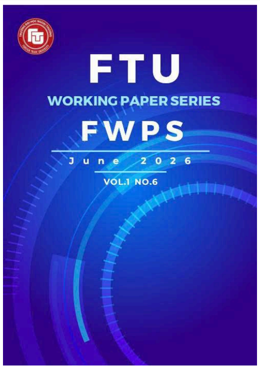

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ĐÁNH GIÁ TÁC ĐỘNG TIỀM NĂNG CỦA HIỆP ĐỊNH CEPA VIỆT NAM – UAE ĐỐI VỚI XUẤT KHẨU GIÀY DÉP CỦA VIỆT NAM SANG UAE

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Tóm tắt

Nghiên cứu này sử dụng mô hình SMART, một công cụ mô phỏng cân bằng bộ phận, để thực hiện đánh giá ở giai đoạn đầu về Hiệp định Đối tác Kinh tế Toàn diện giữa Việt Nam và Các Tiểu vương quốc Ả Rập Thống nhất (Vietnam - UAE CEPA), hiệp định vừa mới chính thức có hiệu lực gần đây. Cụ thể, bài nghiên cứu tập trung vào tác động tiềm năng của hiệp định này đối với xuất khẩu giày dép của Việt Nam (HS 64). Hai kịch bản riêng biệt được xây dựng, phản ánh các chiến lược tự do hóa thương mại của UAE đối với các đối tác của mình, bao gồm cả Việt Nam. Kết quả dự báo cho thấy kim ngạch xuất khẩu giày dép của Việt Nam sang UAE đều có xu hướng tăng trong cả hai kịch bản. Tuy nhiên, động lực tăng trưởng này suy yếu đáng kể nếu UAE mở rộng các ưu đãi thuế quan tương tự cho các đối thủ cạnh tranh trong khu vực. Phát hiện này nhấn mạnh sự cần thiết của các khuyến nghị mang tính chiến lược nhằm duy trì năng lực cạnh tranh của Việt Nam trong thị trường UAE ngày càng được tự do hóa.

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Từ khoá: CEPA, tự do hóa thương mại, ưu đãi thuế quan, giày dép, mô hình SMART

THE EVALUATION OF THE VIETNAM – UAE CEPA POTENTIAL IMPACT ON VIETNAM'S EXPORTS OF FOOTWEAR TO THE UAE

Abstract

This study utilizes the SMART model, a partial equilibrium simulation tool, to conduct an early-stage evaluation of the Vietnam - United Arab Emirates Comprehensive Economic Partnership Agreement (Vietnam - UAE CEPA), which has recently entered into force. Specifically, the paper focuses on the potential impact of this agreement on Vietnam's footwear exports (HS 64). Two distinct scenarios are developed, reflecting the UAE's trade liberalization strategies with its partners, including Vietnam. A positive effect on Vietnam's footwear export turnover is projected in both scenarios. However, the growth momentum significantly weakens if the UAE extends similar tariff preferences to regional competitors. This highlights the need for strategic recommendations to maintain Vietnam's competitiveness in an increasingly liberalized UAE market.

Keywords: CEPA, trade liberalization, tariff preference, footwear, SMART model

1. Introduction

Since the diplomatic ties in 1993, the United Arab Emirates (UAE) has emerged as one of Vietnam's most vital export destinations. In 2021, the UAE was ranked among Vietnam's top 15 export markets out of nearly 150 Vietnam's exporters (ITC Trade map). By 2024, maintaining a position in the top 16 further reinforces the UAE's status as a highly potential market for Vietnamese goods.

