



**INTERNATIONAL  
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MULTIDISCIPLINARY  
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## **THESIS ARTICLE**

**Nguyen Trinh Thanh Nguyen**

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

**Doctoral dissertation**

**Supervisor Dr.Balázs Szent-Iványi**

**Associate Professor**

**Budapest, 2022**

**Institute of International Studies**

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

Nguyen Trinh Thanh Nguyen

## **Abstract**

My research focuses on the impact of EU AfT on the trade flows and trade relations between the EU and Vietnam *to 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 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. The case explains the term EU AfT and trade relations with Vietnam in which EU Aid for Trade may influence Vietnam trade policy reform. My dissertation provides a specific analysis of EU AfT as a contested trade policy intervention by using the results of the EU-MUTRAP project in Vietnam. The finding is that EU AfT can interfere as "external impacts" to Vietnam trade policy reform. Based on the priorities of EU trade policies towards Vietnam, the EU uses AfT projects to support and change the Vietnamese trade environment. It is partly proven by the contribution of the EU-MUTRAP for the EVFTA negotiation and implementation results.

## Introduction

The European Union (EU) and Vietnam have established diplomatic ties in the early of 1990s, and since then, their relations have undergone a multidimensional development (Nguyen and 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, 2013a; EU Delegation to Vietnam, 2015).

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, the EU-Vietnam trade negotiation process, and customs procedures, 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 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).

The EU aid to Vietnam has focused more on economic interests in recent years. 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. The dissertation asks the following research questions: What are the impacts of EU AfT on trade flows between the EU and Vietnam? More specifically, (1) what is the impact of aid from individual EU member states on trade flows with Vietnam and (2) which type of EU AfT has the largest impact on the trade performance? To answer these questions, I applied an augmented gravity model for trade.

Moreover, the EU institutions are also involved in AfT to Vietnam with independent projects. The complex interactions between Vietnam and the EU preferring to types of AfT raises another main research question: how the AfT projects from the EU can interfere to trade relations between the EU and Vietnam? To answer this question, the research uses multiple case studies of EU AfT programs/projects funded by the EU institutions and EU member states to Vietnam. It can be seen that 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. 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, I 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. 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 dissertation seeks examine the interference of the EU-MUTAP to Vietnam trade policy reform to answer this question: "How the EU-MUTRAP from the EU institutions can interfere with Vietnamese trade policy?"

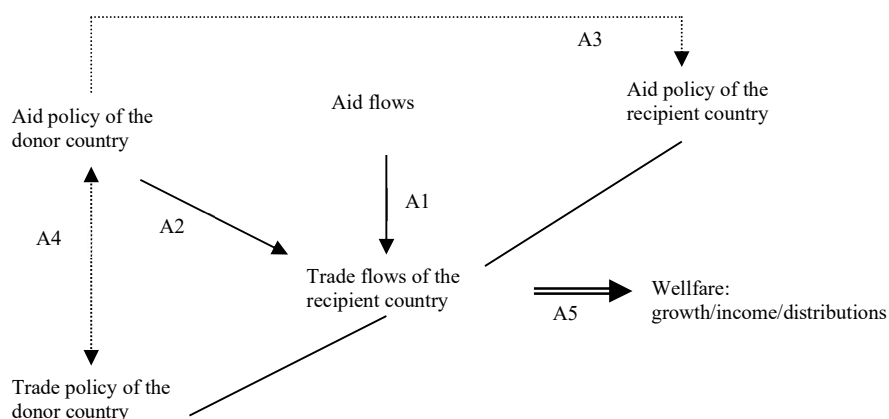
This paper is organized as follows. First, I provide a literature overview and identify gaps. The second section introduces the analytical framework. The third section overviews the quantitative and qualitative methodology. Section four provides the empirical results and the analysis of case study. The last section concludes and provides some recommendations for future research. It is important to note that this is a summary version of the dissertation and as such some contents are excluded from the present analysis. Accordingly, this paper should be read alongside the original version.

## Literature review

I utilize the literature on the causal links between aid and trade as well as the empirical results of AfT and trade performance to understand the impact of AfT on economic growth and trade relations. Specifically, I indicate the main findings of this literature and identify gaps.

### *A brief review of causal links of AfT and trade policy intervention*

To analyse the interference of aid in general and AfT in particular on trade policy, it is necessary to explore the causal links of aid and trade (Osei et al., 2004). The theory of change<sup>1</sup> was typical to determine the causal relationship between aid and trade performance (OECD, 2011). Based on this theory, Akiko and Thierry (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 1 as follows.

