

will be implemented in indirect management through entrusted entity. A Financing Agreement with the Government of Viet Nam, represented by the Ministry of Planning and Investment (MPI) is envisaged.

## 2 RATIONALE

### 2.1 Context

Viet Nam is a dynamic emerging partner that wants to play an increasing role in world affairs. Since establishing diplomatic ties in October 1990, Viet Nam has become one of the EU's main partners in Southeast Asia. No other country in South East Asia is party to as many agreements with the EU: the PCA, the EVFTA and the Investment Protection Agreement (EVIPA – Member States' ratification ongoing), the Framework Participation Agreement (FPA) and the Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT VPA). These agreements are the cornerstones of the EU's relationship with Viet Nam, offering opportunities for enhanced engagement in a number of strategic areas.

The EU launched its Indo-Pacific and Global Gateway Strategies in a context of accelerating geopolitical and geostrategic shifts in the region. Viet Nam has been identified as one of 16 key countries by the EEAS for increased EU strategic engagement. The Global Gateway Strategy seeks to foster a rules-based international order, a level playing field, as well as an open and fair environment for trade and investment, tackling climate change and supporting connectivity with the EU.

Since the entry into force of the EVFTA, bilateral trade between the EU and Viet Nam grew significantly. Viet Nam became the EU's 16<sup>th</sup> largest partner in terms of total trade of goods in 2022. In the past 5 years, the annual average growth rate was 5% for EU exports to Viet Nam and more than 10% for Viet Nam's exports to the EU. However, the policy reforms under the EVFTA, require fulfilment of environmental and labour related commitments, on which Viet Nam will need to demonstrate more progress.

The export-led growth model implemented by Viet Nam since 1980s has helped the country to achieve an average growth rate of 7% over the last decades and to become a lower-middle income country. Today, Viet Nam is a major hub for the production of textiles<sup>6</sup>, footwear and electronics. It is also ranked among the top ten seafood suppliers, with products being exported to 170 markets in the world.

The country's economic growth model however has been relying on intensive use of resources and has led to environmental degradation. Viet Nam's rapid growth and industrialisation have caused negative impacts on the environment and natural assets. It is one of the world's five most vulnerable countries to climate change, where typhoons, floods, droughts, and landslides frequently threaten a high proportion of the country's population and economic assets concentrated along its long, densely populated coast. Like many other countries, Viet Nam cannot afford to continue the current development path. To sustain its long-term economic growth and achieve the Sustainable Development Goals, the country will need to adjust its growth models and switch to a more responsible, smarter and greener economy. Implementing circular economy principles in Viet Nam's economy and priority value chains will support building resilience to climate change and reducing carbon emissions by promoting resource efficiency, minimising waste, and fostering the reuse and recycling of materials. Integrating circular economy principles in industrial production and agriculture reduces reliance on non-renewable resources and curtails environmental degradation, decreasing greenhouse gas emissions and enhancing the resilience of systems to climate change impacts, thus providing a comprehensive approach to environmental stewardship and climate adaptation.

The government recognised the need to pursue a more sustainable pathway and accordingly adopted in 2021 the 'Viet Nam Green Growth Strategy for the period 2021–2030 with a vision to 2050'. At COP26, it committed to achieve net-zero emission by 2050. The government passed the Master Plan for Development of Circular Economy in 2022, and subsequently updated its Nationally Determined Contribution (NDC), pledging to reduce greenhouse gas (GHG) emission by 15.8 % by 2030 compared to the business-as-usual scenario (unconditional contribution), and to further aim at 43.5 % reduction with support from the international community (conditional contribution).

<sup>6</sup> Viet Nam is the 3<sup>rd</sup> biggest exporter of textile (<https://worldpopulationreview.com/country-rankings/textile-exports-by-country>). It is also one of the countries participating in the project entitled 'Enhancing transparency and traceability of sustainable value chains in the garment and footwear industry' (<https://unece.org/trade/traceability-sustainable-garment-and-footwear>)