and the EU-DAC countries include economic size, market size (population), ODA flows, and historical relations. The economic size variable impacted significantly positive to trade volume, showing that Vietnam tends to trade more with larger economies among the EU-DAC countries. However, the estimated results showed that EU ODA has significant negative effects on the total trade values. The market size of Vietnam and the EU-DAC countries has also a moderate negative effect on total trade flows. The distance variable turns out with an unexpected sign and an insignificant impact. It may be because there are still other unexplained variables besides the distance, such as specific trade agreements, trade barriers, tariff duties, and exchange rates. Another reason for distance to be insignificant as suggested by Anaman and Al-kharusi (2003), can be due to the geographical closeness of European countries (20 countries in the EU-DAC have rather small variation in their distance from Vietnam). The historical relation variable gives a significant positive impact on trade values.

The estimated results of the random effects method

The estimated results of the random effects method are quite similar to the results of the OLS method, excepting an insignificant negative impact of ODA to the total trade flows.

The estimated results of the fixed effects method

The magnitudes of the coefficients in the pooled and the estimation of the random effects are notably different from those in the fixed effects method. This suggests that there may be bias results due to ignoring country effects in pooled estimation and inconsistent estimates due to the correlation between the individual effects and other regressions in random effect method. All estimated results of the fixed effects method are insignificant.

6.1.3 The impacts of EU ODA to Vietnam's import flows from the EU-DAC

The estimation results of Model 5.1.2 are given in Table 6.3.

Table 6.3 Estimated Results of the Model 6.1.2

VARIABLES	Import_vnj - Fixed effects	Import_vnj - Random effects	Import_vnj – OLS
Lnyy	856,066	711,359***	857,885***
	(512,145)	(222,673)	(98,190)
Lnpp	-1.010e+06	-392,025**	-489,433***
	(1.649e+06)	(181,686)	(75,423)
LnO	37,680	28,854	-10,199
	(33,123)	(22,079)	(11,249)
DISij	-	-2.932	-20.98
		(86.55)	(29.78)
HISij	-	558,715**	592,815***
		(266,475)	(92,812)
Constant	-1.912e+06	-4.828e+06***	-5.546e+06***
	(6.772e+06)	(1.344e+06)	(529,752)
Observations	188	188	188
R-squared	0.328		0.730
Number of id	19	19	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*
Source: Using STATA to run model and calculate estimated results

The estimated results of the OLS method showed that EU ODA has insignificant negative effects on Vietnamese import values. Albeit, the estimated results of the random effects and fixed effects methods indicated that EU ODA has positive effects on the imports, they were still insignificant effects.

5.1.4 The impacts of EU ODA to Vietnam's export flows to the EU-DAC

The estimation results of Model 5.1.3 are given in Table 6.4.

Table 6.4 Estimated Results of the Model 5.1.3

VARIABLES	Export_vnj – Fixed effects	Export_vnj - Random effects	Export_vnj - OLS
Lnyy	1.838e+06	2.243e+06***	2.194e+06***
	(1.688e+06)	(636,741)	(289,519)
Lnpp	736,632	-1.204e+06**	-1.167e+06***
	(6.894e+06)	(511,050)	(224,309)
lnO	-161,749	-167,052	-157,379***
	(203,483)	(110,615)	(49,383)
DISij	-	-48.13	-48.58
		(145.1)	(67.69)
HISij	-	730,197	701,841***
		(448,997)	(184,422)
Constant	-2.416e+07	-1.471e+07***	-1.443e+07***
	(3.331e+07)	(3.370e+06)	(1.499e+06)
Observations	188	188	188
R-squared	0.393		0.662
Number of id	19	19	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*
Source: Using STATA to run the model and calculate estimated results

Although there were negative effects of EU ODA on the Vietnamese exports in all three estimated methods, we find significant impacts in the OLS estimation.

The hypotheses proposed significant positive impacts of ODA on the trade relations between Vietnam and the given EU-DAC country. However, the estimated results showed opposite results.

6.2 The impacts of EU AfT on the trade flows between Vietnam and the EU-DAC

6.2.1 The empirical results of Model 5.2.1 (the impacts of EU AfT on total trade values between Vietnam and the EU-DAC)

The estimation results of Model 5.2.1 are given in Table 6.5.

As we can see in Table 6.5, all results of the three estimated methods showed that the AfT provided by the EU-DAC to Vietnam have insignificant adverse effects on the trade flows (excepting a significant effect in the OLS method). In all three methods, GDP (economic size), number of population (market size), historical relations, and constant variables are significant effects on the trade flows. Historical relations and economic size of Vietnam and the given EU-DAC country have positive impacts on trade values: the bigger economic size is, the larger the trade is between Vietnam and the given EU-DAC country. Other indicators of the three methods influence the trade values negatively, which means some growth in certain indicator results in decreasing the trade values.

Table 6.5 Estimated Results of the Model 5.2.1

VARIABLES	Total Trade – Random effects	Total Trade – Fixed effects	Total Trade – OLS
Lnyy	3.085e+06***	3.085e+06***	3.145e+06***
	(872,687)	(872,687)	(356,496)
Lnpp	-1.726e+06**	-1.726e+06**	-1.718e+06***
	(711,773)	(711,773)	(279,020)
lnA	-44,362	-44,362	-89,738**
	(86,221)	(86,221)	(40,826)
DISij	-34.94	-34.94	-108.5
	(238.7)	(238.7)	(116.1)
HISij	1.383e+06**	1.383e+06**	1.269e+06***
	(703,249)	(703,249)	(287,626)
Constant	-2.062e+07***	-2.062e+07***	-2.072e+07***
	(4.682e+06)	(4.682e+06)	(1.782e+06)
Observations	137	137	137
R-squared			0.765
Number of id	18	18	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*
Source: Using STATA to run the model and calculate estimated results

6.2.2 The empirical results of Model 5.2.2 (the impacts of EU AfT on the Vietnamese import flows from the EU-DAC)

The estimation results of Model 5.2.2 are given in Table 6.6.

It is an interesting estimated result that the EU AfT impacted positively on the Vietnamese import values in both estimated methods (the fixed effects and random effects). However, there was an opposite figure in the OLS estimation, in which the EU AfT negatively impacts on the Vietnamese imports from the EU-DAC. The estimation results were statistically insignificant in all three methods. The impacts of other indicators are the similar as the estimated results of the model 5.2.1.

Table 6.6 Estimated Results of the Model 6.2.2

VARIABLES	Import_vnj – Random effects	Import_vnj – Fixed effects	Import_vnj – OLS
Lnyy	882,102***	882,102***	1.050e+06***
	(267,116)	(267,116)	(127,573)
Lnpp	-537,637**	-537,637**	-638,814***
	(226,778)	(226,778)	(98,961)
lnA	18,234	18,234	-25,186
	(29,351)	(29,351)	(15,737)
DISij	-6.119	-6.119	-96.16**
	(107.4)	(107.4)	(43.88)
HISij	634,207**	634,207**	675,352***
	(295,693)	(295,693)	(100,060)
Constant	-5.632e+06***	-5.632e+06***	-6.023e+06***
	(1.638e+06)	(1.638e+06)	(656,809)
Observations	137	137	137
R-squared			0.739
Number of id	18	18	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*
Source: Using STATA to run the model and calculate estimated results

6.2.3 The empirical results of Model 5.2.3 (the impacts of EU AfT on Vietnam's export flows to the EU-DAC)

The estimation results of Model 5.2.3 are given in Table 6.7

As we can see in Table 6.7, three indicators have significant impacts on the Vietnamese export values to the given EU-DAC country (including economic size, market size, and constant variables). While the economic size impacted positively on the exports, the market size and constant variables have negative effects. The AfT from the EU-DAC to Vietnam impacted negatively on the exports in all three estimated methods. The results meant that the more AfT amount from the given EU-DAC country provides, the fewer Vietnamese export value to the given EU-DAC country has. Furthermore, the impact of AfT was an only significant result in the OLS method.

Table 6.7 Estimated Results of the Model 5.2.3

VARIABLES	Export_vnj – Random effects	Export_vnj - Fixed effects	Export_vnj – OLS
Lnyy	2.192e+06***	2.192e+06***	2.094e+06***
	(715,097)	(715,097)	(293,161)
Lnpp	-1.194e+06**	-1.194e+06**	-1.079e+06***
	(590,542)	(590,542)	(231,142)
lnA	-54,474	-54,474	-64,552*
	(71,020)	(71,020)	(34,190)
DISij	-0.243	-0.243	-12.37
	(170.4)	(170.4)	(88.14)
HISij	755,114	755,114	593,602***
	(464,766)	(464,766)	(213,559)
Constant	-1.506e+07***	-1.506e+07***	-1.470e+07***
	(4.052e+06)	(4.052e+06)	(1.691e+06)
Observations	137	137	137
R-squared			0.702
Number of id	18	18	

*Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Source: Using STATA to run model and calculate estimated results

Overall, the finding of this study is consistent with other empirical works in explaining bilateral trade variation using the gravity model for trade. Economic size has a strong influence on trade as high economic growth will increase the demand for imports and exports, and this leads to increase trade values. However, it is interesting to note that the negative coefficient of the market size (the number of population) is different trend with other papers.

Specifically, the results support that EU aid has not been a significant determinant of trade performance between Vietnam and the EU-DAC. This goes to show that EU ODA/AfT that was transferred to Vietnam around the study period (2007-2017) were ineffective in increasing trade performance. We suspect that EU ODA and EU AfT from the EU-DAC to Vietnam and their trade values (total trade, imports, and exports) have a spurious relationship, or there might be some underlying endogeneity in the model. This is because the EU ODA/AfT has effected on trade performance through different channels, which are highly correlated with aid (e.g. lagged aid, lagged aid squared) or not truly exogenous to the trade performance (e.g. lagged total trade values, lagged imports). We will continue to employ the F statistic test or Hausman test (Verbeek, 2004) to select the most efficient method for interpreting the estimation results in the final dissertation.

The EU ODA and EU AfT practices in Vietnam have not been linked to contemporary economic development and growth theories (as discussed in chapter 4). If these aids are inefficient in increasing trade value, it could be the case that it is being misallocated in the recipient country or it is practically doing little to promote robust capital accumulation, technological progress, and labor force participation in the recipient (Phiri, 2017). Indeed, the chapter two presented that most EU aid is allocated to Vietnamese social sectors and environmental management (sustainable development). There is a dilemma situation between industrialization/economic growth and environmental issues. A large part of EU aid to Vietnam targeted to reduce industrial emissions, green energy, and environmental protection. Therefore, the EU aid could not focus on capital accumulation in the investment and manufacturing industry in Vietnam. EU aid allocated to non-productive sectors in Vietnam that do not simulate Vietnamese economic growth. However, Vietnam requires capital accumulation to take-off or industrialize. The EU aid failed to serve its unconcealed purpose of being a big push for the Vietnamese economy because of the development stages unassociated with the aid-targeted sectors. Additionally, EU aid providers involved largely in aid management process from the design stage of aid programs/projects to evaluate and control stage. Based on their benefits and priorities, the EU donors decided to allocate aid to various sectors in Vietnam. EU aid gave to Vietnam with conditions on policy. The previous studies pointed out that tied aids, environment sector targeting, and conditionality might be the major causes of aid failure to enhance economic growth (as discussed in chapter 4). We suppose that EU ODA/AfT is ineffective in promoting trade with Vietnam, perhaps due to misallocations of aid or inefficient use. We will continue to analyze these issues in the final dissertation by the specific cases of the EU AfT projects to Vietnam.

Chapter 7 EU Aid for trade as contested trade policy intervention: The case of EU-MUTRAP project in Vietnam

This chapter employs a theoretical framework to help analyze how EU AfT projects intervene within Vietnam's trade policy reforms, and how their contestation shapes the outcomes of such projects.

7.1 A theoretical framework

AfT has become an essential part of development as well as trade policy (Hallaert, 2010). AfT plays an important role in helping developing countries strengthen their capacity to formulate trade policies consistent with national development plans, participate in trade negotiations, and implement trade agreements that facilitate market access (OECD, 2007). At the same time, AfT could also help strengthen developing countries' supply capacity to allow them to become more competitive in international markets. It is mainly needed to enable developing countries to deliver on multilateral and bilateral commitments, improve domestic policy-making, and regulatory environment, facilitate trade processes, and strengthen the bargaining power of developing countries in international trade negotiations (OECD and WTO, 2013). Similarly, trade-related institutions and policies and regulations (e.g. port operations, customs authorities, exchange rate policies, export taxes, or policy barriers to entry into key service sectors) also have a substantial impact on trade costs and undermine the effectiveness of AfT. Hummels and Schaur (2012), for example, have shown that each day of delay in transit is equivalent to a tariff increase of 0.6 - 2.3 percent. The welfare losses from delays can be large. The OECD has shown that in some African countries revenue losses from inefficient border procedures are estimated to exceed 5 percent of GDP (Moïsé and Sorescu, 2013).

There is no single way to reform the trade policy framework, and no two countries necessarily adopt the same approach. Yet every country, regardless of the course (trade issues) it chooses, must master the same four-stage policy cycle: analyze and formulate trade policy and strategy; prepare and execute negotiating strategies; implement agreements; and monitor and evaluate policies and agreements. During all the stages of the reforming process, donor's assistance (AfT) can contribute to the effectiveness of the trade policy reform process, but cannot replace it (OECD, 2007). This cycle and the overall reforming process are illustrated in Figure 7.1

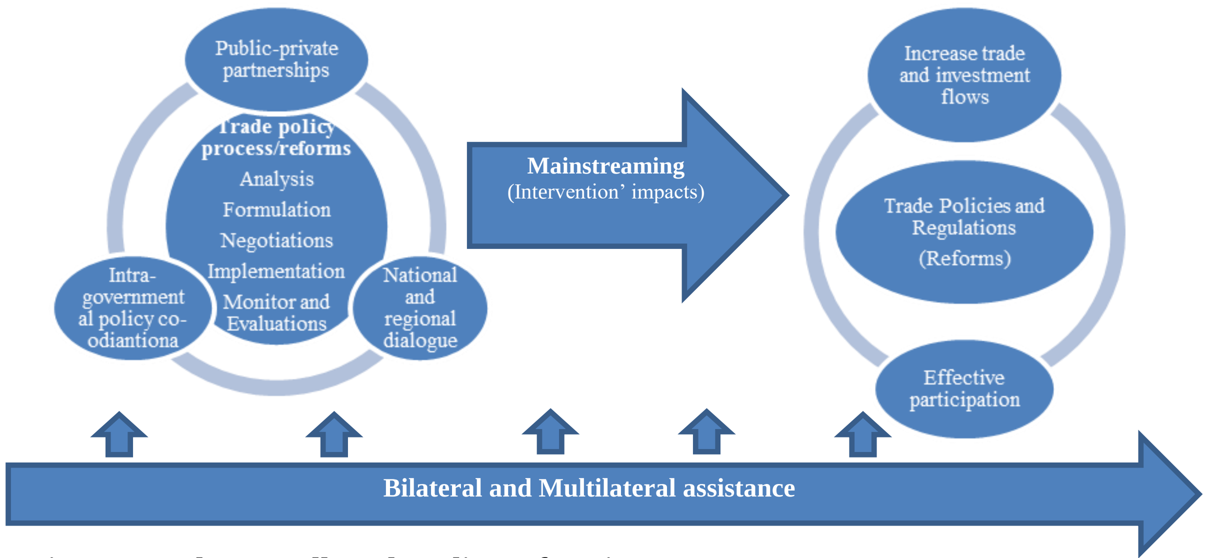


Figure 7.1 The overall trade policy reforming process

Source: OECD, 2007

Concretely, technical assistance for trade policy and regulations comprises assistance in the six different types of AfT projects namely (a) trade policy and administrative management; (b) trade facilitation; (c) regional trade agreements; (d) multilateral trade negotiations; (e) trade-related adjustment; and (f) trade education/training (OECD and WTO, 2013). Indeed, AfT can give support to developing countries in formulating better trade policy and in implementing trade agreements (Hallaert, 2010). Trade agreements may force a country to change its trade policy and may thus lead to improved regulation and trade facilitation, and may require tax reform. Assistance on regional integration and regional trade policy is to a large extent similar to assistance provided for multilateral integration. The support is geared towards regulating technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) at the regional level, and promoting regional cooperation, integration, and regional arrangements. In particular, supporting developing countries to enhance their negotiating capacities is an essential activity in this AfT category. The interventions are often training and analyses. These can then lead to more favorable trade arrangements that provide the recipient countries with better and cheaper market access for their exports and cheaper imports (Gounder, 2015)

In practice, these six categories of programmatic intervention have to be dealt with cautiously, as the categorization of projects into one of the above categories is not always straightforward

(Schippers, 2018). According to Nunnenkamp and Thiele (2013) AfT is approached very broadly, as can be seen from the various activities that fall under each of the six categories (see Table 7.1).