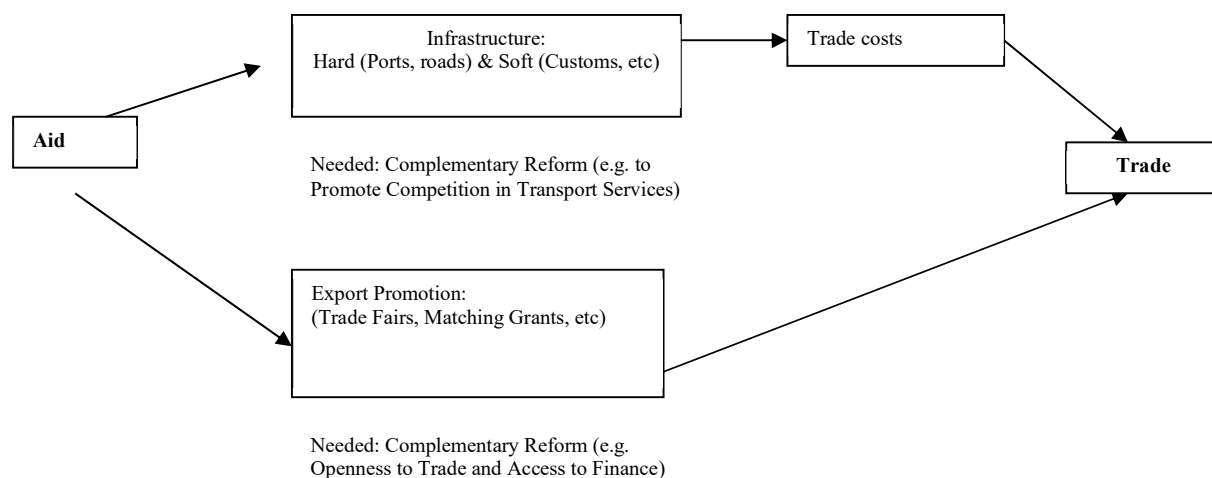


**Figure 1. Aid for trade interactions**

*Source: Akiko and Thierry (2007)*

Cadot et al. (2014) surveyed two main channels through which AfT could be expected to impact 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, export-credit guarantees, or firm-level technical assistance for technology upgrading, to acquire international quality certifications, or to meet other standards (see Figure 2).

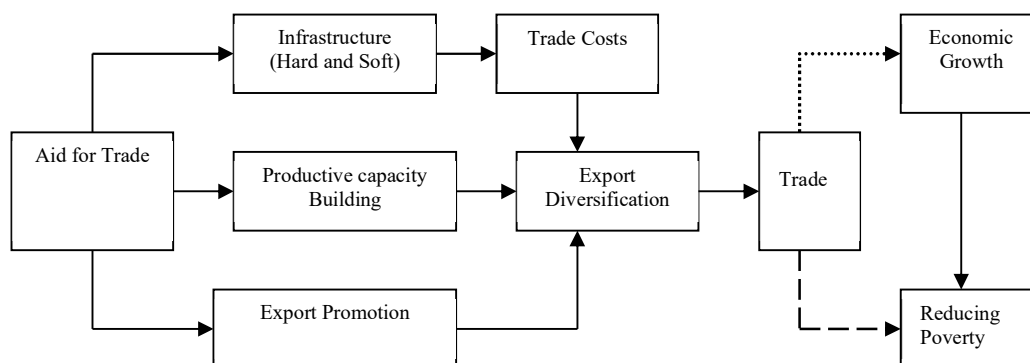
<sup>1</sup> The theory of change was used to enlarge and analyze for references to outputs, outcomes, and impacts, which together with the inputs and the activities from the basics of the results chain. A result's chain shows how changes happen to achieve the desired objectives, starting with inputs, moving through activities and outputs, and culminating in outcomes and impact.



**Figure 2. Aid for Trade-Channels of Intended Impact**

*Source: Cadot et al. (2014)*

According to Alonso (2016), AfT could impact countries' development through diverse causal links (see figure 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 no unequivocal direct 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 growth rates and, through this process, reduce poverty.