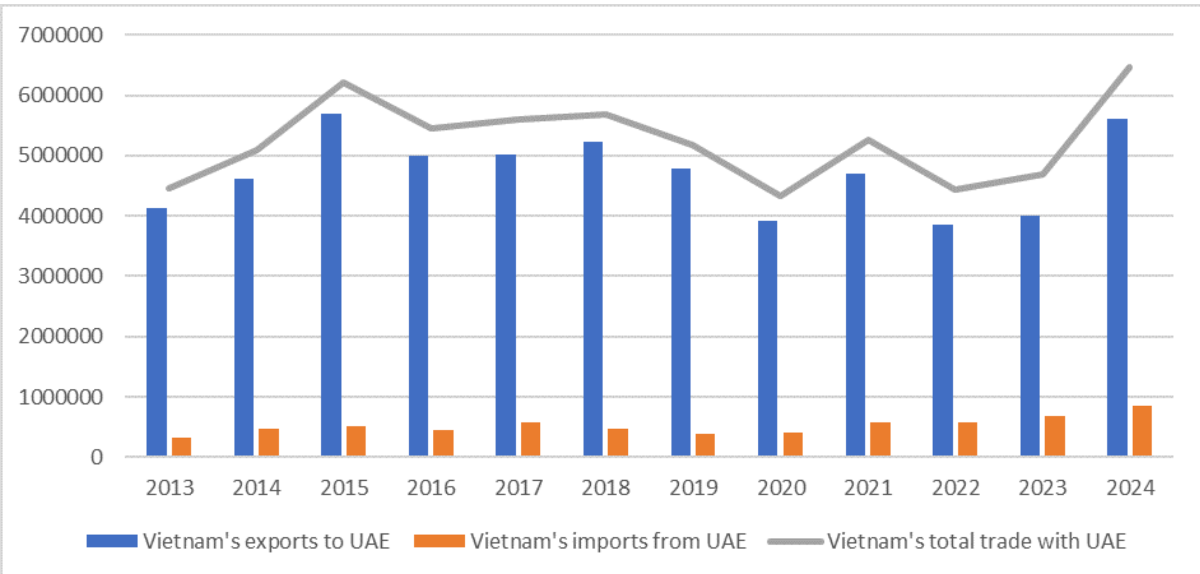

Figure 1: Vietnam and the UAE's bilateral trade (in USD thousand)

Source: ITC Trade map

In a volatile global economy, Vietnam currently ranks third globally in production and second in footwear exports, trailing only China. According to the WTO, Vietnam's footwear industry - a key export pillar with global turnover reaching 23.47 billion USD in 2024 - is actively seeking new growth drivers beyond traditional markets like the US, China, and the EU (Trade map ITC). The UAE, characterized by high per capita income and diverse consumer demands, presents a promising yet complex landscape. Notably, the UAE's strategic shift toward an "Islamic Economy" introduces rigorous Halal standards that now extend beyond food to consumer segments, including fashion and footwear.

The Vietnam - UAE bilateral trade is strongly complementary. The UAE was the seventh-largest total liquid fuels producer in the world in 2022 and the third largest in the Organization of Petroleum Exporting Countries (OPEC) (EIA, 2023). Mineral fuels (HS 27) remain its most significant export, accounting for 16.11% to 35.19% of total export value between 2012 and 2019, and soaring to nearly 70% in the 2020-2023 period (World Bank, 2022). As an oil-driven economy, the UAE maintains a high demand for imported consumer goods (Dataverse Inc, 2024). In its trade relation with Vietnam, the UAE primarily exports plastics (HS39), mineral fuels (HS27) and imports electrical machinery and equipment (HS85), machinery and mechanical appliances (HS84), footwear (HS64), garments (HS61-62-63), fruits and nuts (HS08), coffee and tea (HS09), fish and fishery products (HS03) and cereals (HS10) (Trademap ITC).

These bilateral achievements laid the groundwork for the Comprehensive Economic Partnership Agreement (CEPA), recently entered into force. With bilateral trade already surpassing 16.05 billion USD, the CEPA is expected to further boost these figures through significant tariff elimination.

With a view to Vietnam's footwear, the CEPA is believed to strategically catalyse their export value. Because firstly, the UAE serves as a critical re-export hub for the Gulf Cooperation Council (GCC). The UAE's re-export share for footwear (HS 64) stands at 1.35%, underscoring its role as a strategic entry point for Vietnamese products to reach the wider region and become a good supply (Trade map ITC). Secondly, The Vietnam – UAE CEPA was signed in 2023 on the occasion of the 30th anniversary of the diplomatic relation establishment between the two countries. The commitment to reduce these tariffs to 0% will directly enhance the price competitiveness of Vietnamese products against non-FTA competitors.

On these grounds, this article adopts the SMART model and Partial Equilibrium theory to assess the potential impacts of the Vietnam - UAE CEPA on Vietnam's footwear exports to the UAE and provides some strategic recommendations for Vietnam to better make the preparation for the newly effective Vietnam - UAE CEPA.

