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**CƠ HỘI VÀ THÁCH THỨC CỦA VIỆT NAM ĐỐI VỚI XUẤT KHẨU
GIÀY DÉP KHI THAM GIA HIỆP ĐỊNH EVFTA**

Vũ Thị Kiều Trinh¹, Ngô Thiên An

Sinh viên K61 Logistics & Quản lý Chuỗi cung ứng - Viện Kinh tế và Kinh doanh quốc tế
Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Nguyễn Thị Thanh Hòa

Sinh viên K60 CLC Kinh doanh quốc tế - Viện Kinh tế và Kinh doanh quốc tế
Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Đặng Thùy Anh, Bùi Linh Huệ

Sinh viên K61 CLC Kinh tế đối ngoại - Viện Kinh tế và Kinh doanh quốc tế
Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Vũ Huyền Phương

Giảng viên Viện Kinh tế và Kinh doanh quốc tế
Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Tóm tắt

Hiệp định Thương mại tự do Việt Nam - EU (EVFTA) chính thức có hiệu lực từ ngày 01/08/2020. Đây được coi là một trong những nỗ lực không ngừng của Việt Nam trong công cuộc đẩy mạnh quá trình hội nhập quốc tế và tăng trưởng việc xuất khẩu Việt Nam sang EU. Giày dép là một trong những ngành hàng xuất khẩu chủ lực của Việt Nam bị ảnh hưởng bởi Hiệp định này. Nghiên cứu

¹ Tác giả liên hệ, Email: k61.2211530050@ftu.edu.vn

này sẽ đánh giá những cơ hội và thách thức mà EVFTA đem lại cho sự tăng trưởng xuất khẩu của các mặt hàng giày dép của Việt Nam sang thị trường EU và đề xuất một số giải pháp nhằm thúc đẩy hoạt động xuất khẩu giày dép Việt Nam sang EU hơn nữa. Nghiên cứu này được thực hiện bằng phương pháp phân tích định tính với các dữ liệu được tổng hợp và phân tích từ các nguồn đáng tin cậy như các bài viết, bài nghiên cứu và diễn đàn. Thông qua kết quả nghiên cứu, có thể thấy rằng việc EU dỡ bỏ thuế quan nhập khẩu đối với các mặt hàng giày dép của Việt Nam theo hiệp định EVFTA đã góp phần đáng kể vào sự gia tăng giá trị xuất khẩu và đồng thời làm cho các mặt hàng này tăng tính cạnh tranh hơn so với các đối thủ là nhà sản xuất quốc tế và nội địa EU. Dựa trên đó, nghiên cứu đề xuất một số giải pháp cho chính phủ và doanh nghiệp nhằm thúc đẩy hoạt động xuất khẩu giày dép Việt Nam sang EU hơn nữa trong những năm tới.

Từ khóa: Hiệp định EVFTA, Thị trường EU, Việt Nam, giày dép, xuất khẩu

EVFTA ON VIETNAM'S FOOTWEAR EXPORT: OPPORTUNITIES AND CHALLENGES

Abstract

The Vietnam-EU Free Trade Agreement (EVFTA), which came into effect on August 1, 2020, is considered a part of Vietnam's ongoing efforts to boost international integration and increase Vietnam's exports to the EU market. Among the sectors affected by this agreement is the footwear industry, one of Vietnam's major export products. This study will evaluate the opportunities and challenges of EVFTA on the export growth of Vietnamese footwear to the EU and propose some practical solutions for further development. This study was conducted using qualitative analysis with data collected from articles, research articles and forums on this topic. The research findings demonstrate that the removal of import tariffs on Vietnamese footwear by the EU, as stipulated in the EVFTA, not only increases the export turnover but also enhances the competitiveness of these products compared to both international and domestic EU manufacturers. Based on these results, the study puts forward some recommendations to further bolster Vietnam's footwear exports to the EU market in the coming years.

Keywords: EVFTA agreement, EU market, Vietnam, footwear, export

1. Introduction

Vietnam's footwear industry is a cornerstone of the national economy, generating substantial export revenue and employment opportunities. As a key player in the global footwear market, Vietnam holds over 12% of the total market share, ranking second only to China (according to the General Department of Customs). To strengthen its international position and expand market access, Vietnam has actively participated in trade agreements, and the European-Vietnam Free Trade Agreement serves as a prime example.

The European Union-Vietnam Free Trade Agreement (EVFTA), implemented on August 1 2020, has marked a significant turning point for Vietnam's economic integration with the world. This agreement presents numerous opportunities for Vietnam's export sector, particularly the progressive reduction of import tariffs on Vietnamese footwear by the EU, with rates dropping

from an average of 12.4% to 0% over a seven-year period. Statistics from the General Department of Vietnam Customs indicate a positive trend in Vietnamese footwear exports to the EU following the implementation of the EVFTA. Notably, the first quarter of 2021 and the first eight months of 2022 witnessed an impressive increase of 5.9% and 29.7% in footwear export turnover compared to the same period in the previous year, reaching \$17.75 billion and \$16.36 billion respectively.

In general, the focus of this research paper is: Firstly, to examine the EVFTA's provisions related to tariff reductions and non-tariff measures specific to Vietnam's footwear exports to the EU. Secondly, to conduct an in-depth analysis of the effects of EVFTA on Vietnam's footwear exports to the EU market, evaluating the overall situation of Vietnam footwear export in terms of changes in export volumes, market share, and competitiveness. Thirdly, to identify the opportunities and challenges that have emerged for Vietnam's footwear industry after the implementation of EVFTA, and propose some suggestions for government and footwear enterprises to capitalize on opportunities and address challenges to boost the footwear exports turnover.

