

THE CURRENT SITUATION AND SOLUTIONS TO PROMOTE VIETNAM'S LEATHER AND FOOTWEAR EXPORT TO THE EU MARKET WHEN IMPLEMENTING THE EVFTA

MA. Pham Hong Nhung*

Abstract: The EU-Viet Nam Free Trade Agreement (EVFTA) officially taken effect from August 1st, 2020, has opened up many opportunities to boost exports of Vietnamese leather and footwear products to this market. After nearly 2 years since the EVFTA took effect, Vietnam's leather and footwear exports to the EU have been experiencing positive changes as Vietnamese businesses actively promote the export of products with preferential treatment from the EU meanwhile the EU partners also prioritizes products from Vietnam due to its more competitive price. This paper analyzes the situation of Vietnam's leather and footwear exports to the EU market over the past time, evaluates the achieved results and identifies the causes of limitations, thereby offers some solutions to promote Vietnam's leather and footwear exports in the context of the EVFTA taking effect.

• Keywords: leather industry, footwear export, EVFTA, tax incentives.

Date of receipt: 02nd January, 2022

Date of delivery revision: 08th January, 2022

Date of receipt revision: 15th February, 2022

Date of approval: 01st March, 2022

Tóm tắt: Hiệp định Thương mại tự do Việt Nam - EU (EVFTA) chính thức có hiệu lực từ ngày 1/8/2020 đã mở ra nhiều cơ hội để xuất khẩu hàng da giày Việt Nam vào thị trường này. Sau gần 2 năm kể từ khi EVFTA có hiệu lực, da giày Việt Nam Xuất khẩu sang EU đang có những chuyển biến tích cực do các doanh nghiệp Việt Nam tích cực đẩy mạnh xuất khẩu các sản phẩm được ưu đãi từ EU, đồng thời các đối tác EU cũng ưu tiên các sản phẩm từ Việt Nam do giá cả cạnh tranh hơn. xuất khẩu sang thị trường EU thời gian qua, đánh giá những kết quả đạt được và xác định nguyên nhân hạn chế, từ đó đưa ra một số giải pháp thúc đẩy xuất khẩu da giày của Việt Nam trong bối cảnh EVFTA có hiệu lực.

• Từ khóa: ngành thuộc da, xuất khẩu da giày, EVFTA, ưu đãi thuế.

increased from USD 26.14 billion in 2015 to USD 35.07 billion in 2020. Not only the export turnover continuously but also the import turnover of goods to EU has continuously increased from USD 9.59 billion in 2015 to USD 14.65 billion in 2020. In the period 2015-2020, the trade surplus between the two sides increased continuously. Accordingly, if the trade surplus was USD 16.54 billion in 2015, this figure has reached USD 20.42 billion by 2020.

Table 1.1: Import and export turnover of goods of Vietnam and the EU in the period 2015-2020 (Million USD)

Year	2015	2016	2017	2018	2019	2020
Export	26.142	29.130	32.898	36.132	35.732	35.075
Import	9.597	10.434	11.455	12.924	14.071	14.652
Trade balance	16.545	18.696	21.443	23.208	21.661	20.423
Total Import-Export	35.740	39.565	44.353	49.056	49.803	49.727

Source: ITC (2021)

1. Overview of trade between Vietnam - EU

For many years, the EU has always been a major import partner and a key market for Vietnam's import and export. According to International Trade Center (ITC) statistics, bilateral trade turnover between Vietnam and the EU has increased from USD 35.74 billion in 2015 to USD 49.72 billion in 2020. In which, Vietnam's export turnover to the EU market