Table 7.1: Categories of technical assistance for trade policy and regulations

Description	**Clarifications**
Trade policy and administrative management	Trade policy and planning; support to ministries and departments responsible for trade policy; trade-related legislation and regulatory reforms; policy analysis and implementation of multilateral trade agreements e.g. technical barriers to trade and sanitary and phytosanitary measures (TBT/SPS) except at regional level (see below); mainstreaming trade in national development strategies (e.g. poverty reduction strategy papers); wholesale/retail trade; unspecified trade and trade promotion activities.
Trade facilitation	Simplification and harmonization of international import and export procedures (e.g. customs valuation, licensing procedures, transport formalities, payments, insurance); support to customs departments, tariff reforms
Regional trade agreements (RTAs)	Support to regional trade arrangements, including work on technical barriers to trade and sanitary and phytosanitary measures (TBT/SPS) at regional level; elaboration of rules of origin and introduction of special and differential treatment in RTAs.
Multilateral trade negotiations	Support for developing countries' effective participation in multilateral trade negotiations, including training of negotiators, assessing impacts of negotiations; accession to the World Trade Organization (WTO) and other multilateral trade related organizations.
Trade education/ training	Human resources development in trade. Includes university programs in trade
Trade-related adjustment	Contributions to the government budget to assist the implementation of recipients' own trade reforms and adjustments to trade policy measures by other countries; assistance to manage shortfalls in the balance of payments due to changes in the world trading environment.

Source: OECD/WTO (2013), Aid for Trade at a Glance 2013: Connecting to Value Chains.

In particular, based on theory of change, Choi (2013) presented five main components to make a framework to evaluate intervention effectiveness in an aid project, including: (1) Inputs are the resources and capacities that are invested into the project. Inputs are often the personnel, money, materials, equipment, technology, partnerships, and time that are provided from the project's onset as part of the intervention in order for project activities to take place; (2) Outputs cover the activities, products, and participants that transform the inputs as a consequence of the intervention. Outputs are the most visible aspects of the intervention and often involve activities or tasks that create tangible goods, services, or benefits for recipient country citizens; (3) Project outcomes are the ultimate results of the intervention or the difference between the pre-intervention and post-intervention state of the recipient country; (4) Input prerequisites are resources and capacities that follow the initial investment of inputs and are both required to create the outputs but not provided as part of the intervention; (5) Output prerequisites are activities, goods, services, and conditions that accompany output activities, but once again are not created by or involved in the intervention. These prerequisites required in order for the intervention to transition between output activities and the ultimate outcomes. Outcomes can also be referred to as the goals, objectives, purpose, or impact of an intervention. Furthermore, outcomes can be separated into short-term, medium-term, and long-term results. These three components capture the intervention's physical inputs, the transformation of these inputs, and the impacts of the transformed inputs. For an intervention to progress from inputs to outcomes, however, the stakeholder assumptions must be identified and considered.

As mentioned in the chapter five, the AfT project (as a case story) was analyzed to references to outputs, outcomes and impacts, which together with the inputs and the activities form the basis of the results chain which underlines the Theory of Change of most donors. A results chain shows how changes happen to achieve the desired objectives, starting with inputs, moving through activities and outputs and culminating in outcomes and impacts. This process is centred on a strong notion of causality, but at any point in this chain other, possibly more powerful, intervening causal variables may affect the next stage positively or negatively, complicating the attribution of outcomes to the project intervention (OECD, 2011).

Based on these analyses, we provided an analytical framework for analyzing the intervention logic of technical assistant (EU AfT project) to trade policy reforms in Vietnam (Figure 7.2 and Figure 7.3) as below:

Figure 7.2 A general analytical framework for analyzing intervention logic of technical assistant (AfT project) to trade policy reforms[23]
Source: Author's calculation

Moreover, trade policy also deals with legislation, regulatory reform, implementation of policies, mainstreaming trade with government and trade promotion. Therefore, the AfT assistance may be given in many ways. For example, the AfT can assist developing countries in standard setting, harmonization, implementation and enforcement of trade policy and regulations. AfT may be given in this field to governmental, quasi-governmental, and non-governmental standards organizations (OECD, 2007). As a result, they offer various entry and focal points for interventions. Another AfT intervention is assisting developing countries in improving the regulatory environment and improving the facilitation of trade[24] (Boubrahimi and Ghoufrane, 2016; Helble et al., 2012). The specific channels through which AfT might affect trade ranges from AfT projects which seek to support regulatory reform, faster customs clearance, or improved telecommunications networks, for example. Moreover, when improving regulations one can think of all administrative requirements such as tax rules, security rules, visa formalities, phytosanitary and health controls, environmental rules, consumer protection rules, trade licensing, e-customs procedures,

[23] Figure 7.2 and Figure 7.3 are largely based on an adapted version of the intervention logic of the European Union's (EU) support to trade-related assistance. See: Kröger, A. and P. Voionmaa (2015), Aid for Trade, Policies and Strategies in German Development Cooperation, German Institute for Development Evaluation

[24] Trade facilitation is defined by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) as "the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment". So there is an overlap between improving regulations and trade facilitation.

regulations on foreign exchange accounts and on payments in foreign currencies, etc (Bade and Petri, 2015). Last but not least, support to trade-related human capital development, education and training strengthens the capacity of trade officials to contribute to regional and multilateral negotiation, and policy-making. These improvements in trade policy are expected to result in improved services, increased market access, and lower transaction cost. As a result, in the long-term, there will be more (diverse) trade, which could lead to increased prosperity and increased employment, trade flows, and possibly less poverty (OECD, 2012).

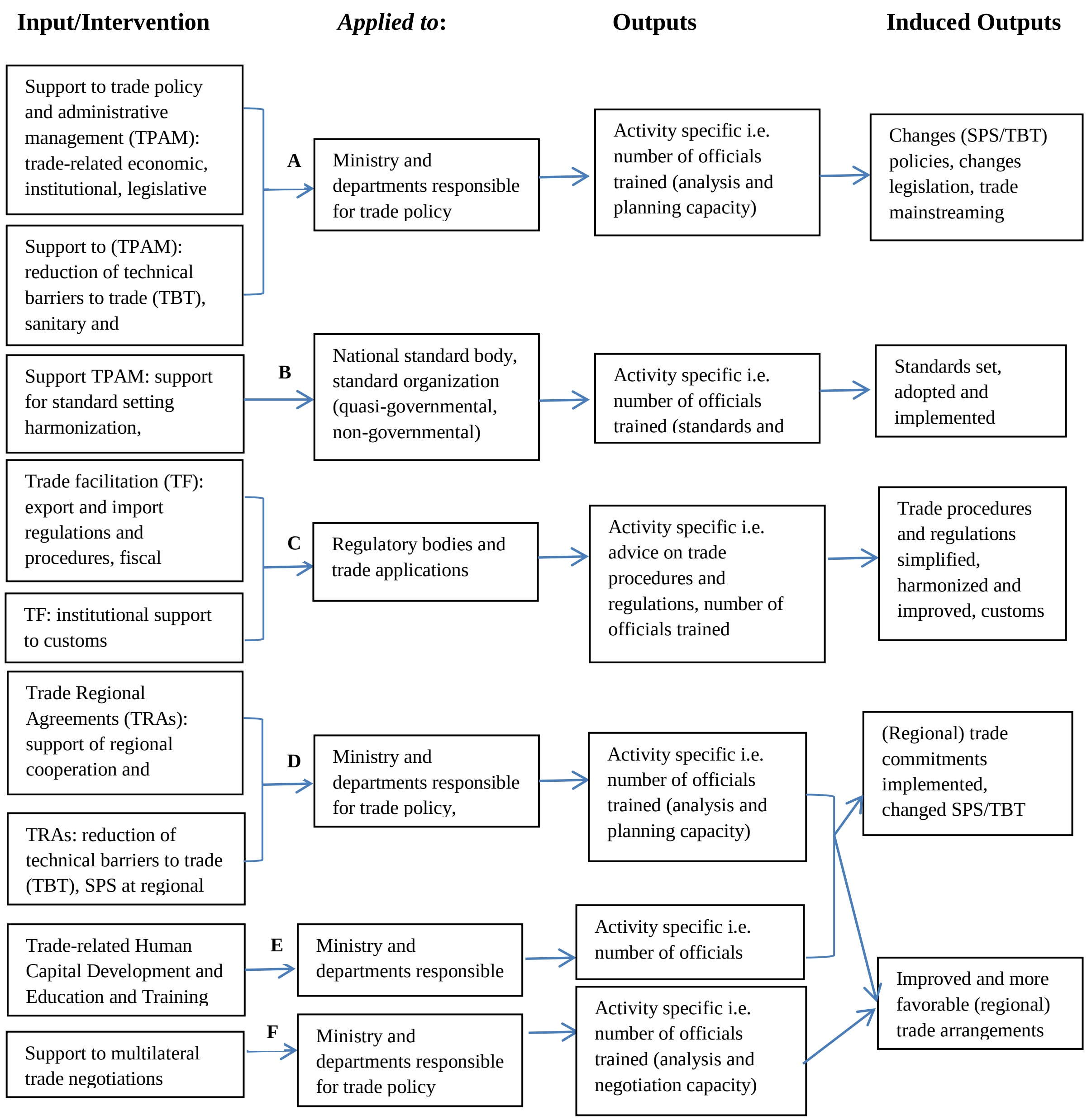


Figure 7.3 An analytical framework for analyzing intervention logic of the EU-MUTRAP to Vietnam trade policy reforms
Source: Author' calculation

Based on the analytical framework, this section aims to answer these questions:

(1) What were the Vietnam needs of trade policy reforms?

(2) What were the EU's self-interests with respect to supporting AfT for trade policy and regulations in Vietnam?

(3) How the EU and Vietnam coordinated in the EU-MUTRAP

(4) What were the intended (induced) outputs of the EU-MUTRAP for Vietnam trade policy reforms?

(5) To what extent can it therefore be expected that the EU-MUTRAP have led to the intended outcomes?

As mentioned in the section of qualitative method (chapter 6), the case study includes the selected EU AfT projects and programs. Project-level evaluations are common for trade-related interventions (OECD, 2011). Project-level evaluation and sorting out attribution might be made much more informative by adopting techniques from formal impact-evaluation methods. Secondary data were the main source of information for the analysis of this section. The analysis of the EU policy on AfT in general and AfT for trade policies and regulations in particular was based on a review of policy briefs, online interviews with and speeches by authorities. Project activity outputs (concrete deliverables) and induced outputs (intended, attributable results of direct outputs) of the selected activities were evaluated based on desk research. The desk research first looked at activity planning, progress reports, and final reports, etc. (see Table 7.2). This exercise provided an assessment of the direct outputs of the project that were supported by the EU-MUTRAP in Vietnam. The second phase of the desk research looked at induced outputs. Existing evaluations of the EU-MUTRAP commissioned by the EU donor, and the implementing agencies provided information supplementary to the sources mentioned above. However, this assessment was also based on available interviews and existing internal and external evaluations.

Table 7.2 List of EU-MUTRAP activities Reviewed

No.	Name of EU-MUTRAP activities (Name of EU-MUTRAP documents and materials)	EU-MUTRAP activity code, implementation period
Project activities related to the EU market and EU trade policies		
1	Overview of the trade policy of the European Union and its aid for trade strategy	EU-01, 2014 Access link: Click here
2	Sustainable impact assessment EU-Vietnam FTA	EU-02, 2014 Access link: Click here
3	Fostering understanding of the EU' quality management system for industrial products	EU-06, Q4/2013-Q2/2014 Access link: Click here
4	Roadmap to upgrade Vietnam's SPS system in light of the EU's SPS system in relation to food, beverages, feedstuff, animals and plants	EU-07, 2015 Access link: Click here
5	Support to Vietnamese industry to upgrade its production methods to adjust to the EU's technical regulations and standards in the area of chemical safety	EU-11, 2014 Access link: Click here
6	European trade policy and investment support project: Support Vietnamese enterprises to understanding distribution processes and market demand in the EU and to adjust to such processes and demand: - Guidebook on the Organization and Operation of Distribution sector in the EU - Support Vietnamese enterprises to understand distribution processes and market demand in the EU and to adjust such processes and demand	 EU-13, 2014 Access link: Click here EU-13, 2015 Access link: Click here
7	European trade policy and investment support project: Support The MoIT to research and gather the European countries market profile.	EU-15, 2015 Access link: Click here
8	Geographical Indication (GI) implementation plan	
	(1) Illustrating the amendments to be carried out to the management regulations and related legal acts on GI protection targeting different provinces and fish sauce trading companies. (2) Status report on the *Bình Thuận dragon fruit* GI implementation plan.	EU-16, 2014 Access link: Click here EU-16, 2017 Access link: Click here