**Figure 3. Causal links between AfT and trade/growth**

*Source: Alonso (2016)*

As discussed above, researchers have identified the causal relationships between AfT and trade policy intervention among donors and recipients as one of the main links to impact trade benefits. It addresses two main issues: (i) AfT leads to trade policy reform (meaning that donors use AfT to promote trade climate in recipients and (ii) trade policy achievement leads to aiding (meaning that trade as a determinant of AfT allocation decisions of donors).

### *Recent studies on the relations 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., 2018; 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). 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). 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. 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..

### *Recent evaluations of the impact of EU aid and AfT on Vietnam*

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; Schippers, 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, recipient’s 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). In fact, there are very few studies or official reports which estimate the influence of EU AfT on Vietnamese economic growth and trade (EU Delegation to Vietnam, 2015; OECD, 2013). There is still no empirical estimation for the EU aid to Vietnam. Most assessments of the EU aid in Vietnam, including the EU

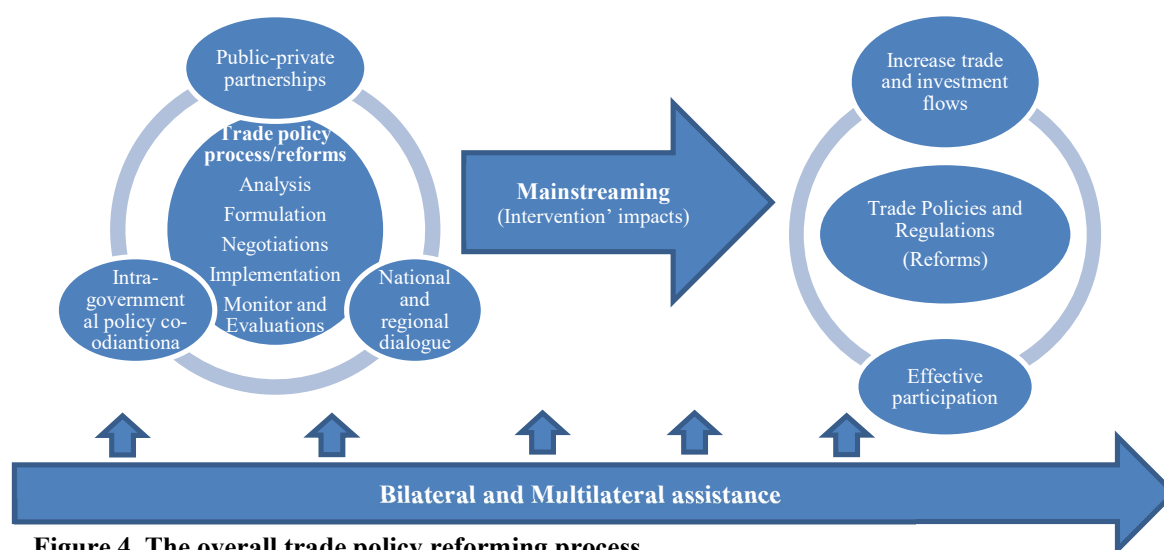
institutions and EU member countries, have focused on the performance of aid given by particular donors or groups of donors rather than its overall impact. EU donors also conducted some studies on their aid impacts in Vietnam from national to regional and local level or specific scope. Additionally, 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, including 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 and conduct the impacts of their aid projects/programs in Vietnam. However, these studies have prominently assessed their aid interventions at a particular level and not of all aid. 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. 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.

### **Theoretical and analytical framework**

AfT has become an essential part of development as well as trade policy (Hallaert, 2011). 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). 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 4