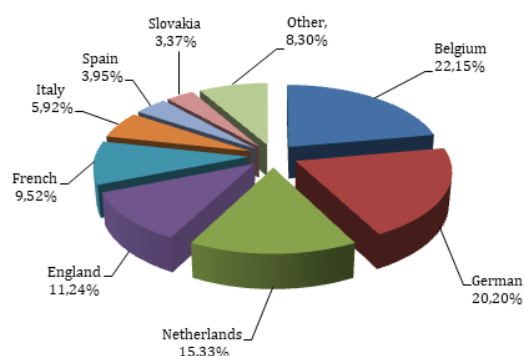
Over the past time, the COVID-19 pandemic and market fluctuations have significantly impacted the EU's import and export activities to trading partners, including Vietnam. Vietnam's goods exports to the EU is expected to grow positively in the context that the COVID-19 epidemic situation will be better controlled meanwhile restrictive measures are gradually eased and the EU economy is likely to recover. This will

* Vietnam Trade Union University

be an important basis for Vietnamese businesses to take advantage of commitments in the EVFTA more effectively.

Vietnam's main export markets to the EU are mainly to traditional markets such as the Netherlands, Germany, France, Italy, Austria, Belgium, Spain, Finland, Slovakia and Sweden. In 2020, the Netherlands is Vietnam's largest export market with the export turnover of USD 6.99 billion, accounting for 19.94% of total export turnover to the EU market. Followed by the German market with an export turnover of USD 6.63 billion, accounting for 18.92%; the French market with an export turnover of USD 3.26 billion, accounting for 9.3%; the Italian market with an export turnover of USD 3.10 billion, accounting for 8.84%...

Figure 1: Vietnam's main export markets to the EU in 2020



Source: ITC (2021)

The main export products to the EU are phones and components, computers, electronic products and components, footwear, textiles, vegetables, seafood, rice, coffee... meanwhile Vietnam's main imports from the EU are components, auto parts, fragrances, cosmetics, hygiene products...

According to ITC statistics, in 2020, the export of electrical machines and equipment and their parts (HS 85) will reach USD 14.79 billion, accounting for 42.18% of the Vietnam's total export turnover to EU. The second is the group of shoes, sandals, boots and similar products (HS 64) with export turnover of USD 3.95 billion, accounting for 11.28%; followed by nuclear reactors, boilers, machinery and mechanical equipment (HS84) with export turnover of USD 3.06 billion, reaching 8.74%...

From August 2020 to now, the EVFTA officially took effect, opening up great export opportunities for Vietnamese goods to the EU market with a GDP of up to USD 18 trillion. After 7 years from the effective date of the EVFTA, by August 2027, EU

will eliminate import taxes on 99.2% of tariff lines, equivalent to 99.7% of Vietnam's export turnover. For the remaining 0.3% of export turnover, EU committed to give Vietnam a tariff quota with an import tax of 0%. Thus, nearly 100% of Vietnam's export turnover to the EU market will be eliminated after a short roadmap. This is the highest level of commitment for one country like Vietnam in the FTAs. This benefit is especially meaningful when the EU is one of the three largest export markets of Vietnam today.

In Asian, Vietnam is one of the few countries signing a FTA with the EU (after Korea, Japan and Singapore). Therefore, the EVFTA officially taking effect from August 1st, 2020 will open up special import and export opportunities and advantages for Vietnamese goods as well as mark an important moment of the comprehensive cooperative partnership between Vietnam - EU. This is the result of the efforts of the whole political system during a decade since Vietnam and the EU conducted FTA negotiations. At the same time, the EVFTA also creates an attraction for Vietnam in attracting investment from a leading FDI partner in the world, with the most advanced capital, technology and management.

2. Assessment of the current situation of Vietnam's footwear exports to the EU market

2.1. Overview of Vietnam's leather and footwear exports

Footwear is one of Vietnam's key export industries (accounting for about 6.1% of Vietnam's total export turnover). Over the years, Vietnam's leather and footwear exports have achieved quite impressive results. In 2015, leather and footwear turnover reached a value of USD 12.43 billion and continuously grew in the period 2015-2020, reaching a growth rate of 6.76%/year. In 2019, leather and footwear export turnover reached USD 18.98 billion. In 2020, leather and footwear export turnover decrease to USD 17.25 billion (down 9.1% compared to 2019) due to the impact of the COVID-19 pandemic. The open-door and integration policy into the regional and world economies have been bringing positive impacts to Vietnam's footwear export industry. Thanks to participating in many FTAs and expanding markets, Vietnam's export footwear industry is experiencing a fairly good growth period.