2. Literature review

2.1. Overview of the CEPA

Vietnam and the UAE established formal diplomatic relations in August 1993, and their partnership has since evolved into a gateway narrative, casting the UAE as Vietnam's commercial entry point to West Asia and surrounding markets. (Vietnam Government Portal, 2026) On 28 October 2024, Vietnam and the UAE signed the CEPA of 18 chapters, covering trade in goods (including rules of origin and customs), services, Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) disciplines, and other issues beyond simple tariff cuts (MOIT, 2024).

The CEPA entered into force on 3 February 2026, under which the UAE will phase out tariffs on nearly all Vietnamese exports (by schedule) and Vietnam will do likewise for almost all UAE exports. These tariff commitments (eliminating tariffs on roughly 95-99% of covered trade) are expected to dramatically enhance the competitiveness of Vietnamese footwear and other goods in the UAE market, even as non-tariff regulatory requirements remain in place (MOIT, 2024).

2.2. Previous research

Several studies have examined the effects of Vietnam's active participation in Free Trade Agreements (FTAs). For instance, in the textile sector, Thanh et al. (2024) demonstrated that the CPTPP generates stronger export gains than the EVFTA, largely due to its broader market access and deeper tariff reductions.

Shifting the focus to the footwear industry, Phuong et al. (2021) employed a stochastic frontier gravity model to assess Vietnam's export performance under multiple ASEAN+1 FTAs, including agreements with China, Japan, and Korea. Their findings indicated that participation in these agreements has contributed to noticeable improvements in export efficiency. To illustrate, average footwear export efficiency climbed from roughly 44–56% to 56–66% following the 2007 ASEAN-Korea FTA. Despite this progress, overall efficiency ranged between 51% and 63%, implying that potential for further improvement remained.

Turning to recent bilateral agreements, Nguyen and Chu (2025) utilized the SMART partial-equilibrium model to simulate the potential impacts of the Vietnam-UAE CEPA. Their findings indicate that tariff liberalization under two policy scenarios could stimulate Vietnam's exports of fruits and nuts. However, these benefits could be partially limited by the UAE's growing trade ties with competing markets.

Beyond tariffs, research increasingly highlighted the restrictive role of non-tariff measures (NTMs) and technical barriers. Applying a gravity framework, Nguyen and Ha (2023) identified TBTs as the most frequent and stringent challenges for Vietnam's textile exports to the EU, while SPS measures appeared relatively less significant for this sector In the footwear industry, Nguyen and Pham (2021), examining EU technical standards in the context of the EVFTA, argued that the advantages created by substantial tariff reductions could be weakened by the complexity of EU regulatory requirements - standards that many Vietnamese footwear producers still struggle to meet. These studies underscore that meeting EU technical and regulatory rules is crucial for maintaining Vietnam's market access.

At the same time, the SMART model has proven to be an effective and widely accepted tool for analyzing the sectoral effects of trade agreements, particularly when product-level analysis is required. In Vu (2016), the model's application to Vietnam's pharmaceutical sector under the EVFTA successfully captured both trade creation and diversion effects, supporting policy-relevant conclusions about potential welfare gains. More recently, Nguyen and Chu (2025) employed SMART to estimate the prospective impact of the CEPA on Vietnam's fruit and nut exports, offering early-stage quantitative insights despite data limitations.

2.3. Research gap

Whereas a substantial body of literature has examined the impact of Vietnam's free trade agreements on overall trade performance, most relied on quantitative approaches focusing on broad tariff effects and aggregated sector outcomes. However, there is limited research that explores how specific manufacturing sectors, such as footwear, are affected by both tariff commitments and non-tariff regulatory requirements under newly signed agreements like CEPA.

This study aims to address this gap by adopting a quantitative approach to assess how CEPA may influence Vietnam's footwear exports to the UAE. In particular, the analysis considers the interaction between tariff liberalisation and the presence of technical trade barriers. By focusing on a narrowly defined product category with up-to-date regulatory data, the study provides clearer insights into how emerging trade agreements may affect sector-level export dynamics.