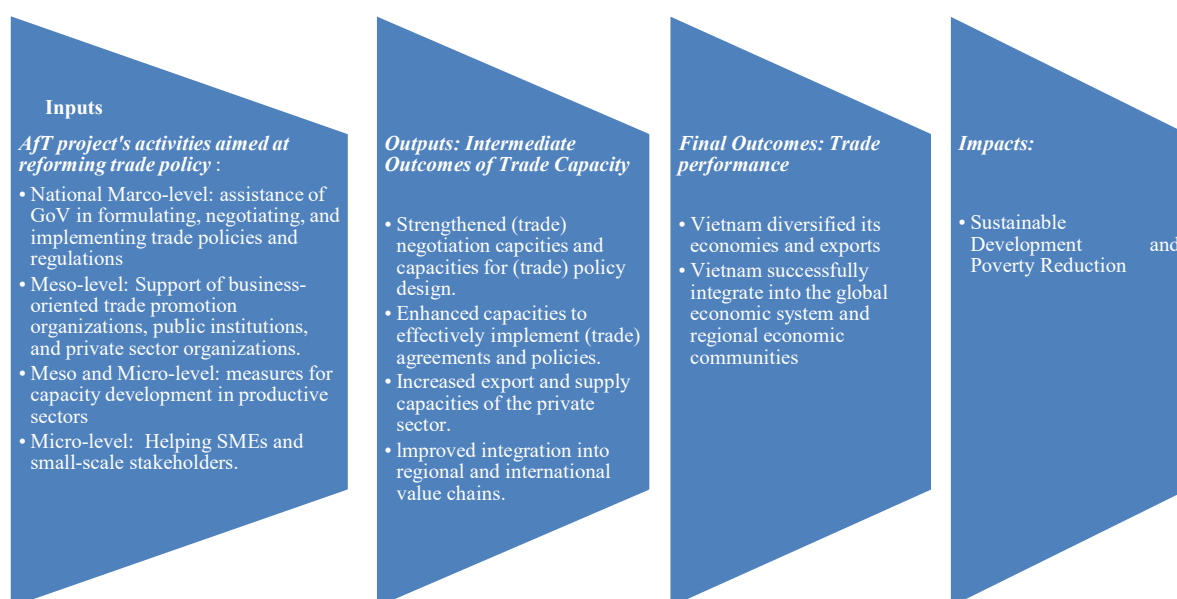


**Figure 4. The overall trade policy reforming process**

*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, 2013b).

Moreover, based on theory of change, Choi et al. (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. (2) Outputs cover the activities, products, and participants that transform the inputs as a consequence of the intervention. (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. 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 (see Figure 5).



**Figure 5. A general analytical framework for analyzing intervention logic of technical assistant (AfT project) to trade policy reforms<sup>2</sup>**

*Source: Compiled by author*

## Methodology

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.

### *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 represented by one observation or multiple within-case observations. Particularly, this paper uses the EU-MUTRAP case as an example of the wider EU AfT and trade policy intervention in Vietnam. A case study of the EU AfT to Vietnam would further understand this phenomenon.

Qualitative case study approaches usually work with small samples 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 the case is selected for their likely contributions to understanding

<sup>2</sup> Figure 5 is largely based on an adapted version of the intervention logic of the European Union's (EU) support to trade-related assistance (Kröger, A. and Voionmaa, P. 2015).

the intervention of EU AfT to Vietnamese trade policy. Second, purposive sampling enables the richest access to data given the available time and resources. Third, the selected case needs to show the EU and Vietnam's mutual benefits. In the light of these requirements, I 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 original version presents a discussion of how to measure and analyze these criteria for the cases. In particular, I analyze the EU-MUTRAP project to understand better the trade policy intervention of EU AfT projects in Vietnam. The analysis is also based on available data, project evaluations/reports, and other documents that I can access to study.

### *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. The gravity model is chosen to estimate the trade flows between Vietnam and twenty trading partners of the EU-DAC<sup>3</sup>. The augmented model applied for this dissertation is an extension of the standard gravity model of Krugman and Obstfeld (2005).

#### *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  $I$  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 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 1 Impact of ODA on the total trade values between Vietnam and the EU-DAC**

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

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<sup>3</sup> 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).

**Model 2 Impact of ODA on the Vietnamese import flows from EU-DAC countries**

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

**Model 3 Impact of ODA on the Vietnamese export flows to EU-DAC countries**

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

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's 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.  $\text{His}$  is a history dummy variable.  $e$  is an error term.

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 the previous equation models, 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. 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 4 Impact of AfT on the total trade values between Vietnam and EU-DAC countries**

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

**Model 5 Impact of AfT on the Vietnam's import flows from EU-DAC countries**

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

**Model 6 Impact of AfT on the Vietnam's export flows to EU-DAC countries**

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

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.

## Empirical results

### 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<sup>4</sup> (between 1993 and 2017).

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<sup>4</sup> 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.