2.2. The results of Vietnam's footwear exports to the EU

EU is one of the two main export markets of Vietnam's leather and footwear. Footwear exports to this market continuously increased with an average

growth rate of 2.78%/year in the period 2015-2020. According to ITC statistics, in 2015 Vietnam’s leather and footwear exports to the EU reached USD 3.44 billion, in 2019 increased to USD 4.6 billion. In 2020, leather and footwear export turnover reached USD 3.95 billion, down 14.02% compared to 2019, due to the impact of the COVID-19 pandemic, causing the decrease of footwear export turnover to all markets. However, the EVFTA is considered the biggest driving force for the growth of the footwear industry in recent years.

In the EU market, Vietnam leather and footwear products are mainly exported to Belgium, Germany, the Netherlands and France. These 4 markets accounted for 75.7% of Vietnam’s total footwear exports to the EU in 2020. In 2020, export turnover to Belgium reached USD 987 million, accounting for 24.95% of Vietnam’s total export turnover of leather and footwear to the EU, followed by the German market with an export turnover of USD 900 million, accounting for 22.77%;the Netherlands ranked third with a turnover of USD 683 million, accounting for 17.27%... However, the export turnover of leather and footwear products to these markets all decreased compared to 2019. The reason is due to the impact of the COVID-19 pandemic leading to a breakdown in the global supply chain. The EU countries increased imports strongly from the internal markets.

Table 2.1: Vietnam’s leather and footwear export turnover to the EU in the period 2015-2020 (Million USD)

	2015	2016	2017	2018	2019	2020
Total exports of leather and footwear (HS64)	12.438	13.476	15.217	16.813	18.989	17.253
Export of leather and footwear to the EU	3.449	3.723	4.080	4.213	4.600	3.955
Proportion (%)	27,73	27,63	26,81	25,06	24,23	22,92

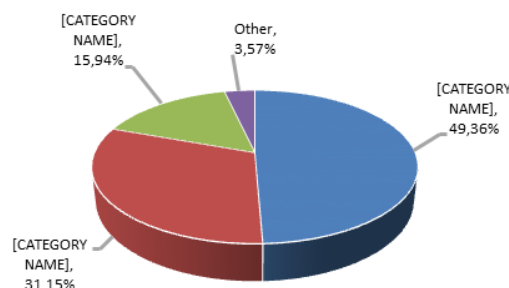
Source: ITC (2021)

According to ITC, Vietnam mainly exports leather and footwear products with HS 6404, HS 6403 and HS 6402 codes to the EU market. These three groups account for 96.43% of the total export turnover of leather and footwear in 2020. Specifically, in 2020, for HS code 64043, export turnover reach USD 1.95 billion, accounting for 49.36% of the total export turnover of leather and footwear to the EU market; followed by HS code 6403 with export turnover of

USD 1.23 billion, accounting for 31.15%;HS code 6402 with export turnover of USD 630 million, accounting for 15.93%.

The EVFTA has brought many advantages to Vietnam’s footwear industry, creating opportunities for export growth and increasing competitiveness in the EU market. Before the EVFTA took effect, Vietnam enjoyed preferential tariff status (GSP) status for footwear with a tax rate 3.5% lower than the base tax rate (12.5%). The effective EVFTA creates opportunities for export growth to EU countries. In the long term, Vietnamese enterprises will benefit significantly because the tariff preferences under EVFTA are stable, independent of the proportion of total imports into the EU and gradually decrease to 0%. Besides, the applied rules of origin are almost unchanged, which is a great advantage for Vietnamese footwear businesses. Therefore, footwear is always a commodity with export turnover of high C/O level and preferential C/O usage when exporting to the EU market. In addition, Vietnam’s footwear industry also has an advantage when most of the countries exporting footwear to the EU currently do not have an FTA with the EU.