3. Methodology

3.1. Theoretical framework

3.1.1. PE approach

In international economics, the Partial Equilibrium (PE) model is a method used to analyze the impact of trade policy changes on a specific sector, assuming that the changes are small enough not to affect the overall economy (UNCTAD, 2012). By applying the ceteris paribus principle, researchers can isolate the direct causal relationship between tax reductions and import behavior, ignoring broader spillover effects on variables like exchange rates or wages. Unlike the Computable General Equilibrium (CGE) model, which considers interactions across all economic sectors, the PE approach allows users to analyse in detail (the HS-6 level) to explore the specific purposes of trade agreements.

This approach was developed by Jacob Viner (1950) in his theory of customs unions. Following Viner's theory (1950), this study focuses on two primary effects. Firstly, trade creation occurs when two members within the FTA start to trade with each other although they formerly produced the goods domestically. In international trade terms, it refers to a situation where the countries go from self-sufficiency to trading with zero tariffs, and this is a win-win relation. In addition, trade diversion, on the other hand, represents the situation when two countries begin to trade within the FTA, but one of these countries had previously imported the goods from outside the FTA, which was the lowest. After the union, the country switches from a low-cost global supplier to a higher-cost FTA partner just to avoid tariffs, which actually reduces global efficiency.

3.1.2. SMART model

In this study, the SMART model, developed by the World Bank and the United Nations Conference on Trade and Development, is a commonly computational tool that operationalizes the PE approach. This model and the simulation tools are part of the World Integrated Trade Solution (WITS) database. The model's primary advantages lie in its seamless integration with the WITS database and its capacity to gain detailed quantitative results of trade and tariff revenue impacts at a highly disaggregated level. However, the main constraint is the PE approach, which restricts the scope of analysis to direct policy effects in a single market.

The SMART model is used on some following assumptions of an export supply curve and import demand curve. The first assumption is that the export supply curve is perfectly elastic and the export supply elasticity is treated as positive infinity. Besides, on the demand side, the customer behavior is structured as a two-stage budgeting process: first, the agent determines the total demand based on aggregate price levels (such as a price index); second, the consumer allocates this total demand across various product varieties and origins. Lastly, the core assumption of this PE model is the Armington assumption, i.e. the imports from different countries are imperfect substitutes. Import demand does not completely shift to one source under the preferential trade liberalization of FTA. This assumption is suitable to the status of Vietnam due to the fact that the country imports footwears from many countries in the world such as China, Italy, Indonesia and India.

3.2. Data

Demand, supply, and Armington elasticity are three types of elasticity utilized by the SMART model. In this model, elasticity of 1.5 is set for import, while export elasticity measures the sensitivity of export supply to price fluctuations. This study assigned a supply elasticity value of 99% due to the context of the UAE - small share in footwear imports and tiny market share compared to giant exporters. In ensuring the accuracy of the SMART model, the selection of Armington elasticity plays a massively important role. In this study, the Armington elasticity parameters are consistent with the framework established by Hertel et al. (2007). Based on the benchmarks utilized by Global Affairs Canada in 2014, this study applied a value of 8.1 as a substitution elasticity value for the footwear industry. To examine the potential impact of the Vietnam - UAE CEPA on Vietnam's footwear exports, especially within the HS64 segment, this paper adopts the Harmonized System (HS) classification. This study uses the SMART model to extract 2023 bilateral trade data from UNCTAD TRAINS, which serves as a baseline to evaluate the ex-ante impact of the Vietnam - UAE CEPA.

3.3. Scenarios

Two simulation scenarios are constructed to assess the potential impact of a hypothetical Vietnam - UAE CEPA on Vietnam's footwear exports (HS64) to the UAE. The scenarios are designed under the assumption that the UAE eliminates tariffs on footwear imports from Vietnam. However, the effect of such tariff preferences cannot be evaluated in isolation because the UAE is simultaneously expanding its network of bilateral and regional trade agreements, which may also grant preferential access to Vietnam's competitors in the UAE market.