2. Research overview and Research methodology

2.1. Literature Review

2.1.1. Previous Research

The European Union-Vietnam Free Trade Agreement (EVFTA) has gained significant interest among researchers, industry experts, and policymakers regarding its potential impact on Vietnam's footwear export industry.

Hoang, N. T. and Hanh, N. B. (2021), through simulations using the SMART model, found that Vietnam's footwear exports to the EU are expected to increase by \$1.085 billion, with the trade diversion effect dominating the trade creation effect, accounting for approximately 56.75% of the total impact. This result suggests that the increase in Vietnam's footwear exports to the EU, when tariffs are reduced to 0%, is largely due to Vietnamese competitiveness of price compared to goods produced by other countries exporting to the EU market.

Nguyen, T. B. H. and Nguyen, T. H. (2021) studied the impact of the EVFTA on footwear exports to the EU, using the SMART model to assess the actual impact. The evaluation focuses on the potential impact of the EVFTA agreement, such as the trade creation effect, trade diversion effect, impact on government tax revenue, impact on social welfare, and changes in exports. The research results also show that enterprises need to invest and upgrade production factories towards automation to enhance product competitiveness based on price advantages.

Nguyen, Q. T., Pham, T. T. T. (2021) highlighted the impacts of TBT barriers on Vietnam's footwear exports to the EU market and the major problems that the domestic footwear industry is facing, including low domestic raw material supply, weak capital, production management, and

limited ability to grasp TBT measures and comply with the European system of regulations, technical standards and requirements, especially rules of origin.

2.1.2. Research gap

In general, while previous researches have proven the influence of EVFTA on the overall Vietnam's footwear export and the economy, little has been carried out to analyze the potential advantages and obstacles of EVFTA on the country's footwear export in depth. In addition, although some studies have touched upon the potential impact of EVFTA on various aspects like export turnover, social welfare and government tax revenue, the data for the report was rather insufficient to offer an actual impact assessment due to the short implementation period of EVFTA back then, which has only been in effect since August 1, 2020. Therefore, there is a research gap in evaluating the real and comprehensive effects of the EVFTA on Vietnam's footwear industry after its implementation for a more extended period. Since EVFTA has been in force for nearly 3 years now, there is an opportunity for more comprehensive and data-based analysis of its actual impacts and changes in export volumes, market share and competitiveness of Vietnamese footwear in the EU market. To fill the gap, this study aims to delve into the sector's real export volumes, market share after tariff reductions, thereby thoroughly examining the opportunities and challenges presented by the EVFTA to Vietnam's footwear export and propose some strategies for promoting this export sector in the future.

2.2. Research Methodology

This paper employs a qualitative research method to examine the opportunities and challenges presented by the EVFTA on the footwear export industry. This research methodology involves collecting non-numerical data from reliable official reports such as Vietnam's Ministry of Industry and Trade, General Department of Customs, VCCI, and Vietnam Leather, Footwear and Handbag Association to gain an in-depth understanding of the related underlying reasons, opinions, and motivations. The utilization of a qualitative research design is justified for this study due to its ability to facilitate a comprehensive assessment of the industry's dynamics and the opportunities and challenges associated with EVFTA in the context of footwear export. Through this qualitative analysis, we seek to uncover valuable insights into the EVFTA's impact on the footwear export industry of Vietnam and provide some recommendations to increase the footwear export turnover.

3. Overview of EVFTA and its commitments on exporting footwear from Vietnam to the EU

3.1. Overview of EVFTA

According to the Vietnam Chamber of Commerce and Industry (VCCI), the EU-Vietnam Free Trade Agreement (EVFTA) represents a new generation free trade agreement (FTA) between Vietnam and the 27 member states constituting the European Union. Executed on June 30, 2019, and enforced since August 1, 2020, the EVFTA embodies a wide range of commitments and significant liberalization measures. Its execution promises to bring special opportunities for enhancing trade connections between Vietnam and EU member nations.

The EVFTA consists of 17 Chapters, 2 Protocols and some understandings with the following contents: trade in goods (including general provisions and market access commitments), rules of origin, customs and trade facilitation, the Sanitary and Phytosanitary Measures (SPS), the Technical Barriers to Trade (TBT), trade in services (including general provisions and market access commitments), investment, Trade Remedies (TR), competition, state-owned enterprises, government procurement, intellectual property rights, trade and sustainable development, collaboration and capacity development, legal-institutional issues (VCCI, 2020). With the level of commitment achieved, the EVFTA is considered a comprehensive, high-quality agreement that ensures a balanced benefit for both Vietnam and the EU, while also aligning with the regulations of the World Trade Organization (WTO) and taking into account the developmental disparity between the two parties.

3.2. Commitments on exporting footwear from Vietnam to the EU according to EVFTA

3.2.1. Tariff commitments

As reported by VCCI, the EVFTA commitment entails the immediate elimination of import tariffs for Vietnamese footwear across 37% of tariff lines upon the agreement's commencement. This encompasses a diverse range of footwear categories, including waterproof rubber/plastic shoes, sandals, indoor slippers, and raw materials vital to the footwear industry. The remaining portion of footwear products will undergo a gradual elimination of import tariffs over a span of 3 to 7 years. It is notable that the majority of footwear types in which Vietnam has export strengths fall within this category.