### ***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. 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.

***The estimated results of the Model 1 are summarized in Table 1***

**Table 1: Estimated Results of the Model 1**

VARIABLES	Total Trade Fixed effects	Total Trade Random effects	Total Trade OLS
Lnyy	2.694e+06 (2.101e+06)	2.956e+06*** (760,258)	3.052e+06*** (336,338)
Lnpp	-273,663 (8.294e+06)	-1.590e+06*** (596,419)	-1.656e+06*** (259,725)
lnO	-124,070 (220,267)	-144,873 (117,525)	-167,578*** (51,326)
DISij	-	-53.61 (170.5)	-69.56 (80.49)
HISij	-	1.279e+06** (644,082)	1.295e+06*** (259,295)
Constant	-2.607e+07 (3.914e+07)	-1.956e+07*** (4.011e+06)	-1.998e+07*** (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: Using STATA to run model and calculate estimated results*

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 estimation results of Model 2 are given in Table 2**

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.

**Table 2: Estimated Results of the Model 2**

VARIABLES	Import_vnj - Fixed effects	Import_vnj - Random effects	Import_vnj - OLS
Lnyy	856,066 (512,145)	711,359*** (222,673)	857,885*** (98,190)
Lnpp	-1.010e+06 (1.649e+06)	-392,025** (181,686)	-489,433*** (75,423)
LnO	37,680 (33,123)	28,854 (22,079)	-10,199 (11,249)
DISij	-	-2.932 (86.55)	-20.98 (29.78)
HISij	-	558,715** (266,475)	592,815*** (92,812)
Constant	-1.912e+06 (6.772e+06)	-4.828e+06*** (1.344e+06)	-5.546e+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 estimation results of Model 3 are given in Table 3.**

**Table 3 Estimated Results of the Model 3**

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

*The impacts of EU AfT on Vietnamese trade performance*

***The empirical results of Model 4 (the impacts of EU AfT on total trade values between Vietnam and the EU-DAC) are given in Table 4.***

As we can see in Table 4, 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 4 Estimated Results of the Model 4**

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

***The empirical results of Model 5 (the impacts of EU AfT on the Vietnamese import flows from the EU-DAC) are given in Table 5***

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 4.

**Table 5 Estimated Results of the Model 5**

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

**The empirical results of Model 6 (the impacts of EU AfT on Vietnam's export flows to the EU-DAC) are given in Table 6.**

As we can see in Table 6, 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.

**Table 6 Estimated Results of the Model 6**

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

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.

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. 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, my dissertation 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.

### **Case study and Discussion**

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 policies 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. Especially, the project activities focus on building and enhancing Vietnamese capacities such as human resources, materials, technical assistance and

support agencies who will take on responsibilities in EVFTA negotiations. This project supports many trade-related actors from Vietnam government agencies to business associations, trade experts in universities and research institutions and private sectors. The main activities include teaching and transferring EVFTA-specific knowledge, conducting surveys and research on facilitating Vietnamese trade and informing those in the field about the benefits of EVFTA.

### *Vietnam needs to reform trade policies and regulations*

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, 2018). The GoV committed to continuing trade reform aiming at diversification and multilateral ties to strengthen international economic integration and emphasise a movement towards additional trade agreements (Minh, 2016). Due to a trade policy review of the WTO for the case of Vietnam (WTO, 2013), many of 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 address them. Thus, a key challenge for Vietnam is to prioritise trade and trade-related policies conducive to attaining these objectives within a stable, transparent, and predictable policy framework (WTO, 2013). Similarly, a study of the WTO and OECD (2013) argued that Vietnam faces several trade-related problems and constraints despite impressive achievements in growth, trade, and development. 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 liberalising Vietnamese markets, allowing private firms to establish, integrate into the world economy, and high FDI inflows stimulated growth and productivity's development. However, the "liberalisation effect" reforming process is exhausted and does not develop further.

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 organisations, 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 (Dang et al., 2020).

Specifically, the process of WTO entry negotiations and implementations and fulfilment of other bilateral and multilateral international commitments require stronger and more thorough reform of Vietnam's trade policies (WTO, 2013). It is a fact that Vietnam has experienced success in transforming the economy due to utilising the comparative advantages for exporting-oriented industry, to strengthen international cooperation in the regional and global, and allocate effectively endogenous and exogenous factors (Ngoc, 2018). 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. Ngoc (2018) proved that Vietnam's fast-changing trade reform forced FDI sectors, while the domestic sectors have not transformed unremarkably. Additionally, Vietnam's trade policy lacks a comprehensive trade promotion policy, such as strengthening the supporting industry, creating the cluster-industrial zones, enhancing the competitiveness of the business environment, or trade promotion activity. While Vietnam's earlier trade policy was mainly focused on traditional international trade integration with reducing tariff barriers, Vu (2016) indicated that the Vietnamese current trade policy puts more focus on the country's strategic positioning in 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 CP-TPP. 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 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 CP-TPP) if they stimulate a comprehensive economic and institutional reforms agenda to facilitate compliance with non-tariff agreements. Vietnam has been making great efforts to improve the legal environment, developing the Rule of Law, especially for business, to turn Vietnam into an attractive investment destination. However, the Vietnamese legal system is not comprehensive and effective. The current business environment is not truly equal and transparent. The rule of Law has not complied within the organisation 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 improve the market economy's institutions further and reform the legal system (Talking Laws, Ministry of Justice of Vietnam, 3<sup>rd</sup> 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. Moreover, 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 within the Government and from ministry to ministry, and this, in turn, creates an environment ripe with opportunities for corruption (Bureau of Economic and Business