	(3) Status report on the *Buôn Ma Thuột coffee* GI implementation plan (4) Status report on the *'Hòa Lộc' mango* GI implementation plan (5) Status report on the *Lạng Sơn star aniseed* GI implementation plan (6) Report the necessary amendment to be carried out to the production disciplinary regarding the management and the utilization of the GI of *Phu Quoc fish sauce*	EU-16, 2017 Access link: Click here EU-16, 2017 Access link: Click here EU-16, 2017 Access link: Click here EU-16, 2014 Access link: Click here
9	Promote the capacity of Vietnam to comply with the Illegal, Unreported and Unregulated [fishing] (IUU) Regulation of the EU: "Long-term improvement to Monitoring, Control, and Surveillance in Vietnam".	EU-22, 2017 Access link: Click here
10	Improve the understanding of local producers and managers on market requirements for certified seafood exporting European countries: Certification assessment, EU policies related to the application of seafood certification and proposed solutions to support the application of certification in Vietnam	EU-26, 2016 Access links: Click here
11	Opportunities for Vietnamese fruits and vegetables exports to the EU	EU-34, 2017 Access link: Click here
12	Capacity Building for Vietnam's Coffee Exporters to the European markets: Market Access Aspects: - European access guideline for Vietnam coffee exporter - Need Assessment of Vietnam Coffee Exporters and Producers for the European Market Access Guideline	NSO-16, 2017 Access link: Click here
13	Review of European Market Access Requirements and Technical Support for AMDI expert team throughout the development of the European Market Access Guideline(MAG)	NSO-16, 2017 Assess lick: Click here
14	EU-MUTRAP support to Ministry of Finance of Vietnam in upgrading the taxation system to improve its ability to cooperate with the EU for fighting against international tax evasion.	PCA-5, 2017 Access link: Click here
15	Activities related to the EVFTA - Opportunities and challenges of Vietnam's enterprises under the impact of the EVFTA: accounting and audit services - Opportunities and challenges of Vietnam's enterprises under the impact of the EVFTA: Architects, technical consultants	EU-38, 2015, 2016 Access link: Click here

	- Opportunities and challenges of Vietnam's enterprises under the impact of the EVFTA: fishery sector (seafood) - Opportunities and challenges of Vietnam's enterprises under the impact of the EVFTA: information and communication services - Research on Online Dispute Resolution System in E-commerce under the context of EVFTA	 ICB-44, 2016 Access link: Click here
Support to Vietnam's participation to ASEAN Economic Community		
16	- Guidebook to the ASEAN Comprehensive Investment Agreement (ACIA) - The impacts of ASEAN comprehensive investment agreement on manufacture, agriculture, fishery, forestry, and mineral exploitation. - Legal issues and investment management system issues of Vietnam related to the provisions of ACIA and recommendations - Assessing the Socio-Economic Preparedness of Vietnam towards ASEAN Economic Community.	ICB-1, 2014, 2015 Access link: Click here
Support to revise Vietnam's trade policies: rules of law and regulations		
17	Support MoIT to improve the certificates of origin, and launch of ASEAN program on self-certification of origin	ICB-4, 2016 Access link: Click here
18	Study on sanitary phytosanitary measures (SPS) and technical barriers to trade (TBT) faced by Vietnamese exporters in major export markets	ICB-8, 2014 Access link: Click here
19	Support MoIT to draft a circular to clarify the beneficiaries of the intra-corporate transferee GATS commitments	ICB-13, 2014 Access link: Click here
20	Regulatory review of Vietnamese legislation on franchising	ICB-14, 2015 Access link: Click here
21	Revision of the Commercial Law of the Socialist Republic of Viet Nam - The development of commodity futures exchange in Vietnam - Commodity exchanges in the Socialist Republic of Viet Nam - Review Vietnam's legal system relate to the exports and imports policy. - Review of present legislation on trade fairs, exhibitions	ICB-15, 2015 Access link: Click here

	and display, introduction of goods and services - Review of present legislation on Trade Promotion and Commercial Advertising in Viet Nam - The current legislative framework governing commodity futures markets	
22	Various aspects of Viet Nam Competition law	ICB-19, 2014 Access link: Click here
23	Trade Defence Administration Capacity Building for VCA officials and business sector: Injury and causality: finding in recent panel and appellate body determinations; regulatory framework and practice of the EU.	ICB-23, 2015 Access link: Click here
24	Support the MoIT to prepare the Master Plan for E-Commerce Development of the period 2016 - 2020	ICB-25, 2015 Access link: Click here
25	Support MoIT in revising legal acts regulating administrative procedures for FDI	RA-2, 2015 Access link: Click here
26	Promotion of FDI in the sector of environmental goods and services: - Policy framework analysis: proposals to develop incentives mechanisms to promote investment in environmental goods and services (EGS) - FDI in environmental goods and services (EGS) and key policy issues for promoting inflows of FDI in EGS in Vietnam - Mitigation of environmental impacts related to FDI enterprises.	INVEN-1, 2016 Access link: Click here

Source: Author's calculation

7.2 An introduction of the EU-MUTRAP

MUTRAP is a long-standing trade-related technical assistance program between the EU and Vietnam which started in 2001 and was closed by its fourth program cycle, starting with MUTRAP I (2001-2004), MUTRAP II (2005-2008), MUTRAP III (2008-2012), and the last one with EU-MUTRAP (2012-2018) (MUTRAP, 2014, p.16). Throughout four-phase cycles, the focus has shifted from building negotiation skills for civil servants to prepare for Vietnam's WTO accession negotiations and undertake analyses of the impact of WTO regulations on the Vietnamese economy, to providing support for the implementation of WTO commitments and other FTAs (MUTRAP, 2016). In light of Vietnam's negotiation of several trade agreements, and the establishment of the ASEAN Economic Community (AEC) in 2015, MUTRAP's focus shifted to providing assistance that would promote Vietnam's deeper integration (Vietnamnews, 2017). Specifically, the EU-MUTRAP project not only aims at supporting Vietnam in its process of integrating into the international trading system but is also a tool for the EU to expand its market and enhance business opportunity in Vietnam, as well as strengthen its position in the Southeast Asian region (Hoang, 2014). The EU-MUTRAP budget is 16.5 million euros, out of which the EU contributed non-refundable 15 million euros (MUTRAP, 2014). Under the EU-MUTRAP, the EU funded capacity building within departments and agencies of the Ministry of Industry and Trade of Vietnam (MoIT), which is the main project beneficiary (MUTRAP, 2014). The project assisted Vietnam in the implementation of trade commitments which specifically focused on the EVFTA. Director of the EU-MUTRAP management board Bui Huy Son said in a workshop[25] (2015) that the most outstanding result of the project is the improved policy framework for trade and investment in Vietnam, reflected through a series of reports supporting the construction of legal documents under the MoIT and other related ministries, as well as strengthened trade cooperation between Vietnam and the EU and other partners to support the country in international integration including integration with ASEAN.

The EU-MUTRAP's stated goal was to support the building of regulatory capacity, by training civil servants and providing expertise that would, in the interest of the EU, translate to policy's application and ensure the implementation of EVFTA commitments. Based on the goals of supporting the trade policy reform, the project activities have been chosen by the needs of Vietnamese stakeholders. Admittedly, through the EU-MUTRAP, the EU supports Vietnam while extending market access for European exporters and investors. Moreover, thanks to the EVFTA, the average tariffs will be fallen substantially which can impact positively on the trade interests of both Vietnam and the EU (Vu, 2016). However, the interests of both sides do not have to be mutually exclusive. Even though, they can overlap and be beneficial for both actors. A stronger Vietnamese economy is beneficial for Vietnam in the first place, but also for the EU. Thus, supporting Vietnam in its negotiating powers or capacity building can be profitable for both the EU and Vietnam (Habel, 2018). The following parts present a discussion about the Vietnam needs and the EU interests related to the EU-MUTRAP

[25] The Ministry of Industry and Trade of Vietnam (MoIT) coordinated with the EU to organize a seminar on 25th June 2015 in Hanoi to present mid-term implementation results of the EU-MUTRAP.

7.3 Vietnam needs to reform trade policies and regulations

Vietnam started comprehensive economic reform (‘Renewal’) in the mid-1980s in which trade reform has played an important role. Indeed, trade and export-oriented growth have been at the core of the international economic integration strategy of Vietnam for the last 30 years (WTO, 2013). Trade policies not only heavily depend on the economic development and trade situation in each period but they are also taken into account in relation with fiscal and monetary policies. They are also affected greatly from the proactive regional and international economic integration. The two major goals in Vietnamese existing trade policy are to encourage export and try to limit imported goods that can be locally produced. Since Congress passed the Commercial Law amended in 2005, the Government of Viet Nam promulgated Decree No. 12/2006/ND-CP dated 23 January, 2006 detailing the Commercial Law regarding international sales and purchase of goods. Afterwards, Decree 23/2007/ND-CP of the Government detailing the Commercial Law regarding the purchase and sales of goods of foreign direct investment enterprises was issued in the early of 2007. Next, Decree No. 90/2007/ND-CP of the Government was promulgated to regulate export and import rights of the last object which is foreign traders without presence in Viet Nam. These were the main three Decree of the framework for export and import activities in Viet Nam for a long time from 2006. Recently, Decree 12/2006/ND-CP was amended and replaced by Decree No. 187/2013/ND-CP.

Indeed, the current export-import policy of Viet Nam relatively completed to meet the requirements of development and ensure Viet Nam’s commitments to be implemented. Trade management mechanism is quite stable, transparent creating the most favorable conditions for enterprises to promote export-import operations (WB, 2018). Deprez (2018) demonstrated that the Vietnamese political elite has a very strategic view on international trade integration and has identified trade, export-oriented growth, and international economic integration as international policy preferences, thereby using international trade integration as a strategic instrument to maximize their national priorities within regional and international trade system. Vietnam’s attitude in current trade development shows that ‘Vietnam has committed to continue its policy of openness to trade and investment as the motivation for domestic reforms to promote growth’ (Vuong, 2017). The GoV committed to continuing trade reform which is aiming at diversification and multilateral ties that can strengthen international economic integration, and emphasize a movement towards additional trade agreements (Minh, 2016).

The GoV has introduced and implemented a comprehensive macroeconomic and national development strategy/plan. These policies are aimed at creating confidence in its socialist-oriented socio-economic development programs. The open market economy approach is the central influencing mechanism in its planned cultural, economic, and social transformation of the country (Deprez, 2018). The ten-year Socio-Economic Development Strategy (SEDS) and the five-year Socio-Economic Development Plans at national, sectoral, and provincial levels are very important policy documents in regard to realizing the Vietnam's development vision and giving directions for implementations (WTO and OECD, 2013). Recently, the SEDP 2016-2020 wants to "improve international integration" and clearly identifies 'joining in new generation free trade agreements, grasping opportunities to expand [the] market' as an objective (GoV, 2016). Their goals and objectives are good but ambitious, as the resources and instruments for achieving them are not comparable. Coordination has been improving, but remains inadequate (WB, 2018).

Due to a trade policy review of the WTO for the case of Vietnam (2013), many Vietnam's economic fundamentals remain strong and much progress has been made in its economic transformation, significant weaknesses persist. The review indicated that Vietnamese equitable (inclusive) and sustainable growth depends on the Government implementing far-reaching structural reforms promptly on time. Especially those aimed at addressing systemic risks faced by the financial sector, improving the operation framework of trade-related sectors (such as electricity supply, transport infrastructure), and intensifying state-owned enterprise (SOE) restructuring. As these weaknesses pose downside risks to Vietnam's immediate economic outlook, actions need to be taken to address them. Thus, a key challenge for Vietnam is to prioritize trade and trade-related policies conducive to the attainment of these objectives within a stable, transparent, and predictable policy framework (WTO, 2013). Similarly, a study of the WTO and OECD (2013) argued that despite impressive achievements in growth, trade, and development, Vietnam faces a number of trade-related problems and constraints. Underdeveloped infrastructure, weak capacity to handle new and complicated trade-related issues, relatively high costs of doing business and a low level of skills are among the constraints it needs to overcome to ensure sustained development.

In another manner, Herr et al. (2016) argued that liberalizing Vietnamese markets, allowing the establishment of private firms, integrating into the world economy, and high FDI inflows stimulated growth and productivity's development. However, the ‘liberalization effect’ reforming process is exhausted and does not create further sufficient development. Moreover, one of the consequences of Vietnam’s fast development path is ‘its substantial governance deficits’ (Clark et al., 2017). Vietnam’s socio-political stability has been the major factor underlying its economic achievements however, ‘accountability, citizen's participation and the legislative and judicial system have progressed at a slower pace’. Vietnam has seen a dramatic growth of civil society organizations, but their operational effectiveness remains fragmented. They have a limited role in enhancing transparency, accountability and policy formulation. These governance deficits have also impacted Vietnam’s business environment. State-owned enterprises still dominate in Vietnam and the private sectors have low levels of competitiveness (ADB, 2015). Therefore, Vietnam needs to address these issues in its trade transformation.

Specifically, the process of WTO entry negotiations and implementations, as well as fulfillment of other bilateral and multilateral international commitments requires stronger and more thorough reform of Vietnam’s trade policies (WTO, 2013). It is the fact that Vietnam has experienced success in transforming the economy due to utilize the comparative advantages for exporting-oriented industry, to strengthen international co-operation in the regional and global, and allocate effectively endogenous and exogenous factors (Ngoc, 2018). Together with the Vietnamese socio-economic development strategy, trade policy has been fully consistent with the transformation. I agree with Ngoc (2018) that Vietnam has boosted the internal structural reforms by external commitments with global and regional cooperation, especially under FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP), EU-Vietnam FTA, Russia Customs Union, South Korea, and European Free Trade Association FTA over the periods from 2011 to 2016. Ngoc (2018) proved that Vietnam’s fast-changing trade reform has been forced by FDI sectors, while the domestic sectors have not transformed unremarkably. Additionally, Vietnam’s trade policy lacks the comprehensive trade promotion policy such as strengthening the supporting industry, creating the cluster-industrial zones, enhancing the competitiveness of business environment, or trade promotion activity (Ngoc, 2018).

While Vietnam’s earlier trade policy was mainly focused on traditional international trade integration with the reduction of tariff barriers, Vu (2016) indicated that Vietnamese current trade policy puts more focus on the strategic positioning of the country in international trade. Through preferential trade agreements (such as EVFTA, CP-TPP, and a bilateral trade deal with the USA) with its main export markets for final goods, Vietnam wants to position itself at the end of the production and global value chain: a country from which finished high-value manufactured products can easily be exported to its main export markets (such as the US, the EU, and South Korea) and other countries where they enjoy preferential market access. Vietnam has identified export promotion as a domestic policy priority, but the choice of this priority has been influenced by the international trade system, which has brought considerable economic advantages to Vietnam that, in turn, constantly require further integration and domestic reforms in order to take advantage of the increased international trade.

WB (2020) highlighted that Vietnam needs to fill major legal gaps and address key implementation issues to reap the full benefits of the EVFTA and CPTPP. WB's report highlights the need for Vietnam to increase capacity to handle certain key issues, including rules of origin, animal and plant sanitary standards, and investor-state dispute settlement. It is also cites the rule of origin requirement as one of the key challenges for Vietnam to overcome. Vietnam could benefit even more from the next-generation trade deals (EVFTA and CPTPP) if they stimulate a comprehensive agenda of economic and institutional reforms to facilitate compliance with non-tariff agreements. In another report WB (2018) also concluded that Vietnam needs to focus on reducing non-tariff costs, including compliance cost of administrative measures and procedures before and at borders, and logistics costs. Among 4 pillars to Vietnam's trade reform, WB (2018) suggested that Vietnam promotes trade facilitation by simplifying customs and specialized management regulations.