Regarding export tariffs, Vietnam has committed in the EVFTA to eliminate these duties on footwear raw materials (including raw hides and skins) within 5 years from the effective date of the Agreement - 1st August 2020. Specifically, export duties on this group of goods will be gradually reduced to 0% from the current base tax rate (ranging from 1-10% depending on the specific commodity).

3.3.2. Non-tariff commitments

3.3.2.1. The commitments on rules of origin

To implement the EVFTA, the following products shall be considered as originating in a Party:

Wholly Obtained Products are the products wholly obtained in a Party;

Sufficiently Worked or Processed Products are the products obtained in a Party incorporating materials that have not been wholly obtained there, provided that such materials have undergone sufficient working or processing in the Party concerned.

The specifics of each type of goods are also regulated by the EVFTA in Article 4 and 5, Section B, Protocol 1 of this Agreement.

The rules of origin for footwear products adhere to the general provisions outlined in Chapter II of the Agreement and specific rules for each group of goods. Specifically, as stated in VCCI, for

footwear products, the rules of origin applied in cases where a portion of the materials is non-originating (which is the case for nearly all footwear exports from Vietnam) are as follows:

- For all products falling under Chapter 64 (Footwear, gaiters, and the like; parts of such articles), except for product code 6406: They are manufactured from any type of materials under any HS code, excluding the assembly of uppers onto soles falling under code 6406.
- For products falling under code 6406 (parts of footwear): They are manufactured from any type of materials under any HS code except for the HS code of the product itself.

3.3.2.2. The Commitment on Technical Barriers to Trade (TBT)

The EVFTA primarily consists of general commitments to cooperation and transparency in the area of technical barriers to trade (TBT); there are no specific commitments related to TBT measures that may affect footwear, except Commitments regarding product labeling, cooperation in recognizing conformity assessment procedures of each Party, post-audit, and for Vietnam: commitment to accept the origin label "Made in EU" or specify the origin of each country within the EU for industrial goods (including textiles and garments)

Therefore, fundamentally, when the EVFTA comes into effect, the EU and Vietnam will continue to actively apply TBT measures to imported goods as they currently do. Exporting companies will still need to fully comply with the requirements of the importing party as before.

4. Overview of Vietnam's footwear industry

Vietnam's footwear industry has experienced rapid growth and is considered one of the driving forces of the Vietnamese economy. With approximately 240 active enterprises, Vietnam's footwear sector is a leading export industry, employing around 500,000 workers.

Vietnam ranks as the third-largest footwear producer in Asia and the fourth-largest globally. Its footwear export volume trails only behind the Chinese market. Annually, Vietnam exports over 1 billion pairs of shoes to various markets worldwide, contributing significantly to the country's foreign exchange earnings.

According to the statistics of the General Department of Customs, Vietnam's footwear exports in October 2022 are estimated at over 1.96 billion USD, up 9.54% compared to September 2022 and over 109.42% compared to October 2021. By the end of 10 months of 2022, exports of this item reached 20.12 billion USD, up 41.36% over the same period, and accounted for over 6.43% of the total import development of our country in 10 months of 2022.

Vietnam's footwear exports were 16.75 billion USD in 2020, which decreased by 8.6% YOY. In 2021, Vietnam's footwear products were exported to more than 100 countries, with about 17.8 billion USD in footwear production. In 2021, Vietnam's footwear exports have seen a resurgence in growth.

Furthermore, the Vietnamese footwear industry must leverage the strengths provided by Free Trade Agreements (FTAs) to optimize opportunities for importing raw materials from participating markets. In the first ten months of 2022, footwear exports totaled \$20.12 billion, reflecting a 41.36% increase year-on-year and constituting over 6.43% of the country’s total export revenue during that period. In October 2022, footwear exports by foreign direct investment (FDI) enterprises exceeded \$1.62 billion, rising by 10.33% compared to September 2022 and an impressive 139.58% compared to October 2021. Cumulatively for the first ten months of 2022, FDI-related footwear exports reached \$16.33 billion, marking a 44.48% increase year-on-year and accounting for 81.18% of the total footwear export value. According to data from the Ministry of Industry and Trade, Vietnam’s total footwear export value in 2022 is estimated at \$16.76 billion, a 5.6% decrease compared to 2021. Among these figures, FDI-related footwear exports in 2022 are projected to reach \$13.61 billion, representing a 2.76% decline from 2021 and constituting 81.25% of the total footwear export value in Vietnam.

The country plays a crucial role in the global footwear demand and is at the van of this metamorphosis. Vietnam’s footwear industry, valued at over \$22 billion in 2022, is integrating sustainable practices at an emotional pace. Vietnamese manufacturers are exercising locally sourced, eco-friendly accouterments, thereby reducing the carbon footmark and supporting original communities.

5. Overview of Vietnam’s footwear export before and after EVFTA

5.1. Before signing EVFTA

The footwear sector is a vital contributor to the nation's economic progress, significantly boosting overall growth. Across the country, nearly 3,000 businesses are involved in footwear production, employing over 1 million workers in manufacturing and 500 thousand in related industries.

