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EU Confronts Make or Break Decisions for Vietnam and Cambodia

Two upcoming calls will help define the European Union's ties with the Southeast Asian countries.

By David Hutt

“Europe today has unpleasant relations with ASEAN,” Cambodian Prime Minister Hun Sen, no stranger to controversial and at times bizarre comments, observed last week, referring to the Association of Southeast Asian Nations (ASEAN) bloc.

It is certainly true that Malaysia and Indonesia are peeved by the European Union's phasing out of palm oil imports, an environmental policy that will hurt the world's two largest producers of palm oil. The two have threatened to take Brussels to the World Trade Organization over the ban. The EU is also trying to do something (whatever that may be) about the genocide of the Rohingya in Myanmar and human rights abuses in the Philippines, both of which wary of any foreign involvement in their affairs.

But Hun Sen's comment was mostly self-referential. It comes as the EU makes an ultimate decision, after years of conjecture, over the fate of both Cambodia and Vietnam's economies.

Later this month, the European Commission will publish its final report on whether to remove Cambodia from the EU's preferential Everything But Arms (EBA) trading scheme, which grants tariff and-quota free access to almost all Cambodian exports. As the EU is Cambodia's largest export market, new tariffs could severely affect the country's export-dependent economy.

Meanwhile, the European Parliament will have the last say on whether to accept a free-trade trade with Vietnam (known as the EVFTA) after it has now been passed by all other European bodies. Economists in Hanoi reckon this could eventually boost Vietnam's growth by up to 7 percent within a decade.

Communists in Hanoi have waited nervously for years as the EVFTA's progress has faced delays in Brussels, though Hun Sen has tended to oscillate between rebuking Brussels – as he did last week – and daring the EU should get a move on with withdrawing Cambodia's place in the EBA scheme, as punishment for his government's democratic backsliding since 2017. Sensible officials within his government talk in more fearsome tones, though. Phnom Penh is already predicting a dip in economic growth this year because of a global slowdown, from 7 percent in 2019 to 6.5 percent. The IMF predicts the EBA's withdrawal could shave three percentage points off growth this year, and the World Bank estimates that it will see exports decline by \$654 million.

But the actual economic cost on ordinary Cambodians is likely to be much greater. For instance, most garment workers are young, female migrants from the countryside, who, according to numerous reports, send home a large chunk of their monthly salaries to fund at least one or two family members still living in rural areas. The EU Parliament stated in a report last year that “judging by this precedent, forecasts of over half of Cambodian textile workers losing their jobs are probably over-pessimistic.”

But if the EBA's withdrawal sees 10,000 garment workers lose their jobs (the number of manufacturing jobs lost in Sri Lanka when the EU cut its GSP+ status between 2010 and 2017, as noted by the aforementioned report) then this could impact the fortunes of some 30,000 Cambodians. Yet even such an optimistically small number will, then, further impact the rural economy and, importantly, the country's microfinance sector (one of the most oversaturated in the world) which has left hundreds of thousands of rural Cambodian languishing in debt. It also needs to be stressed that this comes at a time when the country's rice sector, the backbone of the rural economy, is also faltering. Indeed, Phnom Penh feels all the more aggrieved as new tariffs imposed on its rice exports to the EU in early 2019 (in order to protect European farmers, not because of Cambodia's political situation) are a major reason for the considerable problems in this sector.

For Hanoi, if the European Parliament finally okays the EVFTA this month – which is a most probable, despite concerns by some MEPs about Vietnam's human rights record – it could boost GDP by 3.2 percent by 2023 and possibly as much as 7 percent by 2030, according to the Ministry of Planning and Investment. The separate investment treaty is likely to take much longer to be implemented than the free-trade deal, however, as it must be ratified by all EU member states.

To some – probably including the Cambodian Prime Minister – all this reeks of hypocrisy. Many in Brussels say Cambodia needs to be stripped of its EBA status because of its authoritarian turn since 2017, when the ruling party forcibly dissolved the only viable opposition party and then went on to win all 125 seats at a rigged general election, and labor rights violations. Yet, at the same time, there's a great deal of energy in Brussels to push through the EVFTA, which would basically be rewarding Vietnam, a far worse human rights offenders in the region, with spanking new trade bonuses.

Granted, Hanoi in December pledged to allow independent trade unions to operate for the first time, but, so far, this is only a promise and a good deal of skepticism should be held until the Communist Party follows through. Indeed, Vietnam is a formal one-party, communist-run state that doesn't even offer an aperture of democracy or political liberalism, while at least Cambodia's government tolerated some form of political opposition up until 2017, and can still point (not very reasonably, however) to the dozens of smaller parties that exist.

If it was the United States making these decisions, it would be straightforward. Cambodia is now Beijing's closely ally, and Vietnam's its leading opponent, in Southeast Asia. So rewarding a China-opponent and punishing a China-ally makes geopolitical sense.

But the EU isn't motivated by any real desire to punish Beijing's allies. More likely, this seeming hypocrisy is motivated by a sense that change is more possible in Cambodia. All Brussels asks the Cambodian government to do (which it has so far resisted) is to return political conditions to how they were in early 2017; that is, restore the now-dissolved opposition party and allow its exiled politicians to return, and open up civil society once again. It also argues that EBA status comes with explicit conditions on democracy and human rights – and because European taxpayers are essentially subsidizing cheaper exports for Cambodia, there needs to be a little give with the take.

In other parochial terms, European businesses will at least be gaining something from the EVFTA through more investment opportunities in Vietnam. All the while, affecting change in Vietnam, where the Communist Party has never even imagined a multi-party system, is far less

likely – and far more difficult for the EU which lacks anything other than market power in Asia. One unappealing lesson of foreign policy is, indeed, not every problem can be fixed – and, even if it seems unfair, the more straightforward of problems often take primacy.