To summarize, Vietnam has been making great efforts to improve legal environment, developing the rule of law, especially for business, to turn Vietnam into an attractive investment destination[26]. However, the Vietnamese legal system is not really comprehensive and effective. The current business environment is not truly equal and transparent. The rule of law is not

[26] For example, the previous investment regime in Vietnam came in effect on 1 July 2015 and is comprised of a Law on Enterprises (LOE) and a Law on Investment (LOI), which regulate both domestic and foreign investors, for the establishment and operation of corporations and investment in projects.

complied with in the organization and operation of the state apparatus. The foreign businesses investing in Vietnam face 'complex market-entry rules, tax and customs procedures, legal uncertainty and corruption' to some extent. Thus, it is necessary to further improve market economy's institutions and reform the legal system (Talking Laws, Ministry of Justice of Vietnam, 3rd May 2013). Specifically, Vietnam's hierarchy of legal documents comprises 12 levels, determined by the type of legislation and the issuing institution. Legislation issued by a lower state organ must be consistent with the legal documents of higher state organs. However, it is not always evident whether new legislation abrogates or supplements existing legislation. Ministries continue to rely on official letters, notices, or guidelines to set policy and clarify implementation issues, although the Law on promulgation of Legal Documents stipulates that such communication has no legal or binding effect (WTO, 2013). Competition among Vietnamese government agencies for control over businesses and investments has created confusing and overlapping jurisdictions and overly bureaucratic procedures with in the government and from ministry to ministry and this in turn creates an environment ripe with opportunities for corruption (International Trade Administration, 2019). The reform of Vietnam's trade regulations or (re)building of trade governance institutions might, on the one hand, endanger existing political arrangements, while, on the other hand, certain actors might want to strategically embrace reform measures, in order to strengthen their material and relational power.

7.4 The EU's self-interests

The EU-MUTRAP indicates that not only does the EU support Vietnam's capacity building in the economic sector, but particularly with focus on the European market and the agreements between Vietnam and the EU (MUTRAP, 2014). The project seems to be strongly pushed by a European agenda aimed at stronger trade relations that focuses on the EU's interests rather than Vietnam's ambition (Habel, 2018). Hoang (2014) also argued that much of the EU's financial support for Vietnamese trade reform is serving for the EU commercial self-interests. Improvements in regulatory quality have appeared to play its expected role in improving Vietnam's business environment. And thus, the EU support for Vietnamese trade reform, including improving trade policies and regulations, is likely to enhance trading and investment opportunities with Vietnam and the EU's position in ASEAN. The EU approached these benefits with the EU-MUTRAP as well.

Häbel (2018) and Hoang (2016) demonstrated that the EU also used AfT projects to expose its norms and values. AfT project also is a tool to push EU normative power through trade. The EU emerges as an actor able to export regulatory standards, improve the status of its trade partner within multilateral forums and, at the same time, respect the local ownership of the development process. Both studies mentioned to the EU-MUTRAP as a typical example for this issue. As a result, Vietnam's policy-makers tend to acknowledge the norms that constitute the EU's normative foundation, with particularly high consensus on those concerning economic liberalism. The EU's economic and social norms are to some extend attractive for Vietnam and thus able to be adopted and adapted to the Vietnamese context. Furthermore, the EU-MUTRAP contributed to the coherence among the EU trade and development policies. The convergence between the EC and EU member states also displayed among the project activities.

According to EU AfT-The Progress Report (2018), the linkages between EU AfT and Free Trade Agreements (FTAs) and the Generalized System of Preferences (GSP) are being strengthening and several examples show that the design of AfT programs and projects takes this dimension more systematically into account. The EU is promoting a more strategic mobilization of its AfT in view of help partner countries make the most of their Trade Agreements with the EU. The framework for EU AfT remains the partner countries' and regions' trade and economic policies as mainstreamed into their development strategies. This approach is also applicable to developing countries benefiting from EU unilateral preferential trade schemes, where the EU is seeking to better adjust its Aft to market access opportunities offered by the GSP. In Southeast Asia, for example, the new trade-related assistance programs for Indonesia and Vietnam include rapid response facilities to support issues emerging from the negotiations of EU-Indonesia FTA/CEPA, or the implementation of EU-Vietnam FTA.

In summary, The project contributed to accessing the potential of Vietnamese business in the EU; raise awareness and promote Vietnam's exports and imports to the EU; building capacity for SMEs to comply with European market access requirements; develop market linkages between Vietnamese enterprises and buyers in Europe, and to develop local business channels; and develop trade policy. In addition, the EU trade-related assistance for Vietnam, starting in 2018, includes a strong engagement with private sector. Comprehensive support will be provided to the private sector, especially the MSMEs in selected export value chains – to enhance their capacities for participating in regional and global markets.

7.5 The EU and Vietnam coordination in the EU-MUTRAP

OECD (2012) indicated that effectiveness in AfT requires proper sequencing and policy coherence. Once a country has identified the most binding constraints to its trade expansion, it should implement reform designed to tackle these specific constraints making sure that reform is (i) sustainable and (ii) supported by complementary reforms that will increase its impact on economic growth. As much as possible, proper sequencing and policy coherence should be reflected in the design of AfT. This cannot be achieved without adequate donor coordination and alignment on country priorities.

Since the EC is the largest donor in the area of trade-related assistance in Vietnam, naturally EC is also playing a coordinating role to reflect the EC's leadership and value added. As a result, EU-MUTRAP is closely working with EC-supported regional and country projects, as well as with other donors to achieve the goal of donor coordination and aid effectiveness in this particular area (WTO and OECD, 2013). The effective coordination that prevails in AfT projects to Vietnam among aid donors has been facilitated by the "*Hanoi Core Statement on Aid Effectiveness, Ownership, Harmonization, Alignment, Results".* This key development policy statement, adopted by the GoV and development partners in 2005, requires (among other things) donors rationalize their systems and procedures by implementing common arrangements for planning, design, implementation, and reporting to the GoV on donor activities and aid flows.

At the EU level, Vietnam was nominated a pilot country for EU coordination of policy and harmonization of procedures, and a "Roadmap" for closer coordination and harmonization among EU donors in Vietnam was adopted in 2005 as well. This Roadmap has been closely followed by the EU-MUTRAP. The EU-MUTRAP implemented the effective methods of decentralized aid project management and coordination mechanisms, using of local experts, cost cutting, evaluate reports, research and publications that can attract diversify actors from both sides to joint and monitor EU-MUTRAP in the field to support EFVTA process (MUTRAP, 2014). Figure 7.3 summaries the coordination among related stakeholders of the EU-MUTRAP.

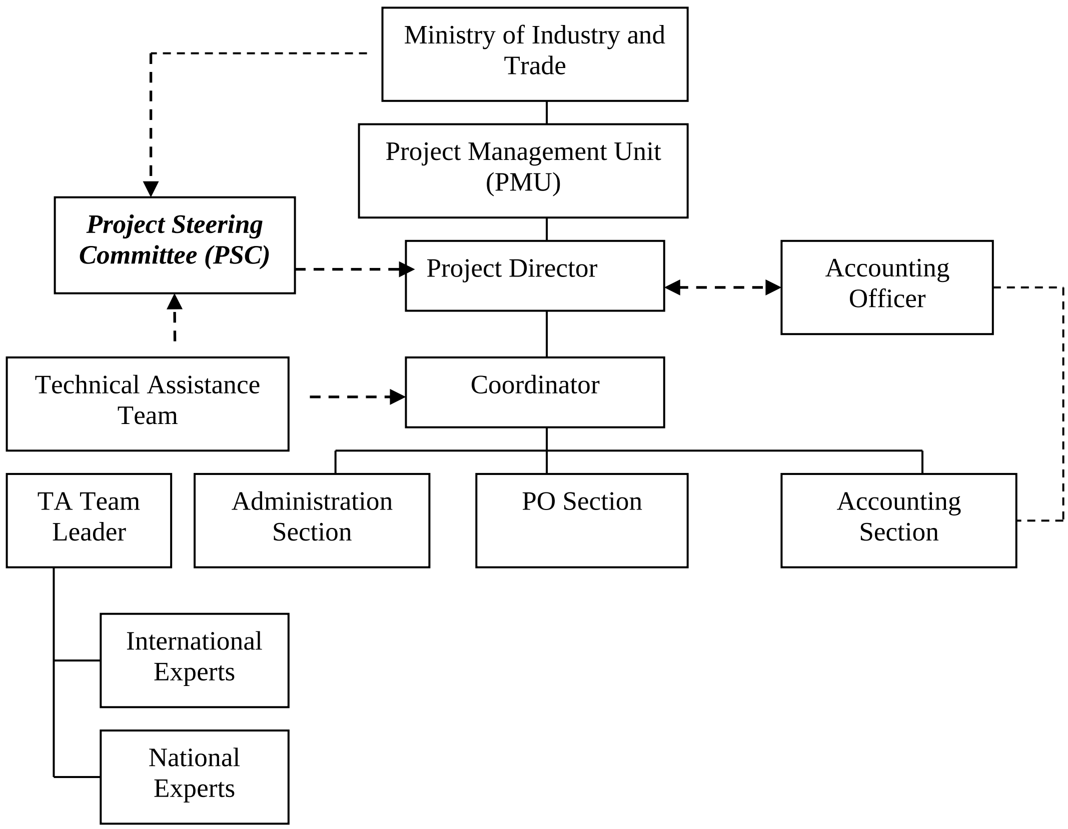


Figure 7.4 Organizational chart of the EU-MUTRAP

Source: Author extract from EU-MUTRAP report (2014, 2016)

As can be seen from Figure 7.4, the project management activities are implemented through a Project Management Unit (PMU) formally located within Ministry of Industry and Trade (MoIT). A Project Director from the MoIT manages the project under the supervision of a Project Steering Committee (PSC). The PSC is chaired by a vice-Ministry within MoIT in addition to other departmental representatives and other line ministries. Other members are high level staff from within the MoIT, as well as other relevant ministries. The overall strategic guidance and decision on major issues of the project were taken by the PSC. It also supported to the interaction with other state agencies. It acted as a forum and the annual meetings serve to discuss milestones and the overall direction of the project (MUTRAP, 2013). There was a good degree of coordination and cooperation between technical assistance team, PMU, MoIT, and other related stakeholders (including other related Ministries, local governments, universities, and the private sector) during the implementation of the EU-MUTRAP (MUTRAP, 2016). The provision of expertise and consultancy services of the EU-MUTRAP is not only provided by a European, but also a Vietnam aid consultancy service provider, respectively overseen by the EU and the MoIT. The team leader of technical assistance team is selected by DMI Associates, a European aid consultancy, which also serves as the provider of expertise for short-term experts (MUTRAP, 2013). The MoIT recruited the national expertise through the Asian Development Management Institute (AMDI). The approvals of project activities are negotiated between the PMU and the EU and embodied in so-called Program Estimates on an ongoing basis.

However, weaknesses in the implementation of the project included modest contributions to negotiations for a Free Trade Agreement between Vietnam and the EU, lack of funding and supervising for sub-projects, and weak exchanges of information between stakeholders

7.6 Absorptive capacity

Absorptive capacity, on one side, is the ability of a recipient country to absorb aid in a way that achieves a given objective. On the other side, it involves the donor's ability to correctly predict the recipient's characteristics and constraints to the absorptive of aid. Further, it involves donor's decisions regarding logistics, time-span of the project, funding structure, among many others. In short, from the donor's perspective, absorptive capacity is the ability to design an effective project, and identify the obstacles that it is likely to encounter (Choi, 2013).

This next section provides the intervention's results of the EU-MUTRAP to enhance Vietnam's trade policy reform in general (see Table 7.3) and in terms of (i) standards (see Table 7.4); (ii) trade facilitation (see Table 7.5); (iii) improving negotiation capacity (see Table 7.6)

Table 7.3 Intervention's Results

Inputs (EU-MUTRAP activity code)	***Applied to Vietnam***	**Outputs**	**Induced Outputs**
EU-01; EU-02; EU-06; EU-07; EU-11; EU-13; EU-15; EU- 16; EU-22; EU-26; EU-34; EU-38; NSO-16; PCA-5; ICB-1; ICB-4; ICB-8; ICB-13; ICB-14; ICB-15; ICB-19; ICB-23; ICB-25; ICB-44; INVEN-1; RA-2	Ministry of Industry and Trade; Ministry of Finance; Ministry of Planning and Investment; Ministry of Science and Technology; Ministry of Agriculture and Rural development; Ministry of Natural Resources and Environment; National Office of Intellectual Property; Department of Fisheries; National Legislature Science, Technology and Environment Committee; Vietnamese National Chemicals Agency; The Provincial People's Committee (Kien Giang, DakLak, Khanh Hoa, Binh Thuan, Lang Son, Tien Giang, among others); Department of Science and Technology; Department of Agriculture and Rural Development; Department of Industry and Trade and Planning and Investment; Department of Standard, Management, and Quality; Department of Industry and Trade; Vietnam Association of Foreign Invested Enterprises; Institute of Labor Science and Social Affairs; Fisheries Monitoring Centre; Vietnam Chamber of Commerce and Industry; The Phú Quốc fish sauce producers Association; Vietnam Bureau of Accreditation; Buôn Ma Thuột Coffee Association; Lạng Sơn Star Aniseed Production, Processing, and Trading Association; Ministry of Industry and Trade Regional office (including 18 Import-Export Regional Office);	Related trade policy: Reports; Research/study; Reviews; Revise and Survey; Workshops and training courses in provinces and cities with the participations of state agencies, product sector associations, research institutions, and companies and other stakeholders.	Seafood certification; Geographical Indication (GI) implementation plan; Certificates of Origin; Vietnamese legislation on franchising; SPS regulations; Legislation on trade fairs, exhibitions and display, introduction of goods and service; E-Commerce regulations; EVFTA; ASEAN Comprehensive Investment Agreement (ACIA); Law on Enterprise Income Tax; Commercial Law; Competition Law; Fisheries Law;

Source: Author's calculation

Table 7.4: Intervention's results for Vietnam standards

Output	Expected induced output	Expected intermediate outcome
• Promotion of EU standards and international standards; • Strengthening inter-ministerial cooperation and enhanced participation in standard-setting bodies; • Collection and dissemination of EU standards information and data (including website development, publishing of manuals, and training sessions; website development, publishing of manuals, and training sessions); • Development, promotion, and implementation of labels; GIs; • Harmonization and promotion of sustainable standards; • Training of policy officers. • Development and improvement of partnerships and different stakeholders in standards.	• Improved beneficiary and awareness on standards for Vietnam policy officers, enterprises, and other stake holders. • Reduced certification cost; • Uniform quality of Vietnamese traded products (especially to the EU market) • Enhanced credibility of labels and more demand for certified produce to Vietnam in trade. • Enhanced involvement in standards setting and compliance of private sector and civil society in Vietnam • Improved capacity on standards at ministries and other government institutions of Vietnam. • Improved capacity at ministerial departments to take part in international standards negotiations; • EU's standards and international standards formulated that take into account Vietnam's interests and needs.	• Increased quality of Vietnamese products; • Lower rejection rates; • Lower transaction costs; • Increased demand for certified Vietnamese products. • More certified and higher-quality products traded for Vietnamese products.