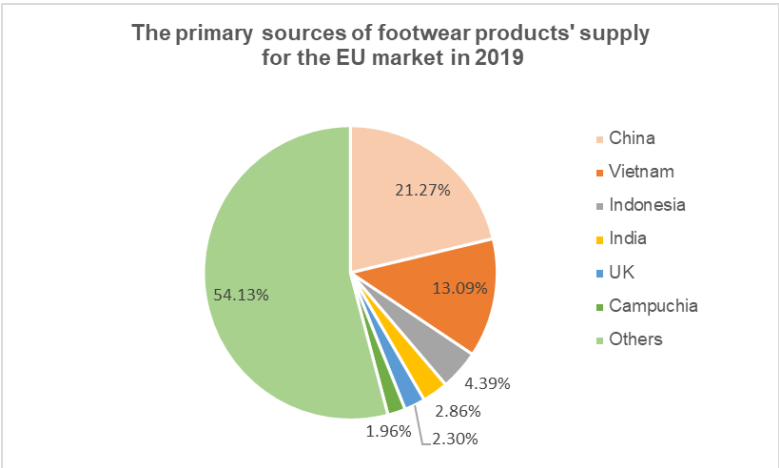


Figure 1: The primary sources of footwear products supply for the EU market in 2019

Source: Ministry of Industry and Trade

The EU is one of the world's largest footwear market regions and at the same time, it owns a large-scale and modern developed footwear industry. With competition from countries with low labor costs, the growth rate of EU footwear industry production decreased, instead the EU became a large import market area.

According to statistics from the International Trade Center (ITC), in 2019, the EU-27 imported 58.07 billion USD of footwear (HS code 64), of which China was the main supplier, accounting for 21.27%. Vietnam ranks second with export turnover to the EU reaching 12 billion USD, accounting for a market share of 13.09%. Competitors in the top 5 in this market include Indonesia and India, with much lower market shares. and there is little opportunity to surpass Vietnam in exporting to the EU.

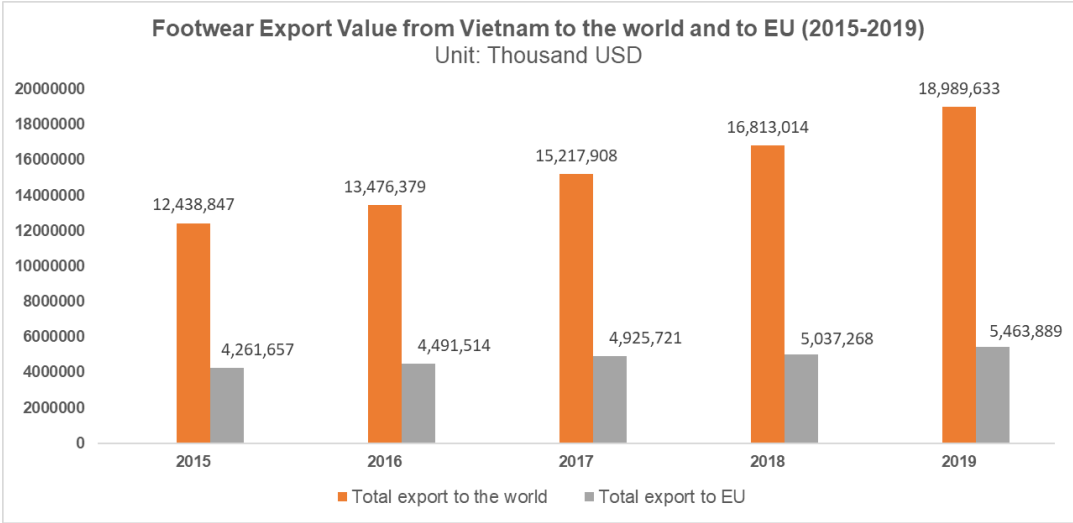


Figure 2: Footwear Export Value from Vietnam to the World and EU (2015-2019)

Source: Trademap - International Trade Center

The EU market was Vietnam's second main footwear export market (only after the USA). From 2015 to 2019, before the EVFTA on footwear became effective, Vietnam's footwear export industry witnessed significant growth both globally and specifically within the European Union (EU) market. The total export turnover of the footwear industry from Vietnam to the EU has tended to increase from 4.26 billion USD in 2015 to 5.46 billion USD in 2019. This shows a significant growth throughout the year, with an estimated 28% increase in total exports. However, the level of growth is not stable over the years, fluctuating from year to year. 2017 recorded the highest growth rate, reaching 12.5%, while 2018 only had the lowest growth rate of 2.26%. This shows the volatility of the market and the degree of influence from external factors, such as fluctuations in demand and production costs.

2016				2017				2018				2019			
Quantity (tons)	Value (thousand USD)	Compared to 2015 (%)		Quantity (tons)	Value (thousand USD)	Compared to 2016 (%)		Quantity (tons)	Value (thousand USD)	Compared to 2017 (%)		Quantity (tons)	Value (thousand USD)	Compared to 2018 (%)	
		Quantity	Value			Quantity	Value			Quantity	Value			Quantity	Value
124,495	4,492	+16.88	+5.39	132,382	4,926	+6.34	+9.66	115,835	5,037	-12.5	2.26	126,029	5,464	+8.8	+8.47

Figure 3: Footwear export revenue from Vietnam to the EU in the period 2016-2019

Source: Trademap - International Trade Center, author's calculations

Although Vietnam's footwear industry recorded a significant growth in exports to the EU market during the period 2015-2019, the level of growth is unstable and depends on many different factors. This suggests that prudence and flexibility in business strategy are necessary to maintain and grow market share in the future.