Affairs, 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 to strengthen their material and relational power.

Therefore, the EU-MUTRAP indicates that the EU recognises Vietnam's need to implement the EVFTA efficiently and beneficially. A highlight of the project is the technical assistance extended to improve the local investment environment, focusing on environmental and social issues in trade and investment-related policies and legislation. Under the EU-MUTRAP, the EU funded capacity building within departments and agencies of the Ministry of Industry and Trade of Vietnam (MoIT), the main project beneficiary (MUTRAP, 2014). Support to the MoIT should facilitate international trade and investment through the capacity for policy-making, policy consultation, and the negotiation and implementation of related EVFTA commitments, particularly vis-à-vis the EU.

### *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 the 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 serves the EU commercial self-interests. Improvements in regulatory quality have appeared to play their expected role in improving Vietnam's business environment. For example, the EVFTA contained chapters demanding regulatory convergence in technical regulations and standards, SPS rules, domestic regulations in service sectors, competition rules and environmental and social protection. Thus, EU-MUTRAP activities were designed to build capacity for policy-making, negotiate FTAs and implement future FTA commitments, especially those agreed in the EVFTA (MUTRAP, 2014).

For instance, EU-MUTRAP supported research called *"Sustainable impact assessment EU-Vietnam FTA"* in 2014. The research included general data on EU and Vietnamese trade to show the role of the EU market for Vietnam and vice versa. The ensuing results were the major impacts on EU and Vietnam trade sectors such as footwear, high-tech, automotive etc., following from the measures included in particular articles of EVFTA. They predict the impacts of EVFTA on trade for both sides and the potential benefits of implementing EVFTA, even recommending strategies for handling obstacles in the EVFTA process. Among the subproject's achievements was listing white asbestos on the list of banned substances under the Rotterdam Convention, Phu Quoc fish sauce being recognised as an appellation of origin product in Europe, and contributions to trade-related capacity building through research and seminars. Another example of EU-MUTRAP support is the *"Vietnam Supporting Industries to EU"* implemented by the Supporting Industry Enterprises Development Centre (SIDECE) in conjunction with other development organisations. This sub-project seeks to enhance local small and medium-sized enterprises (SMEs) in the "supporting industries", which include components and