Source: Author's extract from the EU-MUTRAP activity

As a part of the EU-MUTRAP activities in order to improve Vietnamese traded products on standards, the EU-MUTRAP supported these activities bellows. The intervention's results on Vietnam's traded standards of the EU-MUTRAP could have pieces of evidence by the contributions of these activities.

The EU-07 activity

This activity (EU-07) has the objective to assist Viet Nam in its efforts to continue reforming its SPS system in order to further align it to the requirements in the WTO SPS Agreement, international standards and best practices. Assistance under this and future SPS activities that may be implemented by EU-MUTRAP could improve the understanding of the EU SPS system as well as the Vietnamese regulatory and institutional framework.

The EU-11 activity

Project activity is aimed at assisting the Government of Vietnam in two ways: to help with decision making regarding whether Vietnam will support listing of chrysotile asbestos – a chemical of international concern – on Annex III of the Rotterdam Convention and to assist Vietnam with identifying its needs for capacity building, technical assistance and development assistance in order to end its dependence on imports of chrysotile asbestos. Specifically, this activity addresses the continued use of chrysotile asbestos in Vietnam, in response to an ongoing dialogue at the international level at successive Conferences of the Parties of the Rotterdam Convention (2015). The Vietnamese authorities responsible for protection of health and trade in hazardous substances lack sufficient information to develop an informed position regarding proposals to list chrysotile asbestos in Annex III of the Rotterdam Convention. Vinachemia, the agency (within the Ministry of Industry and Trade) responsible for industrial chemicals in Vietnam, have therefore requested technical assistance to clearly identify Viet Nam's options and interests with respect to subjecting chrysotile asbestos to the Prior Informed Consent Procedure under Annex III of the Rotterdam Convention. Therefore this activity addresses the following issues: (1) Briefly reviews the economic importance of chrysotile asbestos in the economy of Vietnam; (2) Undertakes a basic cost/benefit analysis of a ban of trade in, and use, of chrysotile asbestos for the economy as a whole and for major industries/enterprises; and for the health sector; (3) Explains the functioning of the Rotterdam Convention and how to manage the Annex III procedures with respect to hazardous substances.

The EU-13 activity

The project activity conducted an overview of the Vietnam's perception overseas, and of the perception of Vietnam products by the consumers. It highlighted the perception gap that needs to be taken into consideration in the creation of branding strategies for Vietnamese companies. It also presented a brief explanation on the meaning of 'distribution' and 'distribution channels'. And thus, it highlighted on what it will mean for Vietnam companies to distribute in Europe and how these channels are suitable for branded products.

The EU-16 (1) activity

The objective of this activity is to support the Provincial People's Committee (PPC) of Kien Giang province and the relevant agencies (Phú Quốc fish sauce producers Association, Control Board of Phú Quốc fish sauce) to finalize the regulations on management and use of GIs Phú Quốc for fish sauce. The experts of EU - Mutrap project have conducted surveys, analyzed, and collaborated with the Phú Quốc fish sauce producers Association, producers and Department of Science and Technology (DOST) of Kien Giang province to determine the difficulties and unreasonable regulations in the management. The results show that the current regulations of management and use of GIs Phú Quốc were facing with shortcomings and difficulties to apply into practice, thus the changes of Decision No. 2482/QD/UBND of the PPC of Kien Giang on the management and use of GIs is needed and getting the consent of both of the state agencies and the Phú Quốc fish sauce producers. With the aim of continuously support the PPC of Kien Giang and the Phú Quốc fish sauce producers, the experts of the Project continue to deploy supporting activities to develop and modify management writings of local authorities to the Phú Quốc fish sauce.

The EU-16 (2); EU-16 (3); EU-16 (4) activities

Since 1996 Viet Nam has developed the protection of GIs, counting at present with an increasing number of Vietnamese GIs registered by the competent authority, the National Office of Intellectual Property of Viet Nam (NOIP), the agency under the Ministry of Science and Technology, assuming the functions of exercising the State management and providing services in the field of Intellectual Property. However, the GI route is a relatively new issue and still in the process of consolidation in Viet Nam. For this reason and since 2014, NOIP has been requesting yearly support from the EU-MUTRAP. This support has been mainly focused on assisting 4 Vietnamese localities to take the necessary steps for the consolidation and further development of their GIs. The products selected by NOIP to be supported by the EU-MUTRAP project are Lạng Sơn star aniseed GI, Buôn Ma Thuột coffee GI, Bình Thuận dragon fruit GI and Hoà Lộc mango GI. The implementation of this support by the EU-MUTRAP project has been provided through the Activity EU-16, which consisted in assignments of international and local GI experts in 2014 and 2015 so far, with the following actions and outputs: (1) In 2014, the EU-MUTRAP project organized 2 workshops in different parts of the country (Lạng Sơn province and Dak Lak province) on the GIs registration conditions and procedures in the EU, providing ad hoc advice to local stakeholders regarding the documents needed to apply for the registration of each GI in the EU. As a result of this assignment, EU-MUTRAP GI experts assessed serious weaknesses in terms of GI management by GI holders as well as by territorial administrative agencies in charge of supporting the development of these products. Hence, they recommended further assistance to tackle these challenges. (2) In 2015, the EU-MUTRAP project continued supporting the development of the 4 selected Vietnamese GIs, seeking to create organizational and institutional capacities to ensure that the multi-year process of developing GIs moves forward and evolves in an appropriate manner. To this end, the EU-MUTRAP project organized 4 workshops in the localities of the 4 GI products, providing technical and legal guidance to local stakeholders for improving their GI management, as well as for setting up traceability and control systems, in order to promote the development of their respective GIs. EU-MUTRAP GI experts gathered the necessary data and met with relevant stakeholders (producers, local authorities and representatives of the GI associations) in order to identify the weaknesses of the overall GI management as well as the challenges ahead to ensure their sustainability and further development. As a result, they prepared an assessment and implementation plan for the 4 selected Vietnamese GIs (one per GI), through which defining a road map to foster their consolidation and further development. The Implementation Plans were translated into Vietnamese and sent to all 4 localities between April and May 2016, for their implementation by all involved parties (producers / processors / traders, GI Association, local authorities and NOIP). The assignment in 2016 constitutes the follow up on the previous work, intended to assess the progress made by local stakeholders on the Implementation Plans received by localities, as well as to continue guiding local stakeholders on the consolidation and further development of the 4 selected GIs.

The EU-16 (5) activity

The project enhanced the efficient organization and committed involvement on the following stakeholders: (1) The National Office of Intellectual Property of Vietnam (NOIP); (2) The Provincial People’s Committee of Lạng Sơn Province (PPC); (3) The Department of Science and Technology of Lạng Sơn Province (DOST); (4) The Department of Standard, Management, and Quality of Lạng Sơn Province (STAMEQ); (5) The Department of Agriculture and Rural Development of Lạng Sơn Province (DARD); (6) The Department of Industry and Trade of Lạng Sơn Province; (7) Lạng Sơn Star Aniseed Production, Processing and Trading Association; (8)

The companies processing, trading and exporting of Lạng Sơn star aniseed: VINA SAMEX JSC and LANG SON AFOREX CO, LTD.

The EU-16 (6) activity

With the support of EU-MUTRAP, National Office of Intellectual Property and related bodies, on 08 October 2012, Phu Quoc fish sauce has been granted GI certificate by the European Commission. This is the very first product of Vietnam to be granted GI in the Europe and accelerates trade between Vietnam and other countries. However, being protected in the EU, Phu Quoc fish sauce has faced many issues in implementation of protection, commercial development, enhanced benefits to producers and enterprises, including requirement for an effective and EU-conformity management system. For above reasons, this mission aims to identify the difficulties as well as the irrelevancies of the regulations, and propose corresponding amendments to the management system of the Phu Quoc fish sauce. Review the structure and contents of the current regulation of the Phu Quoc fish sauce; - Identify the shortcomings and the difficulties in the implementation of the current regulation of the Phu Quoc fish sauce; - Propose amendments and integration to the current regulation of Phu Quoc fish sauce and provide better conditions for national products to satisfy the requirements of the Vietnamese and EU legislation on GIs.

The EU-22 activity

As part of the EVFTA, Vietnam has agreed to take action to reduce and eventually eliminate IUU fishing. This is being done to comply with the EVFTA, Chapter 15: Trade and Sustainable Development, Article 8, Section 2 (c) 3 (Trade and sustainable management of living marine resources and aquaculture products), which states that Vietnam will: “Cooperate in and actively engage in the fight against illegal unreported and unregulated (IUU) fishing and fishing related activities with comprehensive effective and transparent measures to combat IUU. The Parties shall also facilitate the exchange of information on IUU activities and implement policies and measures to exclude IUU products from trade flows.”

The Government of Vietnam tasked the EU-MUTRAP Project with providing Experts to assist with developing the new draft Fisheries Law in line with the [European Commission] Directorate-general for Maritime and Fisheries (DG-MARE) recommendations. A number of issues have been identified with the Catch Certification scheme for the Vietnam capture fishery in relation to the process of validation and endorsement operations. Transshipment vessels must be regulated and licensed; transshipment logbook/reports will be used to ensure the traceability of the fish/seafood sources. Fishing port authorities should, in collaboration with the local Department of Fisheries, implement the procedures for granting Catch Certificate for fish/fish products required for export purposes. An Action Plan has been proposed with identifications of key steps, actions, fishing fleets and stakeholders involved and devolved responsibilities. The long term objectives of the improvement plan are to ensure that MCS will perform better for fishing fleets in input control (licenses, gear type and gear specifications, fishing grounds/fishing time…) and output control (landing volume, species captured, fish size caught), monitoring of fishing operations (logbook, VMS, catch declaration, Catch statement and certificate) as well as traceability of fish/fish products. *The draft Fisheries Law* was amended in line with the advice of the EU-MUTRAP experts.

The EU-26 activity deliveries (1) Review on certifications and policies related to the application of seafood certifications required by the EU market; (2) Review on the status of certifications applied for Vietnam's exported seafood; (3) Assessment of the status of certification application for seafood products in Vietnam currently; (4) Suggestion of appropriate solutions to support Vietnam businesses to apply certifications to push up seafood export to the EU market.

Table 7.5: Intervention's results for trade facilitation

Output	Expected induced output	Expected intermediate outcome
• Advice, technical support and awareness-raising campaigns for policy reform, institutional change, and implementation of new regulations; • Training, conferences, workshops, and country dialogues (e.g. to build institutional capacity of policymakers and policy enforcers involved in customs harmonization and simplification); • Establish knowledge management systems and design trade facilitation plans and policy guidelines; • Analytical, diagnostic, and (pre) feasibility studies; • Institutional support for regional cooperation; • Digitalization of trade procedures; • Support for establishment and operationalization of one-stop border	• Enhance knowledge on where to find bottlenecks in trade corridors; • Enhance awareness of role of trade facilitation procedures on competitiveness and better data available; • Tariff reforms and fiscal adjustment; • Better documentation of trade procedures (e-trade); • Less duplication and more efficiency of trade procedures; • Enhance regional and international harmonization of laws and regulations.	• More regionally integrated value chains; • Improved trade services; • Better tax collection; • Reduced transaction costs and transit time; • Increased market access.

posts.		

Source: Author's extract from the EU-MUTRAP activity

The following part describes more detailed the intervention's results of the EU-MUTRAP activities on trade facilitation in Vietnam.

The EU-13 activity

This activity provided a Guidebook for Vietnamese exports in the EU. The Guidebook is intended to serve as primary source of information for Vietnamese exporters in their investigation of export business opportunities in the EU. The Guidebook's objective is to assist MoIT to foster understanding among Vietnamese companies of distribution processes and market demand in the EU and to facilitate their adjustment to such processes and demand. As such the Guidebook is a useful tool for Vietnamese producers, exporters, trade lawyers and scholars who want to acquire better insights into market channel dynamics. The rationale of this Guidebook resides in the increased need of Vietnam to shift the focus of EU trade-related technical assistance towards deeper integration and behind the border issues and in particular the expressed wish of MoIT to provide more capacity building by EU consultants to create better understanding of EU regulatory requirements for the importation of Vietnam's major products into the EU. The Guidebook also directly support the achievement of MoIT's Industrial Production Development Plan and Trade Activities for 2011-2015 (IPDP) which set "boost[ing] export of goods with competitive advantages such as taking advantage of bilateral trade agreements" as one of the major goals of the Vietnamese government. The Guidebook gains crucial importance for Vietnamese exporters in the light of the forthcoming Free Trade Agreement between Vietnam and the European Union. Indeed, the reduction and elimination of EU import tariffs, the market access conditions of Vietnamese goods in the EU will be increasingly determined by behind-the-border governmental regulations and private marketing conditions imposed by distributors.

The EU-15 activity

The EU-MUTRAP launches the European countries Market Profile Report to support Vietnamese enterprise for doing business in this market. The report consists of 5 main sections: (i) An introduction to the market; (ii) The situation of economic development, trade and investment; (iii) Cooperation with Vietnam; (iv) Some trading attentions; (v) Assessment of Vietnam's export potential. The report provides 20 EU countries Market Profile Reports (including The UK;

Austria; Poland; Belgium; Portugal; Denmark; Germany; The Netherlands; Hungary; Greece; Ireland; Italy; Latvia; Finland; France; Romania; The Czech Republic; Slovakia; Spain; and Sweden), and 02 EU Sector Market Reports (EU Tea Market Report and EU Honey Market Report).

The EU-34 activity

The result has been conducted by Vietrade (MoIT) and the EU-MUTRAP with the view to provide necessary information to Vietnamese export companies who desire enhance their fruits and vegetables exports to the EU market. It contains a comprehensive analysis of: (1) Production, import, consumption and exports of Vietnam to the world and to the EU; (2) EU market character & trends, consumption, price, distribution channels, competition & fruit & vegetable exports/ imports; (3) Competition in the EU market; (4) EU Market requirements; (5) The gap between Vietnamese supply and demands and requirements of the EU market; and (6) Opportunities for Vietnamese companies.

The ICB-13 activity

This activity has the objective to support the Planning Department of the Ministry of Industry and Trade (MoIT) in all the background activities (researches, technical analysis, collection of international best practices, etc.) to draft a circular aimed to clearly identify the persons which, according to the legislation of Viet Nam, will benefit from the intra-corporate transferee horizontal commitments of GATS in the 11 services sectors covered by Viet Nam’s GATS/WTO commitments.

The NSO-16 activity

The EU-MUTRAP with the aim to enhance the EU-Vietnam trade is cooperating with Vietnam Coffee Association (VICOFA) to prepare a handy guideline on European market access requirements (Market Access Guidelines, or MAG). Focusing on the European markets, MAG is aimed to inform Vietnam’s coffee producers and exporters about the key market requirements applicable to European imported coffee and throughout the coffee export supply chain. It also suggests the necessary actions either to comply with the requirements or to be more export competitive. Accordingly, MAG consists of 3 following sections: Part 1: European market access requirements on green coffee; Part 2: European market access requirements on roasted and instant coffee; and Part 3: Practical issues concerning exporting coffee to Europe. All the inputs are compiled on basis of reviewing the European market access terms, including legal and buyers' requirements, international standards and practices, and most importantly consultation by our European expert with relevant stakeholder groups such as European importers and associations.