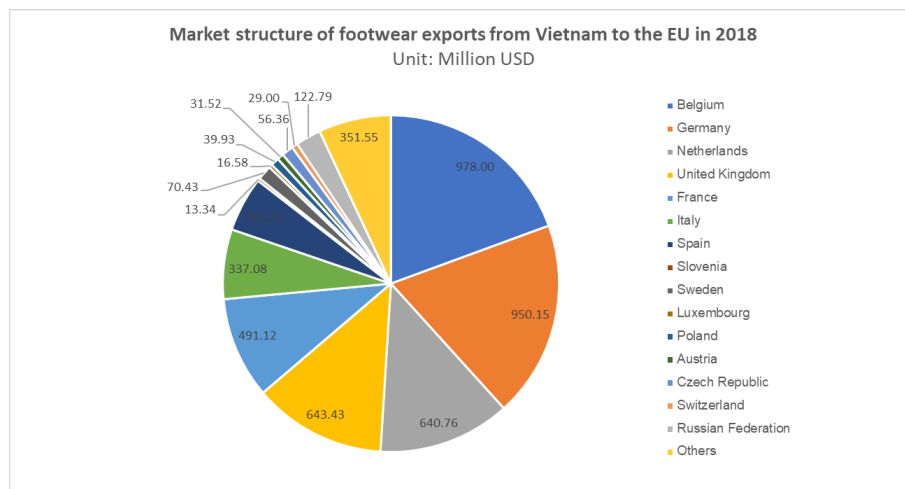


Figure 4: Market structure of footwear exports from Vietnam to the EU in 2018

Source: Trademap - International Trade Center

The key export markets for footwear in Vietnam in the EU region in the period before signing EVFTA were Belgium, Germany, the United Kingdom, the Netherlands, and France. Among these, Belgium stood out as Vietnam's primary export market for footwear. In 2018, Belgium recorded an export turnover of 987.00 million USD, accounting for 19.42% of Vietnam's total footwear exports to the EU. Exports to Germany - Vietnam's second largest export market within the EU in 2018 - also amounted to 950.15 million USD, constituting 18.86% of the total export turnover to the EU. Next, the UK market saw a turnover of 643.43 million USD, representing 12.77%; while the Dutch reached 640.76 million USD, comprising 12.72% of the total; and France recorded exports worth 491.12 million USD, contributing 9.74% to the export turnover.

Hence, the five prominent markets, namely Belgium, Germany, the United Kingdom, the Netherlands, and France, collectively represented 80.21% of the overall export turnover of Vietnam's footwear within the EU. Conversely, the residual markets made a negligible contribution to Vietnam's footwear exports to the EU.

5.2. After signing EVFTA

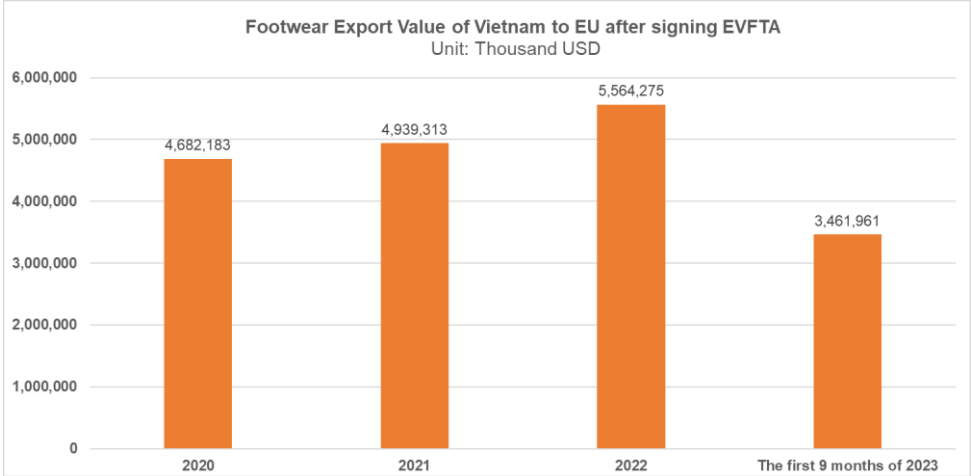


Figure 4: Footwear export value of Vietnam to EU after signing EVFTA (2020-2023)

Source: Trademap - International Trade Center

2020				2021				2022			
Quantity (tons)	Value (thousand USD)	Compared to 2019 (%)		Quantity (tons)	Value (thousand USD)	Compared to 2020 (%)		Quantity (tons)	Value (thousand USD)	Compared to 2021 (%)	
		Quantity	Value			Quantity	Value			Quantity	Value
102,591	4,682	-18.6	-14.31	146,27	4,939	+42.58	+5.49	153,661	5,564	+5.05	+12.65

Figure 5: Footwear export revenue from Vietnam to EU in the period 2020-2023

Source: Trademap - International Trade Center, author’s calculations

When the EVFTA agreement was signed in 2020, it was also the time when Vietnam and the world were facing the crisis of the COVID-19 pandemic. As a result, it can be seen that the footwear export revenue of Vietnam in 2020 was about 14.31% lower compared to 2019. The crisis was at its highest level in the first 7 months of 2020, however, after the impact of EVFTA, the footwear industry quickly recovered and gradually regained its previous export scale and value for the rest of 2020 till now. The value of footwear exports from Vietnam to the EU has tended to increase continuously during this period. From 2020 to the first 9 months of 2023, export value has increased by 61.3%, from 3,461,961 thousand USD in 2020 to 5,564,275 thousand USD in 2023. This shows a steady increase in Vietnam's footwear export activities. South to EU.