Figure 2. Structure of Vietnam’s leather and footwear exports to the EU in 2020



Source: ITC (2021)

Although from 2020 until now, the leather and footwear industry has faced many difficulties due to the global COVID-19 epidemic, but thanks to the Government’s epidemic control measures and taking advantage of signing the new generation FTAs..., the leather and footwear industry has gradually recovered. During the pandemic, Vietnam’s leather and footwear businesses have proven their ability to do R&D (research and development) and sample design which bring about a large added value in the leather and footwear industry.

According to the Vietnam Leather, Footwear and Handbag Association (Lefaso), in the past, leading brands had to send design experts to Vietnam to

sample products, but due to the epidemic, firms were forced Vietnamese businesses to proactively do it themselves in both product and design. As a result, most supply chains and leading brands trust the R&D and design capabilities of Vietnamese enterprises. It is expected to be a good sign that Vietnam products of the leather and footwear is penetrating deeper into the global supply chain instead of our sourcing according to the models of previous brands.

2.3. Limitations and causes

* Limitations

In general, the export capacity of Vietnam's leather and footwear products to the EU market is still low, as shown by the low export results, especially in terms of the modest export market share in this market. By the end of 2019, Vietnam's footwear export market share in the EU only reached 1.07% of the EU's total footwear imports.

Vietnam's leather and footwear products exported to the EU are still limited in quality and competitiveness, as well as have not built a brand name. Exported products must go through intermediaries. Although there have been many efforts in developing and diversifying export markets, Vietnam's leather and footwear exports to the EU still cannot avoid over-concentration in a few key markets.

Meanwhile, it is not easy to expand new markets and penetrate other potential export markets for each type of export products. This, on the one hand, has potential risks and instability when there are adverse fluctuations in the export market, on the other hand, negatively affects the quality and efficiency of Vietnam's exports to the EU with the nature of being a unified market area, as well as affects the proactive supply of goods, raw materials, machinery and equipment for domestic production and consumption.

The ability to meet import regulations for Vietnamese leather and footwear exports on the EU market is limited. There are many problems to overcome, especially in meeting quality and hygiene standards, safety, internal rules of origin and environmental and social regulations of the EU market become more strict. Currently, the EU accounts for about 30% of the export market from Vietnam. Leather and footwear products are being granted GSP by the EU with the tax rate fluctuating below 8%, but as soon as the EVFTA is signed and has a into effect, GSP will be dropped immediately.

Only exporting enterprises meeting the requirements under the provisions of EVFTA will

enjoy low tax rates and vice versa, will be subject to high tax rates. However, having too much dependence on imported raw materials and not improving their scale and internal production capacity, they will not be able to take advantage of this opportunity.

Although Vietnam's leather and footwear products have joined the global value chain through FDI enterprises, there is a lack of technology spillover as well as labor productivity from FDI enterprises to domestic enterprises. For the whole country, the majority of export value is generated by FDI enterprises, showing that the role of domestic capital enterprises is insignificant, especially small and medium enterprises.

* Causes of restriction

- Vietnam's legal institutions and corridors for export activities are not yet completed and appropriate. They have not yet ensured compatibility with the legal system and regulations of the EU market. This is one of the important reasons limiting Vietnam's ability to export goods to this market in recent times.

- Although the investment and production environment of Vietnam has been continuously improved over the past time, there are still limitations, incompleteness, and not really favorable conditions for production and business activities of enterprises. Thereby, affecting the competitiveness of products and enterprises, limiting the growth of goods exports.

- The supporting industry for Vietnam's leather and footwear export is still slow to develop, unable to meet the requirements of raw materials for production and export activities. The majority of footwear production and export activities still depend on imported raw materials, so it is unstable and increase production costs and time.

- Changes and adjustments in import management policies, protection of domestic production and protection of consumers, especially strict import regulations and standards of the EU market's on quality, safety, rules of origin, environmental protection, social responsibility and workers' rights have been changed and caused challenges and obstacles for the development of Vietnam's leather and footwear exports. Meanwhile, the ability of Vietnamese exporters to cope with and overcome these barriers is still limited.