The ICB-1 activity touched upon three elements of Vietnamese competition policy against the backdrop of the experience of the Belgian and European Union competition policy. First of these elements is the question of the appeal against the decisions of the Viet Nam Competition Council (VCC). The second element concerns the broader question of redrafting the regulations on the organization and procedures of the VCC. The third element is about the general question of independence for regulatory institutions, to which the VCC belongs.

It should be clear that a number of conditions have to be met in order to install an efficient competition policy that adds to the general economic policy goal of improving productivity and economic growth. These conditions can be summed up under three categories: well written rules, well designed institutions and sufficient resources.

The INVEN-8 (2014) activity provided "Improving the monitoring of Environmental Impact Assessment Reports". The Ministry of Natural Resources and Environment (MONRE) of the Socialist Republic of Vietnam (Vietnam) has requested assistance from the EU-MUTRAP in order to: (1) harmonize its draft guidelines on post-Environmental Impact Assessment (EIA) monitoring with the procedures generally considered best practice in the international community; (2) ensure that the resulting guidelines address any weaknesses in the Vietnamese framework for post-EIA monitoring, which may have become evident since the draft guidelines were originally formulated. Therefore, this activity provides guidance on the fundamental concepts of post-EIA monitoring: why it is needed; how to ensure that it has a good foundation; how to ensure that the processes to be monitored actually achieve what they set out to achieve in terms of environmental protection; and to monitor those processes in order to know whether the EIA process as a whole is actually achieving the environmental targets for which it is intended.

The ICB-23 activity

This activity concerns obligations contained in the WTO Anti-Dumping and Subsidies and Countervailing Measures (SCM) Agreements. The Vietnam Competition Authority (VCA) intends to use this report as a support material when conducting injury determinations. Work on promoting FDI on EGS forms part of the EU-MUTRAP, the aim of which is to support the upgrading and completion of the policy framework in Vietnam. The paper provides significant advice to the line ministries interested in the field such as MONRE, MoIT and MPI to boost the inflows of EGS investment in Vietnam. Attracting more investment, particularly foreign investment in EGS could be beneficial to Vietnam's environment and assist the country in achieving its goals for green growth.

Table 7.6 Intervention's results for trade policy and negotiation capacity of Vietnam

Output	Expected induced output	Expected intermediate outcome
• People trained (especially those related in the EVFTA negotiation); • Departments reinforces; • Studies and research done and disseminated; • Seminars, workshops, visits, and campaigns organized; • Trade needs assessments executed; • Dialogue platforms organized; • Policy and legal advice given;	• Better understanding of international trade agreements and the EVFTA; • Enhanced cooperation across and within ministerial departments; • Enhanced knowledge (legal, scientific, economic) and improved negotiation skills; • Increased involvement of private sector and civil society in Vietnam; • Enhanced participation in international organizations and trade and dispute bodies; • Better position in regional and international trade negotiations and dispute settlements.	• Enhanced implementation of trade policies; • Enhanced trade law enforcement; • Changed policies; • Changed legislation; • Trade policies integrated into Vietnam development strategies; • More favorable trade terms.

Source: Author's extract from the EU-MUTRAP activity

The EU-MUTRAP contributed in enhancing Vietnamese trade policy and negotiation capacity through whole progress of the project. However, we extracted some main results in this term under these activities bellows*:*

The EU-38 activity focused on the following topic: basic concepts of international trade policies and international trade agreements; the effect of economic integration; the EU's objectives and strategies for bilateral and multilateral trade; the institutional framework of the EU's trade policies; and the EU's approach to free trade agreements.

This activity disseminated the results of the EU-MUTRAP study assessing the impact of EVFTA on the economy of Vietnam. This activity focused on the institutional, economic, and legal implications of the Agreement for the most important sectors and products of Vietnam in the EU. It is also provided a forum for Vietnamese local business leaders to interface with the negotiators of the EVFTA. It introduced perspectives from both sides (the EU and Vietnam) of the deal, and expectations of how the Agreement will shape future business relations.

The ICB-1 activity supported Vietnam in participating in ASEAN Economic Community.

An example of assessing the absorptive of AfT in the EU-MUTRAP's activity

In particular, this section used the intervention's framework to analyze the absorptive of AfT in the EU-MUTRAP. Choosing a sub-program of the EU-MUTRAP in which the EU supported to enhance Vietnam's Intellectual Property Rights (IPR). Moreover, I applied a structural analysis of the theory of change for an example of the EU-MUTRAP which promoted to the four selected Vietnamese GIs. These activities of the EU-MUTRAP contributed to a comprehensive Vietnam's IP legislation which is now covering most aspects of protection of IP in accordance with international standards required by Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and its relevant implementing regulation. However, the enforcement mechanism of TRIPS still needs to be improved, fines must be increased for it to truly become an effective deterrent. In addition, an awareness of the importance of protecting IPR among the Vietnamese consumers needs to be raised. Thus, in this respects, IPR protection remains challenging for European business while doing business in Vietnam.

Intellectual property is very important for many European companies. For instance, in the fashion industry or wine or spirits etc. where the protection of the trade mark is significant not only for the company but also for the consumer because these companies are investing a lot in research and development ensuring the quality of their product. Not complying with IP enforcement damages Vietnam's investor confidence and investors in IPR-dependent added value sectors may look at other economies to bet on. Conclusively, EVFTA has set more ambitious standard of GI protection as against what is obligated under Vietnamese national legislation. As a result, Vietnam shall possibly need to take serious account of challenges in quality management of GI-denominated products so as to make in-time adaptations in both institutional and practical terms.

In addition, possible pitfalls pertaining to business awareness of GI significance, small-scale GI product groups, technical assistance and GI product market entry are also envisaged (Dao, 2016).

According to a report of the *National Office of Intellectual Property of Vietnam (NOIP, 2017)*, the EU-MUTRAP project implemented a number of activities focusing on enforcement and management of GIs in localities, namely: (i) Successful organization of training on improving IPR enforcement for improving public awareness as well as guiding and facilitating procedures on IPR enforcement; (ii) Workshops on "Registration for GIs protection in Europe" in Lang Son and Dak Lak province in 2014; Improving capacity of local administrative agencies and enterprises on quality control of GIs: the project assisted four local beneficiaries[27] that having GIs of Lang Son Star Aniseed, Buon Ma Thuot Coffee, Binh Thuan Dragon Fruit, Hoa Loc Mango Fruit, to organize training and capacity building on internal and external quality control to products bearing these GIs, making Plans of GIs control for four products with lots of recommendations for local beneficiaries to consider and implement; (iii) Workshops on Commitments under the EVFTA relating to GIs in Ha Noi capital and Ho Chi Minh city (in 2016 and 2017 respectively) to provide information to related administrative agencies, enterprises to have better understandings about advantages and commitments on GIs once the EVFTA come into effect (Ministry of Science and Technology, 2017, p.29).

Specifically, the EU-MUTRAP project supported the development of the four selected Vietnamese GIs, seeking to create organization and institutional capacities to ensure that the multi-years process of developing GIs moves forward and evolves in an appropriate manner. The EU-MUTRAP provided technical and legal guidance to local stakeholders for improving their GI management (for the four selected GI localities with four GI products). The project also supported to set up traceability and control systems, in order to promote the development of the respective GIs of the four selected GI localities. EU-MUTRAP GI experts gathered the necessary data and identified the weaknesses of the overall GI management as well as the challenges ahead to ensure the sustainability and further development of the four selected GI localities.

[27] The four selected products have been selected by NOIP to be supported by the EU-MUTRAP.

Inputs

- A part of 16.5 million euros
- GIs standards and regulations (following the EU and international systems).
- Qualified GIs experts
- Qualified relevant stakeholders
- Selected GIs localities
- Qualified technical assistance providers

Outputs

Activities

- Organize many workshops (such as 2 workshops in 2014, and 4 workshops in 2015) in different parts of Vietnam (such as Dak Lak province and Lang Son province in 2014) on the GIs registration conditions and procedures in the EU.
- Provide ad hoc advice to local stakeholders regarding the documents needed to apply for the registration of each GI in the EU.
- Assist for four selected Vietnamese localities to take the necessary steps for the consolidation and further development of their GIs (including Lạng Sơn star aniseed GI; Buôn Ma Thuột coffee GI; Bình Thuận dragon fruit GI; and Hòa Lộc mango GI).

Products

- An Assessment and Implementation Plan for the 4 selected Vietnamese GIs as mentioned above (one per GI), through which defining a road map to foster their consolidation and further development.
- An assignment of the four selected GIs (one per GI) intended to assess the progress made by local stakeholders on the Implementation Plans received by localities, as well as to continue guiding local stakeholders on the further development of the 4 selected GIs

Participants

- EU-MUTRAP GI experts
- Relevant stakeholders (including producers, local authorities, and representatives of the GI associations).

Outcomes

Learning

- Increased GIs awareness
- Increased …

Actions

- Increased GIs registrations and implementations.
- Improvement GIs management and administration.
- Increased GIs protections.

Input Prerequisites

- Vietnamese development of GIs's protection
- The requirements of WTO accession and FTAs (such as EVFTA and CPTTP) in the issues/articles of GIs to Vietnam.
- The requests for GIs's supporting of the National Office of Intellectual Property of Vietnam to the EU-MUTRAP.
- The efficient organization and committed involvement of the relevant stakeholders.

Output Prerequisites

- Continuous applications and development GIs
- Enhancing protections and rising value for GIs's products.
- Project sustainability post-project implementation.

Figure 7.5 An example of assessing the absorptive of AfT in the EU-MUTRAP's activity

Source: Author's extracted from the EU-MUTRAP activity

7.8 Sustainability

The EU interventions have been explicitly aimed at Vietnam's economic reform process and the country's integration in the regional and global economy/trading system and have effectively responded to the GoV's and the emerging private sector's capacity needs. There is ample evidence for sustainability of the EU AfT projects in the case of the EU-MUTRAP in Vietnam.

With the inception of EVFTA negotiations, the EU-MUTRAP was redesigned as a tool to promote deeper trade integration on a global and regional level. EU-MUTRAP's stated goal was to support the building trade-related capacity, by training civil servants and provide expertise that would, in the interest of the EU, translate to policy application and ensure the implementation of FTAs commitments. Therefore, the project activities were designed to build capacity for policy making, the negotiation of FTAs and eventually the building of capacity to implement future EVFTA commitments, particularly those agreed in the EVFTA (MUTRAP, 2014). Moreover, the EU-MUTRAP was in many ways perceived by the EU to serve as a parallel track measure that could facilitate the FTA negotiation process through dialogue and cooperation, and above all more informal access to stakeholder. Thus, the projects activities have been consistently strengthened trade-related capacity for many Vietnamese civil servants and stakeholders. Yet, there were shortcoming too. For example the EU-MUTRAP project, where despite many positive activities, it proved difficult to establish a clear signal along the axis of recipient's national needs – donor response, largely for the reasons internal to the MoIT (Habel, 2018).

Overall, the EU-MUTRAP has been focused primarily on influencing the implementation of existing pro-market reform policies, rather than introducing or designing new ones. This has the result of ensuring very high GoV ownership of support provided (Hoang, 2014). While it is difficult to quantify and qualify the specific impact of the EU-MUTRAP interventions on Vietnam's legislative and policy-making processes, linkage of sustainability clearly do exist.

Chapter 8 Vietnam trade performance

In order to largely result the impact of EU AfT on Vietnamese trade performance, it is essential to understand the features of trade performance in general and EU trade relations in particular to this recipient. Therefore, the first part of this chapter presents a brief discussion of the main Vietnamese trade performance in recent years (mainly from 2007 to the present). The EU is one of the largest trading partners in Vietnam. Hence, the following part underlines main Vietnam and the EU trade achievements as extensive evidence of the impact of EU aid/EU AfT in Vietnam. The last section discusses the potential impact of EVFTA for both sides as a sustainable influence of EU AfT in general and the EU-MUTRAP in particular in Vietnam.

8.1 Vietnam's trade performance

Vietnam's trade development during the past decades has been remarkably successful, with high growth rates and significant improvement of trade policies which resulted in the success of Vietnam's integration into global market (WB, 2018). Vietnam has established trade relations with more than 200 countries and territories, and has been considered as one of the largest export-oriented economies in ASEAN (MPI, 2017). A part of this achievement can be accounted to ODA which Vietnam has received from its bilateral and multilateral donors (GoV, 2016). As discussed above, the EU took an important role of supporting to Vietnam's development in general and improving the trade performance in particular. Therefore, the next section presents a brief of Vietnam's trade performance in recent years.

WB (2018) considered Vietnam as one of the most open economies to international trade in Asia. The value of import and export turnover reached 400 billion US dollars in 2017. Within 10 years (from 2007 to 2017), the value of import and export turnover increased 4 times, and the growth rate is changing rapidly (GSO, 2018). In 2017, Vietnam exported over 220 billion US dollars, marking it the 21st largest exporter in the world (WB, 2018). The exports of Vietnam have increased at an annualized rate of 13.5 percent between 2012 and 2017 (from 116 billion US dollars in 2012 to above 220 billion US dollars in 2017). The imports of goods amounted to 235 billion US dollars in 2018 (GSO, 2018). The trade surplus reached 16.5 billion US dollars in 2018, against 10.8 billion US dollars in the previous year. Vietnam trade to GDP ratio for 2018 was 208 percent, an 8 percent increased from 2017 (WB, 2018). Vietnamese trade is characterized by strong geographic inequality: the country shows a trade surplus with Western countries, but a growing deficit with its Asian neighbors (GSO, 2018). Vietnam's main trading partners are the U.S, the EU, China, and South Korea. Its main providers are the Asian countries (mainly from China, South Korea, and the ASEAN). Table 8.1 shows some selected indicators of Vietnam's trade performance.