In 2021, Vietnam's footwear export market witnessed a strong recovery of consumer demand after the COVID-19 pandemic. This has led to a significant increase in exports compared to 2020, up 42.7%. This recovery is stimulated by the continued implementation of the EVFTA. EVFTA not only helps reduce tariffs on many footwear products but also promotes trade relationships between the two sides, creating favorable conditions for market expansion and strengthening business cooperation. In 2022, Vietnam's footwear export market, the export revenue continued to increase (27.7%) but not too significant compared to 2021. Additionally, in the first 9 months of 2023, the growth rate has decreased slightly (12.6%). This fluctuation has shown that although there is overall growth, there is variation in the pace within each period.

After two years of EVFTA coming into effect, Vietnam has witnessed significant growth in the export of footwear products to the majority of key markets within the EU. Belgium maintained its position as the foremost importer of footwear, achieving an export value of \$1.369 billion USD in 2022, marking an increase of approximately 40% compared to 2018. Besides, the Netherlands and the United Kingdom remained to be pivotal export destinations for Vietnam's footwear, albeit trailing behind Germany - the second-largest importing market, with footwear imports valued at \$1.046 billion USD. This highlights Vietnam's ongoing efforts to enhance exports to major markets such as Belgium, Germany, and the Netherlands following the implementation of the EVFTA.

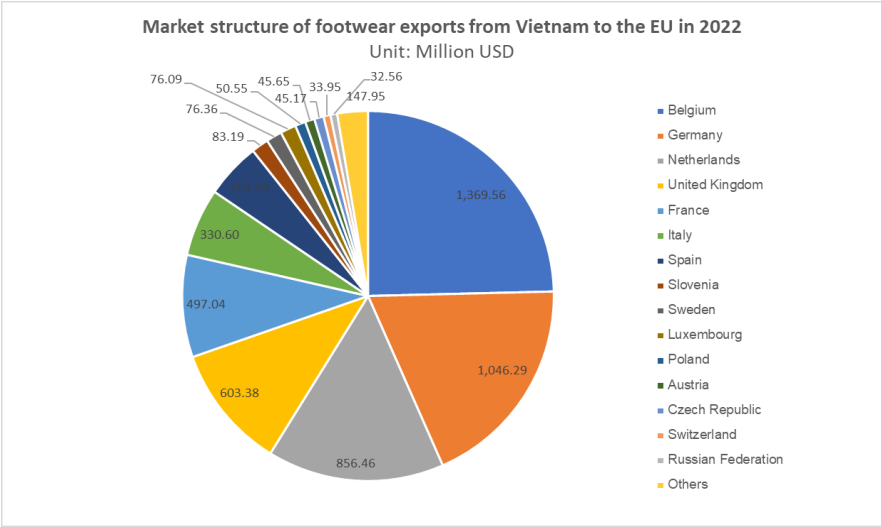


Figure 6: Market structure of footwear exports from Vietnam to the EU in 2022

Source: Trademap - International Trade Center

The export of footwear to the EU has witnessed a significant expansion, not only in terms of export turnover and the number of trading partners but also in the diversity of export classifications. According to data from the International Trade Center, EU consumers purchased a total of 22 different product categories in 2022. Among these categories, Sports footwear, including tennis shoes, basketball shoes, gym shoes, training shoes, and the like, characterized by outer soles of rubber or plastics and uppers of textile materials (HS 640411), emerged as the most sought-after category, recording exports valued at 2.089 billion USD and accounting for 37.56% of the total

export turnover. Furthermore, footwear products classified under HS codes 640399, 640299, and 640391, exported to the EU market following the implementation of the EVFTA, have also served as substantial revenue generators for Vietnam.

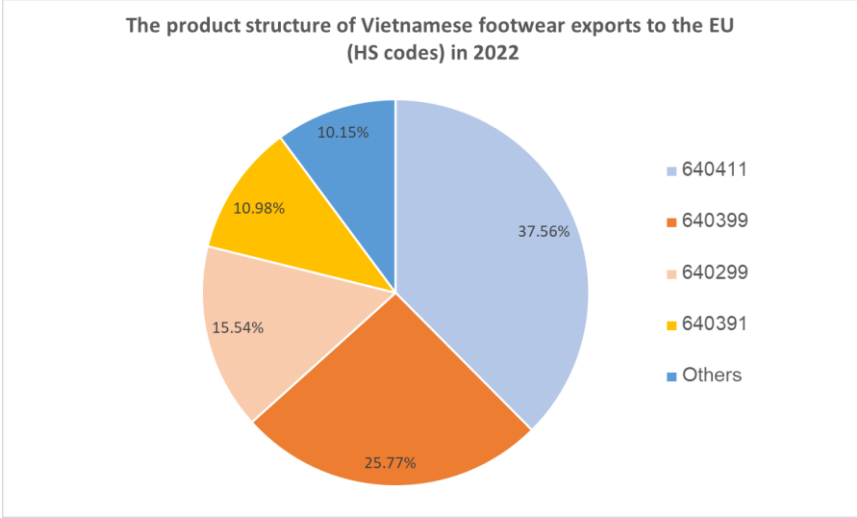


Figure 7: Product structure of Vietnamese footwear exports to the EU (HS codes) in 2022