- The EU is a diverse market, consisting of many different countries, so the trends, consumption styles, languages, and business cultures of each country and region are different. Therefore, it is very difficult to

create and bring the product into one country and to adapt to the other countries. Vietnamese exporters still face many difficulties in expanding export markets due to competition from other major exporters in the world.

3. Solutions to promote Vietnam's footwear exports to the EU market when implementing the EVFTA

On April 19th, 2022, the Government issued Decision No. 493/QĐ-TTg approving the Import-Export Strategy to 2030 with the overall goal of sustainable import-export development with a balanced and harmonious structure, promoting competitive advantages and comparative advantages, developing brand names of Vietnamese goods, improving the country's position in the global value chain, becoming the driving force of rapid and sustainable economic growth. In order to achieve the goals set out in the Strategy in general and promote Vietnam's footwear exports to the EU market when implementing the EVFTA in particular, in the coming time, it is necessary to focus on solutions as follows:

- To remove the bottlenecks in the rules of origin in the EVFTA, localities need to attract investment in supporting industries and encourage the development of raw material supply centers in order to be proactive for clear - origin input materials.

- Currently, the EU is tightening standards on environmental protection in the production process, controlling the source of raw materials and harmful substances to the environment arising from the production of fabrics, raw leather, fabrics processing, footwear processing... In order to meet the regulations, it is necessary to develop the combined dyeing and tanning industrial zones. Therefore, localities should build a modern general specialized waste treatment system, including the treatment of both solid waste and waste. Moreover, localities can collect fees from businesses that need to treat waste as required.

- Attracting investment and promoting the development of the field of logistics services for leather and footwear exports such as the development of logistics services; Improving the capacity and linkages of domestic logistics enterprises; Improving logistics infrastructure associated with e-commerce, combining logistics with e-commerce according to current development trends in the world and in the region.

- Continuing to simplify and modernize the issuance of Certificates of Origin (C/O); organizing

and monitoring the implementation of the enterprise streamlining in the process of granting preferential C/O; promoting online issuance of C/O. Supporting Vietnamese enterprises in handling, implementing and reviewing technically when there is a request for inspecting and verifying the origin from the EU to protect the legitimate interests of Vietnamese enterprises.

- Continuing to deploy online trade promotion forms; innovating and applying new trade promotion activities to the textile, garment and footwear industry in the context that traditional trade promotion activities are not implemented due to the Covid-19 pandemic.

- Vietnamese enterprises need to improve production capacity, deep processing, find raw material sources in the region or develop domestic raw material sources because the rules of origin in the EVFTA require large participation of raw materials in the FTA area.

- Businesses need to understand the needs of each market in each specific situation to develop and produce suitable products. Paying attention to update information on technical barriers in trade and new requirements on the quality of EU's textile and footwear products.

- Improving product quality is a key factor to ensure sustainable growth of exports. To do this, businesses need to invest for innovation in production activities and improvement of human resource quality.

- Concentrating resources on innovating technology, cutting production costs, improving models, diversifying products due to personal tastes.

References:

Ministry of Industry and Trade (2020). *Export information to the EU market for footwear industry*, Industry and Trade Publishing House.

Ministry of Industry and Trade (2021). *Special Journal: EVFTA with Vietnam's trade: Specialized in textiles - footwear*, Ministry of Industry and Trade.

Ministry of Industry and Trade (2016). *EVFTA and Vietnam's textile, garment and footwear industry*, Mutrap Project.

Nguyen Thi Bich Hanh, Nguyen Tien Hoang. *Impact of EVFTA on Vietnam's footwear exports to the EU market*, Journal of Development on Science - Technology - Economics - Law and Management.

Leather and Footwear Research Institute (2017). *Project on Adjusting Development Planning of Vietnam Leather and Footwear Industry to 2025, Vision to 2035*, Leather and Footwear Research Institute, Ministry of Industry and Trade, 2017.

Statistics of the International Trade Center based on the statistical database of UNCOMTRADE (2021).