Table 8.1 Selected indicators of Vietnam's trade performance

Indicator	**2006**	**2015**	**2017**
Trade to GDP ratio (%)	139	178	200
Commercial services as % of total exports (%)	11	6	6
Commercial services as % of total imports (%)	11	10	8
Non-fuel intermediates (% of merchandise exports)	23	31	36
Non-fuel intermediates (% of merchandise imports)	62	69	70
Product diversification (based on HS02, 4-dig.)			
Number of exported products (max. 1,245)	986	1043	1064
Number of imported products (max. 1,245)	1172	1161	1169
Market diversification			
Number of export markets (max. 237)	173	141	141
Number of import markets (max. 237)	166	133	138

Source: OECD (2019), Aid for trade at a glance

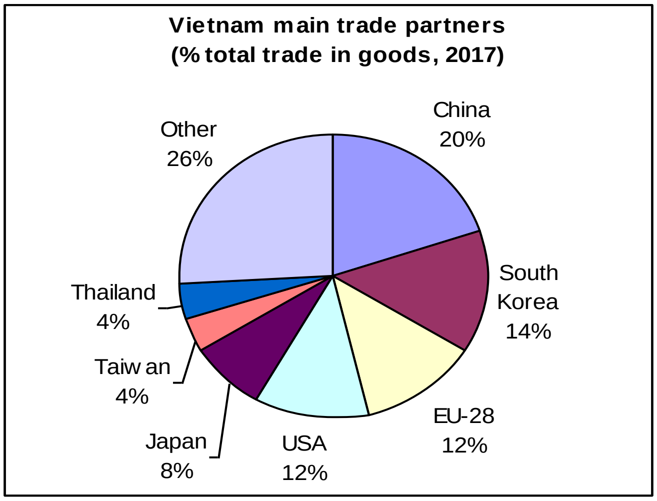
Vietnam is participating extensively and deeply into the globalization process and integrating deeply into the regional and world economies. Vietnam has integrated deeply into the world economy in diversified levels, conforming to global principles and standards. One of the important reforms in Vietnam was the revision of its trade and taxation policies. Various legal documents (such as the Enterprise Law, Investment Law, and guiding documents) were issued and amended to create a more level playing field for enterprises of all forms of ownership. The GoV launched Project 30 (in 2017) and Resolution 19 (since 2014) which lead to reform administrative procedures as well as to improve the business environment and competitiveness of the nation in the context of Vietnam's deeper economic integration (Thanh, 2018). A part of the economic and trade achievements can be accounted for the rising of FTAs which Vietnam has signed. Vietnam's FTAs have covered not only the movement of goods, but also trade in services, investment, and other trade-related aspects. Exporters in Vietnam have benefited from the enlargement of export markets as well as reduced tariff and non-tariff barriers, thanks to FTAs. By the end of 2017, Vietnam has signed 12 FTAs, of which eight have already become operational, and it is negotiating another four (16 FTAs[28] in total). The new generation of Vietnam's FTAs has a broader scope and its contents are beyond commitments on trade, services, and partially investment, referring more to the institutional and legal issues in the fields of environment, labor, state-owned enterprises, intellectual property, government procurement, and "non-economic" or "political economy" rules. When coming into force, these FTAs will strongly influence Vietnamese stakeholders (MPI, 2018).

Despite the overall success, there are areas where the remaining challenges are serious. Macroeconomic stability is one example. Given its high trade openness and limited fiscal and monetary policy buffers, Vietnam remains susceptible to external volatilities. Vietnam is one of the most trade-dependent countries in the region, with trade volume reaching twice the size of its GDP (ADB report, 2018). Escalating global trade tensions could cause a falloff in export demands while tightening global liquidity could reduce capital inflows and foreign investment. Domestically, a slowdown in reforming state-owned enterprises and banking sectors could undermine growth prospects and create public sector liabilities (WB, 2018). While Vietnam has maintained macroeconomic stability, rising public debt and remaining public sector vulnerabilities need to be addressed to solidify macroeconomic stability and resilience. Institutional legacies, incomplete market institutions, and a cumbersome investment climate have all become impediments to productivity growth, especially for the private sector. Structural reforms are important to lift the medium-term growth potential of the economy (IMF, 2018). Vietnam's rising economic prosperity is impacting on its development financing landscape. Moreover, Vietnam's access to the international capital market is limited due to the current debt ceiling of 65 percent of GDP (WB, 2018). Vietnam's rapid development has taken millions of people out of poverty. Yet there are downsides: environmental damage has assumed dramatic proportions, with heavy use of resources, serious air pollution and polluted soils, and waterways (UNDP, 2018).

[28] As of late 2017, Vietnam has signed 12 FTAs, of which eight have already become operational, and it is negotiating another four (16 FTAs in total). As a member of ASEAN, Vietnam has been involved in ASEAN Free Trade Area (ACFTA – 2004), ASEAN – South Korea Free Trade Area (AKFTA – 2006), ASEAN – Australia, New Zealand FTA (AANZFTA -2009), ASEAN – Japan FTA (AJFTA – 2003), and ASEAN – India FTA (AITIG – 2009). On the other hand, Vietnam has signed seven other FTAs as in independent partner, viz AFTA (1996), Vietnam – Japan FTA (2008), Vietnam – Chile FTA (2011), Vietnam – South Korea FTA (2015), Vietnam – EU FTA (2016) and TPP (2015, TPP11-2017). Additionally, Vietnam is negotiating four FTAs with trade key partners such as Israel, Hong Kong, the Regional Comprehensive Economic Partnership (RCEP), and EFTA.

3.2 The EU-Vietnam trade relations

The cooperation between the EU and Vietnam in terms of trade has steadily strengthened since both parties established formal diplomatic ties in the 1990s (EC, 2019). The Vietnamese economy is heavily dependent on trade with the EU, which is the most important export market for some key Vietnamese products, and the third-largest two-way trade partner (just after China and South Korea) (GSO, 2017). Figure 3.9 shows Vietnam's main trading partners in which the EU accounted for 12 percent total trade in goods of Vietnam.



Source: General Statistic of Vietnam (GSO), 2017

Figure 8.1 Vietnam's main trade partners in 2017

As a rapidly developing and fast-growing economy, Vietnam holds a substantial market for EU businesses and has an important role in political ties with the EU (EC, 2019). Vietnam has a vibrant economy of more than 93 million consumers, a growing middle class, and a young, dynamic workforce (IMF, 2018). Vietnam has a favorable geographical position. Therefore, Vietnam is a potential destination for the EU's agricultural, industrial, and services exports (EU Delegate to Vietnam, 2015). In 2017, Vietnam has been the EU's second-largest trade partner among the 10 ASEAN countries (after Singapore) (EC, 2019).

More specifically, between 2007 and 2017, the EU has been a major trading partner and an important export market for Vietnam, with trade becoming the backbone of bilateral relations. Imports and exports between Vietnam and the EU are largely complementary, which promises further growth in bilateral trade. Trade between the two sides reached 14.2 billion USD in 2007 and increased to 50.4 billion USD in 2017, with Vietnamese exports to the EU accounting for nearly 38.3 billion USD, a more than four-folds increase compared to 2007, while imports from the EU reached 12.1 billion USD, up two times (see Table 8.2). On average, Vietnam's exports to the EU have seen double digit growth during 2007-2017, annualized at 10-15 percent and even reaching over 20 percent in 2008 and 2010. Moreover, 2017 witnessed a historical milestone in bilateral trade when Vietnam became one of the ten largest exporters to the EU for the first time (EC, 2019).

Table 8.2 Bilateral trade between Vietnam and EU28, (2007-2017)

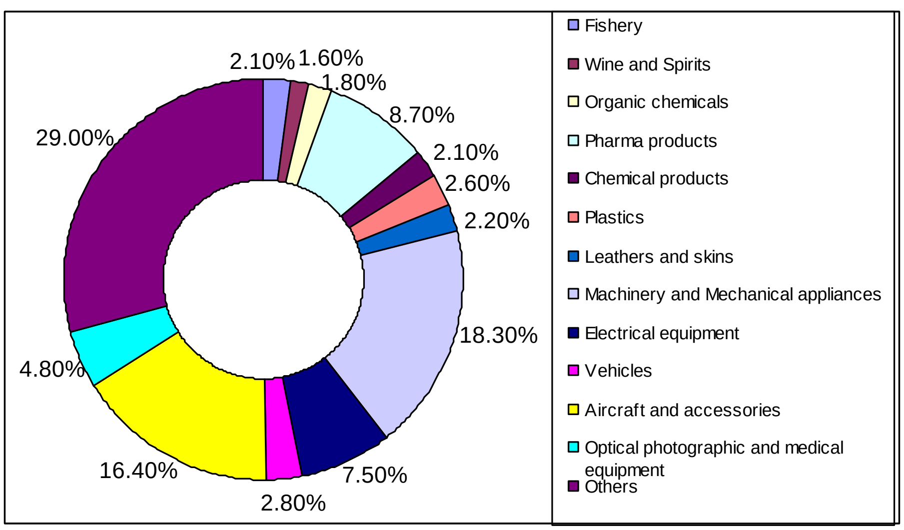
Year	Export from Vietnam to EU		Import of Vietnam from EU		Net export (1000 USD)
	Volume (1000 USD)	Increase (%)	Volume (1000 USD)	Increase (%)	
2007	9,112,941	28.46	5,147,566	64.50	3,965,375
2008	10,912,971	19.75	5,583,857	8.48	5,329,114
2009	9,452,107	(13.39)	5,853,372	4.83	3,598,735
2010	11,407,561	20.69	6,369,427	8.82	5,038,134
2011	16,555,556	45.13	7,762,233	21.87	8,793,323
2012	20,317,501	22.72	8,796,410	13.32	11,521,091
2013	24,338,958	19.79	9,432,921	7.24	14,906,037
2014	27,976,431	14.95	8,844,285	(6.24)	19,132,146
2015	30,788,032	10.05	10,325,719	16.75	20,462,313
2016	34,029,040	10.53	11,158,469	8.06	22,870,571
2017	38,298,723	12.55	12,132,247	8.73	26,166,476

Source: Calculation of the author based on the information from General Statistic of Vietnam (GSO, 2018)

In 2018, the EU purchased as much as 17 percent of Vietnam's global exports in 2018 (GSO, 2018). Two-way trade expanded to 56.3 billion US dollars in 2018 and this is mainly thanks to the impressive growth rate of Vietnam's exports to the EU (GSO, 2018). As exports have grown at a far greater pace than imports, Vietnam's trade surplus with the EU has increased from 3.9 billion US dollars in 2007 to over 26 billion US dollars in 2017, which corresponds to more than a six-fold increase (GSO, 2018).

The EU is the biggest destination for many of Vietnam's key exports. In 2018, EU imports of telephone sets from Vietnam were valued at 13.12 billion US dollars, which represented nearly one third of Vietnam's global exports of telephones. The amount EU purchased Vietnamese computers and electronics represented 16 percent of the country's revenues from global exports of computers and electronics. In addition, the EU has been the second largest importer of Vietnamese textiles and garments for a long time (representing nearly 13.5 percent of Vietnam's global export in 2018). The EU was an important market for quite a few Vietnamese agro-products such as coffee, cashew nuts and fishery. In 2018, the EU bought more than one third of Vietnam's global coffee exports, nearly 25 percent of Vietnam's global cashew nuts exports and 16 percent of the country's global fishery exports.

The structure of Vietnam's exports of commodities to the EU has changed in positive ways (Tinh, 2018). In the 2000s, Vietnam's products exported to the EU mainly comprised of agro-products, footwear and apparel, many of which were either in the form of raw materials or simple processing with little value-added. In recent years, Vietnam has been exporting to the EU more sophisticated products such as telephone sets, scooters, or accessories for transport (Tinh, 2018; EC, 2019). Vietnam also has a diverse structure when it comes to the import of goods from the EU. The EU's exports to Vietnam are mainly high-tech products, including electrical machinery and equipment, aircraft, vehicles, and pharmaceutical products. In 2017, machinery and mechanical appliances accounted for 18.3 percent of total EU's exports to Vietnam (see Figure 8.2). The second largest EU's export product to Vietnam was aircraft and accessories (reaching 16.4 percent in 2017). Vietnam spent nearly 1.45 billion Euros on imports of Airbus and accessories from the EU for its air fleet in 2018 (EC, 2019). However, the value of trade in services between the EU and Vietnam lags behind trade in goods. Trade in services summed up nearly 4.5 billion dollars (compared with the total trade values above 50 billion US dollar in 2017, with a surplus (about 500 million US dollar) in the EU's favor (EC, 2019).



Source: Eurostat, 2018

Figure 8.2 Proportions of EU's main export products to Vietnam in 2017

The EU and Vietnam are two unequal partners in many manners (EC, 2019). For example, the EU's combined GDP was worth almost 80-fold that of Vietnam in 2017. Vietnam's population is less than a fifth of the EU. Furthermore, per capita income in Vietnam is less than a tenth of the EU average (EC, 2019). There is also an enormous difference when it comes to the size of both economies especially as regards trade. In 2017, extra-EU trade in goods was nearly tenfold that of Vietnam's with the rest of the world. Vietnam's trade in goods to the EU represented around 2 per cent of the total EU imports of goods, and Vietnamese imports of goods from the EU accounted for just more than 0.6 percent of total EU sales of goods to the rest of the world in 2017 (EC, 2019). Furthermore, Vietnam trades unequally with the EU member states and most of the growth in trade between Vietnam and the EU can be attributed to the increase of bilateral trade flows between Vietnam and Germany, the UK, and France (EC, 2019).

Nguyen (2015) indicated that Vietnam has several comparative advantages to spur EU investment and expand trade flows such as abundant labor force with low-cost, a reforming taxation's regulation, and a strengthened consumption market, etc. Indeed, the labor costs in Vietnam are 50 percent of those in China and around 40 percent of those reported in Thailand and the Philippines (GSO, 2018). The Vietnamese government offered a competitive financial incentives to foreign investors, in addition to a zero percent withholding tax on dividends remitted overseas and a low cooperate income tax (CIT) rate of only 20 percent since the mid-2000s (Van, 2019). Moreover, Vietnam has a strategic position in Southeast Asia and it is an active member of the ASEAN (EU Delegation, 2015). The EU enhances trade relations with Vietnam as a way to improve the EU's position in the ASEAN (Hoang, 2014). This conveys the EU firms the occasion to choose to set up production and exporting hubs in Vietnam to approach other Asian countries (EC, 2019). The increasing investment flows between the EU and Vietnam are also contributing to the acceleration of trade (EC, 2019). According to the Foreign Investment Agency of the Vietnamese Ministry of Planning and Investment, the EU is one of the most important sources of FDI for Vietnam (MPI, 2017). In 2018, the EU member states invested over 1.068 billion US dollar into 139 projects in Vietnam. By the end of 2018, the investors from 24 out of 28 EU member states had injected a total committed FDI worth more than 23.9 billion US dollar into 2,133 projects in Vietnam (EC, 2019). Among all EU member states that invested in Vietnam, the Netherlands is taking the lead as the biggest FDI partner with nearly 9.33 billion US dollar in capital and 318 projects, followed by France with nearly 3.62 billion US dollar and 525 projects. The UK ranks third in the EU countries-Vietnam ranking with nearly 3.49 billion US dollar in capital and 340 projects (EC, 2019). Vietnamese businesses also invested in about 12 EU member states (Belgium, Bulgaria, Czech Republic, France, Germany, Greece, Italy, Netherlands, Poland, Spain, Sweden, and the UK with a total registered capital of about 35.9 million US dollar (EC, 2019).

Another issue that influencing the trade relations between the EU and Vietnam has a worthy of mentioning is the tariff and non-tariff barriers. Vietnam has preferential access to the EU market under the General System of Preferences (GPS)[29]. Particularly, 24.5% of tariff lines of Vietnam's exports to the EU are already fully liberalized, which are equivalent to 59% of Vietnam's trade volume going to the EU (including some of Vietnam's key products export to the EU such as electronics and coffee) (EC, 2019). However, the EU imposes relatively high tariffs on imports from Vietnam on some other key products such as dairy products, beverages, textiles and apparel, and footwear. Vietnam, on the other side, charges relatively high tariffs on agricultural products as well as on motor vehicles from the EU. In addition, Vietnam puts low tariffs on EU chemicals and machinery imports (GSO, 2016). Albeit, the significantly different tariff rates among sectors and products, the trade-weighted tariff burdens averaged around 4% for both sides (Grumiller et al., 2018).