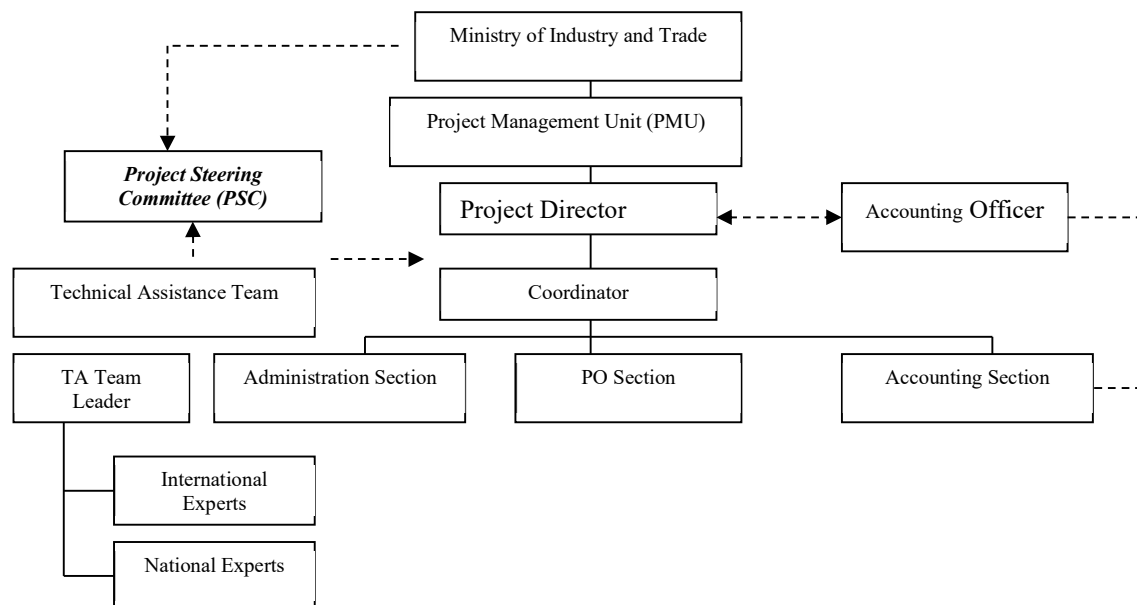
parts manufacturers, in complying with European market access requirements. Some activities include organising training courses to enhance SME capacities, organising activities to connect Vietnamese and EU businesses and supporting their participation at trade fairs and exhibitions in Vietnam and the EU. The EU-MUTRAP worked on a number of issues to improve local SMEs potentials, such as branding and marketing strategies, distribution and market access strategies, and information networks across the country to create enhanced export-focused trade sectors. Thanks to EU-MUTRAP, Vietnamese exporters were updated to the latest EU market information and food safety knowledge for fruit, vegetables, seafood, and honey (Vietnamnews, 13<sup>th</sup> December 2017). In 2015, EU-MUTRAP launched “The European countries Market Profile Report” to support Vietnamese enterprises doing business in this market. Indeed, during the EU-MUTRAP implementation, Vietnamese business owners were equipped with information about opportunities and advantages for Vietnamese production and trading enterprises from the EU market, knowledge on cross-cultural management, opportunities to expand networks in Vietnam and the EU, information on connective organisations such as EuroCham, many Business Associations, potential customers list, experience, preparation of business introduction materials and other specific advice. Thus, the Vietnamese enterprises approached acknowledge such knowledge to be close to reality, important and necessary to start approaching a demanding and foreign market like the EU (EU-MUTRAP, 2016). Furthermore, different activities encompassed an impact assessment of the EVFTA, training of civil servants acting as negotiators in the FTA, awareness-raising measures, support to Vietnamese industry and enterprises to understand and adapt to new demands, Geographical Indications (GI) registration and promotion, and study tours for Vietnamese Commercial Counsellors (EU-MUTRAP, 2016).

Häbel (2018) and Hoang (2016) demonstrated that the EU also used Aft projects in general and EU-MUTRAP in particular 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 the EU-MUTRAP as a typical example of this issue. As a result, Vietnam's policymakers 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 extent, 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 is also displayed among project activities.

In summary, EU-MUTRAP endorsed improvements in Vietnam's investment, environment and labour policies. 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.

### *The EU and Vietnam coordination in the EU-MUTRAP*

Since the EC is the largest donor in 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 and other donors to achieve the goal of donor coordination and aid effectiveness in this particular area (OECD and WTO, 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 to rationalise their systems and procedures by implementing common arrangements for planning, design, implementation and reporting to the GoV on donor activities and aid flows. Vietnam has nominated a pilot country for EU coordination of policy and harmonisation of procedures at the EU level. A "*Roadmap*" for closer coordination and harmonisation among EU donors in Vietnam was adopted in 2005. The EU-MUTRAP has closely followed this Roadmap. The EU-MUTRAP implemented the effective methods of decentralised aid project management and coordination mechanisms, using local experts, cost cutting, evaluating reports, research, and publications that can attract diverse actors from both sides to joint and monitor EU-MUTRAP in the field to support the EFVTA process (MUTRAP, 2014). Figure 6 summarises the coordination among related stakeholders of the EU-MUTRAP.



**Figure 6. Organizational chart of the EU-MUTRAP**

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

As can be seen from Figure 6, 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, 2014). 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 (EU-MUTRAP, 2016).