Source: Trademap - International Trade Center

6. Analyzing the Opportunities and Challenges of Vietnam’s footwear export after EVFTA

6.1. Opportunities

6.1.1. Export advantages

The EVFTA grants favorable import duty rates for specific footwear items, including sports shoes. This encourages Vietnam to import these products into the EU. Currently, 37% of Vietnam's footwear exports to the EU enjoy a 0% tariff, and over time, the remaining portion will see tariffs gradually decrease from the current 12.5% to zero. This reduction significantly boosts the competitiveness of Vietnamese footwear in the European market, allowing manufacturers to offer attractive prices while maintaining quality standards. Additionally, the rules of origin applied under the Generalized System of Preferences (GSP) are also relatively favorable.

Despite China's strong presence in the global footwear industry, the EVFTA provides Vietnam with a unique advantage. Vietnamese footwear products face a duty difference of approximately 3.5% to 4.2% when exported to the EU compared to Chinese products. This positions Vietnam as an appealing alternative for European consumers. As production costs rise in China, businesses are increasingly shifting their manufacturing operations to Vietnam. The EVFTA accelerates this trend, enabling Vietnamese brands to establish a stronger foothold in the European market. Additionally, the rules of origin applied under the Generalized System of Preferences (GSP) are also relatively favorable as the EVFTA allows Vietnamese footwear enterprises to use imported

raw materials for production and only requires the cutting, sewing, assembly, and packaging stages to be carried out in Vietnam.

Thanks to EVFTA, Vietnam's footwear industry can now tap into the vast European consumer base, offering a diverse range of products—from budget-friendly sneakers to premium footwear shoes.

6.1.2. Domestic market potential

Trade agreements that encourage exports to the EU also boost domestic production in Vietnam. Factories producing for exports can simultaneously serve the local market, providing a diverse range of footwear choices for Vietnamese consumers. Moreover, in order to meet the EU standards, manufacturers are compelled to improve product quality. These quality enhancements benefit both export-oriented and domestic sales as Vietnamese consumers now have a wider range of choices and easy access to better-made shoes, whether they are destined for the EU market or local shelves.

6.1.3. Facilitation to other Free Trade Agreements

According to Vietnamplus, EVFTA has opened up numerous trade opportunities for Vietnam. After signing EVFTA, Vietnam has gained a good impression from foreign investors into the market, yielding positive outcomes for the footwear industry. By leveraging the opportunities provided by the EVFTA, the Vietnamese footwear industry's potential can extend beyond the EU. The newest Free Trade Agreement (FTA) that Vietnam signed is the Vietnam-Israel Free Trade Agreement (VIFTA) is a prime example. This agreement, signed on July 25, 2023, further enhances Vietnamese footwear competitiveness by gradually reducing tariffs on exports to Israel and creates new possibilities for Vietnamese footwear manufacturers to expand their reach and tap into the Israeli market, strengthening their global presence.

6.1.4. Market Restructuring in Export and Import

Currently, Vietnam's import and export activities are primarily focused on the Asian region, accounting for about 80% of import turnover and 50% of export turnover. The EVFTA provides businesses with opportunities to penetrate and explore new markets, particularly the European market, which holds significant potential for Vietnam's exports (comprising 27 European countries). This diversification helps reduce reliance on a single market and minimizes the risks associated with economic fluctuations or changes in regional dynamics.

6.2. Challenges

6.2.1. Market competition

As a significant player in global footwear manufacturing, Vietnam faces formidable competition, particularly from China and India. Both these countries boast well-established footwear industries, leveraging economies of scale and robust supply chains. Despite being the third-largest footwear manufacturer in Asia (after China and India) and the fourth-largest globally, Vietnam must continually enhance its competitiveness to thrive in this fiercely contested landscape.

Here is the Vietnam Footwear Market HHI Index Trend of Exporting Countries:

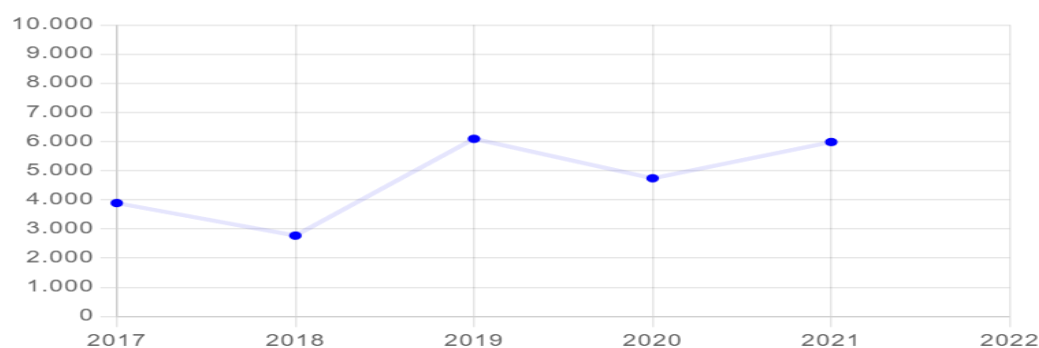


Figure 8: Vietnam Footwear Market HHI Index Trend of Exporting Countries

Source: 6Wresearch

Vietnam Footwear market currently, in 2023, has witnessed an HHI of 5981, Which has increased moderately as compared to the HHI of 3887 in 2017. This means that the market is moving towards concentration and besides China and India, other countries also compete in the global footwear market. Therefore, Vietnam must differentiate itself through product quality, innovation, and efficient supply chain management.