Despite the impressive increase in trade flows with the EU, Vietnam had encountered many difficulties in its dealings with the EU. The EU imposed not only high standards and strict rules on food hygiene, safety, sanitary and phytosanitary (SPS), and environmental issues, but also technical barriers to its imported products. These are posing real challenges and obstacles for Vietnamese enterprises and exporters who need to meet the requirements. Due to limited technical and financial capacity, Vietnamese products are marked as inadequate for sale on the EU market (Khoat & Cismas, 2019). Furthermore, opening the Vietnamese market for goods and services from the EU means that Vietnamese enterprises need to compete harder on the domestic market. Meanwhile, EU businesses have advantages over Vietnamese companies in terms of competitiveness, arising from technology, and management. EU products get a good reputation in quality on the Vietnamese market. This situation threatens Vietnamese producers with forced downsizing, or bankruptcy (Tinh, 2018). Vietnamese businesses are also under the threat of trade

[29] By GSP, the EU grants Vietnam access to the EU market with lower tariffs for the majority of tariff lines and duty-free and quota-free access for "non-sensitive" products.

remedies from the EU. Vietnam faced the use of anti-dumping, countervailing, and safeguarding measures from the EU for some main export products such as footwear in 2016 and seafood in 2017 (EC, 2017). Particularly, the European Commission (EC) re-imposed the 10 percent anti-dumping clause on imports of leather footwear manufactured by fourteen companies established in Vietnam (EC, 2017). For seafood, the EU imposed strict food safety regulations, rules of origin, and "voluntary quality certification" requirements as well as environmental responsibility (Khoat and Cismas, 2019). Vietnamese seafood products must be in line with the European Food Safety Law and Article 44 of the law says seafood exports must meet the standards set by importing countries. Therefore, Vietnamese seafood shipments to the EU should comply with EU regulations and processors of animal-based products must be recognized by competent agencies that their product meet EU standards. Thus, it produced several difficulties for the Vietnamese fishery sector. For example, the EU gave a "yellow card" to Vietnam in October 2017 for not complying with EC regulations on illegal, unreported, and unregulated fishing (IUU) (EC, 2017). For this reason, there was a conspicuous decrease in Vietnam's seafood export turnover to the EU. EU customers were afraid of being fined under IUU regulations, so they reduced or stopped buying seafood from Vietnam. Vietnam's seafood exports to the EU have been significantly affected, down by 6.5 percent, nearly 390 million US dollar in 2018 (Customs News, 2019).

Furthermore, notwithstanding the ongoing reform, Vietnam continues to be a difficult place to do business, notably when it comes to trade logistics. Vietnam ranked 68th on the World Bank's 2018 Doing Business score-board and the inefficiency of trade logistics was identified as a particularly serious bottleneck (World Bank, 2018). Based on the evaluation of institutions by the World Economic Forum (2016), Vietnam has a low position on the institutional index, ranked at the 85th position out of 140 countries, and 8th of the 10 ASEAN countries - lower than Laos. Indeed, Vietnam ranked poorly on institutional indicators in areas such as "*irregular payments and bribe" (*ranked as low as 106th/140); the "*strength of investors' protection*" and "*burdens from government procurement*" (which ranked 100th and 90th respectively). This suggests that the administrative procedures in Vietnam are still complicated, time-consuming, and costly for enterprises. Inevitably, this contributes to limited public service quality, an increase in irregular payments, corruption and harassment toward businesses and investors, making the business environment and economy less transparent, less attractive, and less competitive (World Economic Forum, 2016). These issues bring obstacles to the trade relations between the EU and Vietnam

(EC, 2019). Moreover, it is a rising concern among the EU's right holders that Vietnam's Intellectual Property Right (IPR) enforcement system is not sufficiently developed to control the rapid growth of piracy and counterfeiting, despite the substantial legislative work completed over the past several years (EC, 2018). In the EC 2016 report on EU customs enforcement of IPR, Vietnam remained one of the "top 7" countries whose IPR infringing goods were detained and seized at the EU borders. Trade, in counterfeit products, is also a concern in Vietnam (EC, 2018).

The new achievements of EU and Vietnam trade cooperation may come from the EU-Vietnam Free Trade Agreement (FTA)[30]. The FTA is expected to contribute to a stable and predictable entrepreneurial environment, which in turn promotes growth and employment, enhances trade liberalization and a better market access (EC, 2019). According to the European Chamber of Commerce in Vietnam (2018), the FTA may help Vietnam's GDP increase by 10 to 15 percent; Vietnam's exports to the EU might increase by 30 to 40 percent and imports from Vietnam into the EU might increase by 20 to 25 percent. Moreover, Vietnam acts as the ASEAN coordinator for the relations with the EU in general and the negotiation of an EU-ASEAN Free Trade Agreement in particular (EC, 2018). The EU considered the free trade agreement with Vietnam as a '*role model'* agreement to apply for other developing countries in the ASEAN such as Laos and Cambodia (EC, 2018). Beyond trade, there is a strong belief that EU aid has contributed positively to enhancing ties between the EU and Vietnam (EU Delegation to Vietnam, 2015; GoV, 2016; Hoang, 2014; OECD, 2013).

8.3 The EU-Vietnam Free Trade Agreement

The new achievements of the EU and Vietnam trade cooperation may come from the EU-Vietnam Free Trade Agreement (EVFTA). The EU and Vietnam launched the negotiation of the EVFTA in June 2012. In December 2015, after 14 rounds of negotiations extended for approximately 3 years, both Vietnam and the EU officials announced the conclusion of the EVFTA. The final text of the EVFTA was published in February 2016. The EVFTA is separated

[30] The EU and Vietnam launched the negotiation of the EVFTA in June 2012. In December 2015, after 14 rounds of negotiations extended for approximately 3 years, both Vietnam and the EU officials announced the conclusion of the EVFTA. The final text of the EVFTA was published in February 2016. After that, the EVFTA is separated into two agreements, a trade agreement and an investment agreement. In August 2018, the EU announced the official document of the Free Trade Agreement (EVFTA) and the Investment Protection Agreement (now called EVIPA). On June 30, 2019 the European Council (EC) and the Vietnamese government signed the EVFTA and EVIPA.

into two agreements, a trade agreement and an investment agreement[31]. In August 2018, the EU announced the official document of the Free Trade Agreement (EVFTA) and the Investment Protection Agreement (now called EVIPA). EVFTA is a comprehensive, high-quality agreement, balancing the benefits for both Vietnam and the EU, in accordance with the provisions of the World Trade Organization (EC, 2019). On June 30, 2019 the European Council (EC) and the Vietnamese government signed the EVFTA and EVIPA. This is the largest free trade agreement which Vietnam signed which reaches 27 economies of Europe. The EVFTA includes 17 chapters, 2 Protocols and notes which cover, among others, trade in goods (include general procedures and commitment to market opening), rules of origin, custom and trade facilitation, the Safety and Health Protection (SPS), Technical Barriers to Trade (TBT), commercial services (include general procedures and commit to market opening), investment, trade defense, competition, national enterprises, Government procurement, intellectual property, commercial and sustainable development, cooperation and capacity building, legal-institutional issues. Of these, the most important parts reside in the trade in goods and services fields, where the EU will abolish about 85.6% of import tariffs, equivalent to 70.3% the Vietnam's export turnover, after this agreement is effective. Therefore, for most of the products and services exported to Europe, tariffs will be abolished. For products and services that are not eligible for incentives, within 7 years after this agreement takes effect, the EU will eliminate import duties on 99.2% of tariff lines equivalent to 99.7% of Vietnam's export turnover. The remaining 0.3% of export turnover will be committed by the EU with tariff quotas with the import tariff rate in the quota of 0%. Goods which are exported form the EU to Vietnam will enjoy preferential tariffs. Vietnam will eliminate 48.5% of the tariffs (equivalent to 64.5% import's turnover). After 7 years, Vietnam will abolish 91.8% of the tariffs equivalent to 97.1% export turnover form Vietnam to the EU (equivalent to 99.8% import's turnover). Further, Vietnam and the EU agree with the contents related to custom procedures, SPS, TBT, trade defense, etc. and the creation of a legal framework for the two parties to cooperate and facilitate export and import of the enterprises. The fields which Vietnam has a favorable commitment to EU investors include a number of professional services, financial services, telecommunications services, transport services, distribution services. The two sides

[31] In 2018, the EU and Vietnam decided to split their free trade agreement into two different agreements. The FTA covers exclusive EU competences, and can therefore be ratified by the EU alone, without involving the EU member states. The IPA covers non-direct (portfolio) investment and investor-state dispute settlement mechanisms: these are shared competences, on which the EU shares decision-making powers with the EU member states, meaning that the agreement must also be ratified by them.

also made commitments on national treatment in the field of investment, and discussed the ways to handle the disputes between investors and state.

The IPA's content establishes commitments and contains guideline for dispute settlements. Firstly, the parties commit to give national treatment and most favored nation treatment to the investment of the other Party's investor, with some expectations, as well as fair, satisfactory treatment, safe and adequate protection, allowing for freedom of transfer capital and profits from overseas investments, commit to no expropriation, nationalization of assets by investors without adequate compensation, commit to compensate for damages to the investor of the other party similar to domestic or third party investors in case of losses due to war, riots, etc. Secondly, in the case of dispute between a party and the investor of the other party, the parties agree to handle the dispute based on discussions, mediation, and reconciliation. Parties will use the specific ways regulated under this Agreement.

The agreements are set to bring unprecedented benefits for both European and Vietnamese companies, consumers and workers, while promoting respect for labor rights, environmental protection, and the fight against climate change under the Paris Agreement on Climate Change. President of the EC Jean-Claude Junker said, *"I welcome the decision taken by EU members. After Singapore, the agreements with Vietnam are the second to have been concluded between the EU and a Southeast Asian country, and represent stepping stones to a greater engagement between Europe and the region. It is also a political statement by two partners and friends standing together for open, fair, and rules-based trade."* Commissioner for Trade, Cecilia Malmström, also saluted the agreements. *"I am very pleased to see that member states have given a green light to our trade and investment agreements with Vietnam. Vietnam is a vibrant and promising market of more than 95 million potential customers, and both sides have much to gain from stronger trade relations. Beyond the clear economic benefits, this deal aim to strengthen respect for human rights as well as protecting the environment and workers' right"*, Malmström said.

Besides offering significant economic opportunities, the EU and Vietnam have agreed on strong sustainable development measures. The IPA includes a commitment to implement the Paris climate agreement effectively. The agreement also commits both sides to respect and effectively implement the principles of the International Labor Organization (ILO) concerning fundamental workers' rights. Part of its responsibilities, Vietnam has recently ratified the ILO Convention on collective bargaining and has notified the EU of its intention to ratify the two outstanding fundamental ILO conventions by 2023 - the latest. Vietnam is also in the process of reinforcing its labor legislation. The agreement also establishes dedicated platforms for the EU and Vietnam to involve civil society in the implementation of these commitments.

In addition, the trade agreement includes an institutional and legal link to the EU-Vietnam Partnership and Co-operation Agreement (PCA), allowing appropriate action in the case of human rights' breaches. The investment protection agreement includes modern rules on investment protection enforceable through the new Investment Court System and ensures that the right of the governments on both sides to regulate in the interest of their citizens is preserved. It will replace the bilateral investment agreements that 21 EU Member States currently have in place with Vietnam, putting in place new legal guarantees preventing conflict of interest and increasing transparency.

In summary, the EVFTA will largely contribute to a stable and predictable entrepreneurial environment, which in turn promotes growth and employment, enhances trade liberalization and a better market access. EVFTA will be awin-win cooperation with conditions in its implementation. It has the potential to expand trade relations and investment by trade liberalization and better market access leading to improved business environment.

Chapter 9 Conclusion

The aim of this thesis was to present an evaluation of how the EU AfT influences Vietnamese trade performance. The thesis argued that EU AfT was one of the best tools to enhance trade relations for both parties. In particular, the empirical results were then estimated in order to explain what actually happens on trade values in the delivery of AfT flows between the EU member states and Vietnam. The thesis thereby makes a contribution to the growing amount of research serving as an estimation of AfT effectiveness. The empirical findings of the thesis support that EU AfT has been an insignificant determinant of trade performance between the EU and Vietnam. The thesis then deployed case in order contest how EU AfT interfere in trade policy reforms of Vietnam. As a result, the findings of the thesis enrich of other recent research which addressed the contestation surrounding AfT interventions. Indeed, an analytical framework of the interactions between the EU and Vietnam in the EU-MUTRAP project, which allows us for understanding the outcomes of the project activities. As in the case of the EU AfT projects in Vietnam, the EU emphasizes coherence between development and trade and continues to provide support to strengthen trade policy and regulations for the development of economic opportunities and for the export-oriented development strategy for Vietnam, as it considers Vietnam to be one of its foremost economic partners. The EU AfT for Vietnamese trade policy reform allocated mainly in the following fields: WTO, Free Trade Agreements, trade-related legislation, trade defence, trade promotion, competition policy, enabling environment, consumer protection, investment, technical barriers to trade, business registration, intellectual property, labor issues, corporate social responsibility, SMEs and private sector development, sanitary and phytosanitary measures, and customs.

Therefore, this thesis contributes to the existing fields of AfT and trade relations in general and the EU AfT and trade relations with Vietnam in particular. Peet and Harwick (2009) mentioned that ‘Development is optimistic and utopian. Development means changing the world for the better’. The analysis showed that in practice, development is not as utopian as assumed, but influenced by interests and technical process. In fact, the EU-MUTRAP interventions in Vietnam trade policy reform resulted in the favorable issues of the EU in the EVFTA. Eventually, it referred the EU norms and values (including environmental commitments and human rights).

The important of close coordination between the EU and Vietnam can be seen in the case of the EU-MUTRAP project. Donor coordination is often a prerequisite for aid effectiveness-and this applies equally to AfT in support of trade policy and regulations. The EU and the government of Vietnam implemented the EU-MUTRAP jointly with PMU in cooperation with the related-ministerial lines of Vietnam, and other beneficiaries. To date this project has been seen as a good example of support for trade policy and regulations. It reflects the value of closer cooperation between the EU in line with the Vietnamese objectives of the local Vietnamese government concerns, as was crucial for local stakeholder involvements and the ongoing sustainability of the AfT project.

Despite Vietnam's achievements in trade performance and economic growth in recent years (see more details in chapter 2 and chapter 8), the country faces a number of trade-related problems and constraints. Concerning trade performance and competitiveness, much needs to be done to ensure more value for (and from trade). While Vietnam is considered to have a high level of openness and there are good signs of export diversification in the last decade, exports remain basically resource-intensive with low value addition (CIEM, 2015). Lack of market information and underdeveloped logistical support also seriously undermine trade performance (WB, 2018). Rigid exchange rate control and rising labor costs, in tandem with shortage of skilled labor, are further eroding Vietnam's international competiveness. Consequently, further research work could include how AfT donors and the country, international and national organizations, sectoral associations, relevant NGOs and local civil society organizations can better combine and operate AfT resources in support of trade performance, including the potential role of AfT and trade policy reforms.

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