### *Absorptive capacity*

This next part provides the intervention's results of the EU-MUTRAP to enhance Vietnam's trade policy reform in general (see Table 7) and in terms of (i) standards (see Table 8); (ii) trade facilitation (see Table 9); (iii) improving negotiation capacity (see Table 10)

**Table 7 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; Buon Ma Thuot Coffee Association; Lang Son Star Aniseed Production, Processing, and Trading Association; Ministry of Industry and Trade Regional office (including 18 Import-Export Regional Offices);	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 extract from the EU-MUTRAP activity*

**Table 8 Intervention's results for Vietnam standards**

Output	Expected induced output	Expected intermediate outcome
<ul style="list-style-type: none"> <li>Promotion of EU standards and international standards;</li> <li>Strengthening inter-ministerial cooperation and enhanced participation in standard-setting bodies;</li> <li>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);</li> <li>Development, promotion, and implementation of labels; GIs;</li> <li>Harmonization and promotion of sustainable standards;</li> <li>Training of policy officers.</li> <li>Development and improvement of partnerships and different stakeholders in standards.</li> </ul>	<ul style="list-style-type: none"> <li>Improved beneficiary and awareness on standards for Vietnam policy officers, enterprises, and other stake holders.</li> <li>Reduced certification cost;</li> <li>Uniform quality of Vietnamese traded products (especially to the EU market)</li> <li>Enhanced credibility of labels and more demand for certified produce to Vietnam in trade.</li> <li>Enhanced involvement in standards setting and compliance of private sector and civil society in Vietnam</li> <li>Improved capacity on standards at ministries and other government institutions of Vietnam.</li> <li>Improved capacity at ministerial departments to take part in international standards negotiations;</li> <li>EU's standards and international standards formulated that take into account Vietnam's interests and needs.</li> </ul>	<ul style="list-style-type: none"> <li>Increased quality of Vietnamese products;</li> <li>Lower rejection rates;</li> <li>Lower transaction costs;</li> <li>Increased demand for certified Vietnamese products.</li> <li>More certified and higher-quality products traded for Vietnamese products.</li> </ul>

*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.

**Table 9 Intervention's results for trade facilitation**

Output	Expected induced output	Expected intermediate outcome
<ul style="list-style-type: none"> <li>Advice, technical support and awareness-raising campaigns for policy reform, institutional change, and implementation of new regulations;</li> <li>Training, conferences, workshops, and country dialogues (e.g. to build institutional capacity of policymakers and policy enforcers involved in customs harmonization and simplification);</li> <li>Establish knowledge management systems and design trade facilitation plans and policy guidelines;</li> <li>Analytical, diagnostic, and (pre) feasibility studies;</li> <li>Institutional support for regional cooperation;</li> <li>Digitalization of trade procedures;</li> <li>Support for establishment and operationalization of one-stop border posts.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance knowledge on where to find bottlenecks in trade corridors;</li> <li>Enhance awareness of role of trade facilitation procedures on competitiveness and better data available;</li> <li>Tariff reforms and fiscal adjustment;</li> <li>Better documentation of trade procedures (e-trade);</li> <li>Less duplication and more efficiency of trade procedures;</li> <li>Enhance regional and international harmonization of laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>More regionally integrated value chains;</li> <li>Improved trade services;</li> <li>Better tax collection;</li> <li>Reduced transaction costs and transit time;</li> <li>Increased market access.</li> </ul>

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

**Table 10 Intervention's results for trade policy and negotiation capacity of Vietnam**

Output	Expected induced output	Expected intermediate outcome
<ul style="list-style-type: none"> <li>• People trained (especially those related in the EVFTA negotiation);</li> <li>• Departments reinforces;</li> <li>• Studies and research done and disseminated;</li> <li>• Seminars, workshops, visits, and campaigns organized;</li> <li>• Trade needs assessments executed;</li> <li>• Dialogue platforms organized;</li> <li>• Policy and legal advice given;</li> </ul>	<ul style="list-style-type: none"> <li>• Better understanding of international trade agreements and the EVFTA;</li> <li>• Enhanced cooperation across and within ministerial departments;</li> <li>• Enhanced knowledge (legal, scientific, economic) and improved negotiation skills;</li> <li>• Increased involvement of private sector and civil society in Vietnam;</li> <li>• Enhanced participation in international organizations and trade and dispute bodies;</li> <li>• Better position in regional and international trade negotiations and dispute settlements.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced implementation of trade policies;</li> <li>• Enhanced trade law enforcement;</li> <li>• Changed policies;</li> <li>• Changed legislation;</li> <li>• Trade policies integrated into Vietnam development strategies;</li> <li>• More favorable trade terms.</li> </ul>

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

### *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 (Häbel, 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

## 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 to 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 competitiveness. 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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