6.2.2. *Compliance with strict regulations from EU*

The requirements for rules of origin from the EU are stringent as in order to enjoy customs duty benefits, the raw materials must meet a certain proportion in terms of domestic content. This poses a significant challenge for Vietnamese businesses since the raw materials used in export production are mainly imported from China or other ASEAN countries. In addition, Vietnam's footwear export enterprises face several challenges due to strict mandatory regulations imposed by the European Union (EU) such as CBAM (Carbon Border Adjustment Mechanism). As a result, compliance with CBAM requirements can lead to increased costs and pricing pressures, operational adjustments, administrative burdens, and potential impacts on market access and competitiveness.

6.2.3. *Economic downturn*

Following the eruption of the Russia-Ukraine war, energy and food prices in Europe have risen sharply. As a result, European households have a tendency to reduce their spending on some categories of goods and services, and instead allocate more of their budget towards services that were unavailable to them during the Covid-19 period. This, together with prolonged inflation in the EU market and tighter monetary policies implemented by countries, has led to consumers cutting back on spending on non-essential items, including textiles, apparel, and footwear. According to the statistics from the General Department of Customs for the first 10 months of this year, footwear exports amounted to \$16.4 billion, experiencing a decline of 18.3%.

7. Suggestion for Vietnam's footwear export for maximization of benefits from EVFTA

7.1. For Government

Firstly, to reduce compliance costs associated with EU Technical Barriers to Trade (TBT) standards, it is essential that the government foster businesses' understanding and coping mechanisms with non-tariff barriers. The government should actively disseminate information about EU TBT standards to businesses, providing clear guidelines and resources to help them understand the requirements through organizing workshops, seminars, and online platforms.

Secondly, the government should have strategies for the development of logistics service in terms of footwear, which consists of attracting investment into this field, enhancing the capacity and connectivity of domestic logistics enterprises and reviewing investment, upgrading transportation infrastructure, flow channels, warehouse facilities at seaports, and import-export checkpoints.

Thirdly, authorities should foster an environment conducive to domestic enterprises investing in industries for manufacturing raw materials and production technology. Investment incentives such as tax breaks, grants, and subsidies to encourage domestic enterprises to invest in industries related to manufacturing raw materials and production technology should be provided by the government.

Fourthly, the Ministry of Industry and Trade should continue pushing for expedited implementation of the draft decree on supporting industrial development and human resource training policies to enhance the quality and competitiveness of the domestic workforce, amid stringent conditions imposed by the EU market.

7.2. For Enterprises

Firstly, export businesses should understand the EVFTA agreement to effectively leverage the benefits of the EVFTA, through knowing the commitments related to tariffs and rules of origin, regulations on technical barriers to trade in the EU to ensure that products can meet those standards to enter the EU market, production processes, domestic or EVFTA member countries' sources of raw materials, receiving the transfer of advanced technologies from Europe to enhance productivity, quality, and competitive capabilities of each business.

Secondly, enterprises must continue to reform institutional mechanisms, and administrative procedures, and enhance transparency in information related to labor, and production environments, particularly ensuring origin regulations when exporting to the EU. They should also focus on training management personnel and utilizing investment to enhance the value and quality of products to meet EU standards and regulations, thus attracting more investment from EU countries.

Thirdly, businesses should undergo digital transformation to address management cost issues, enhance internal capabilities, and improve supply chain transparency for effective access. A

collaborative effort of government agencies in terms of policies to encourage innovation is also essential. Additionally, there needs to be a focus on investing in people as good machinery alone cannot meet requirements if there are no high-quality human resources.

Fourthly, businesses should proactively stay updated on market trends and opportunities brought by the EVFTA. This includes understanding tax incentives related to the local value-added content of goods, services, and technical barriers. Efforts to contribute insights during negotiations to safeguard interests are imperative. Asserting a strong domestic position and seizing opportunities to expand into the EU market are equally vital strategies.

8. Conclusion

The research conducted by this group of authors seeks to evaluate the advantages and obstacles encountered by the Vietnamese footwear industry following the signing of EU-Vietnam Free Trade Agreement (EVFTA). EVFTA presents significant opportunities for Vietnam's footwear exports, offering reduced tariffs and enhanced competitiveness in European markets. However, there are also challenges such as compliance with European regulations, environmental and logistics considerations. To maximize the benefits of EVFTA, the government should play a pivotal role by disseminating information regarding the agreement's advantages and enacting supportive policies tailored to enterprises, developing logistics services, and technological advancements. Businesses, in turn, should focus on improving quality, designs of products, enhancing workforce skills, upgrading production facilities, prioritizing the rules of origin, and understanding tax incentives related to the local value-added content of goods, services, and technical barriers. By collaborating on these initiatives, Vietnam's footwear export can capitalize on EVFTA's opportunities and achieve sustainable development.

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