The UAE has actively pursued CEPA/FTA negotiations with a number of trading partners in recent years. The UAE signed its first bilateral trade agreements with India on 18 February 2022, Indonesia on 1 July 2022, Cambodia on 8 June 2023 and Vietnam on 28 October 2024, especially, all of these CEPAs have been entered into forces. As a result, tariff preferences granted to Vietnam under a Vietnam - UAE CEPA may be partly offset if similar preferences are extended to other major footwear suppliers to the UAE. Therefore, the simulation framework must consider not only Vietnam-specific liberalization, but also a broader preferential environment in which competing exporters benefit from tariff reductions.

In this study, the set of competitors is primarily selected based on ITC Trade Map ranking and market share in the UAE footwear market, while policy-related partners are included where relevant to reflect the UAE's evolving trade agreement environment. To identify relevant competitors, this study utilizes data on the UAE's imports of product code HS64 (Footwear, gaiters and the like; parts of such articles) in 2024. The data show that Vietnam ranked as the 3rd largest supplier of footwear to the UAE, with an import value of approximately USD 681.954 million and a 21.6% share of the UAE's total footwear imports. The two largest suppliers were China (USD 999.132 million; 31.6%) and Italy (USD 823.019 million; 26.0%). Other important suppliers included Indonesia, India, Cambodia, Germany, and Spain, among others (ITC Trade Map, 2024).

List of supplying markets for the product imported by United Arab Emirates in 2024
Product: 64 Footwear, gaiters and the like; parts of such articles
United Arab Emirates's imports represent **2%** of world imports for this product, its ranking in world imports is **14**
The average distance of supplying countries is **5339 km** and the market concentration is **0.22**

Bilateral trade at 4-digit	Exporters	Value imported in 2024 (USD thousand)	Trade balance 2024 (USD thousand)	Share in United Arab Emirates's imports (%)	Growth in imported value between 2020-2024 (%, p.a.)	Growth in imported value between 2023-2024 (%, p.a.)	Ranking of partner countries in world exports	Share of partner countries in world exports (%)	Total exports growth in value of partner countries between 2020-2024 (%, p.a.)	Average distance between partner countries and all their importing markets (km)	Concentration o all importing countries of partner countrie
	World	3,161,180	-1,355,429	100	23	0		100	7		
+	China	999,132	-926,251	31.6	18	5	1	30.3	6	7,577	0.
+	Italy	823,019	-787,697	26	29	2	3	7.9	5	3,283	0.
+	Viet Nam	681,954	-677,614	21.6	25	1	2	13.9	8	9,829	0.
+	Indonesia	255,410	-253,527	8.1	36	-5	6	4.2	9	11,352	0.
+	India	118,421	-112,809	3.7	19	-13	11	1.5	6	7,679	0.
+	Cambodia	50,942	-50,474	1.6	29	1	15	1	8	10,307	0.
+	Germany	38,033	-35,449	1.2	29	12	4	6.9	9	1,450	0.
+	Spain	30,829	-27,117	1	15	0	10	2.3	8	2,308	0.
+	Thailand	20,363	-19,608	0.6	0	-16	32	0.3	2	6,497	0.
+	Portugal	19,511	-19,367	0.6	15	6	13	1.1	1	2,322	0.
+	Türkiye	16,781	-4,713	0.5	13	7	19	0.7	9	2,430	0.
+	Brazil	15,606	-15,474	0.5	4	-26	22	0.6	10	6,293	0
+	United Kingdom	14,895	-11,241	0.5	13	9	25	0.5	-19	2,819	0.
+	United States of America	12,476	45,686	0.4	21	-26	17	0.8	6	6,811	0.

Figure 2: List of supplying market for the product imported by UAE in 2024 (Footwear)

Source: ITC Trade Map

Based on (i) the competitive structure of the UAE footwear market as reflected in ITC Trade Map rankings and market shares, and (ii) the policy relevance of the UAE's existing or prospective CEPA arrangements, this study constructs two scenarios:

Scenario 1: The UAE would eliminate tariffs on HS64 footwear imports from Vietnam only, without incorporating tariff preferences for other competing suppliers.

Scenario 2: In addition to Vietnam, the UAE grants tariff elimination on HS64 footwear imports to a selected group of competing suppliers in the UAE market, chosen based on their ranking/market share in ITC Trade Map and their relevance in the UAE's CEPA/FTA network including Vietnam, Cambodia, China, Germany, India, Indonesia, Italy, Spain.

Comparing these two scenarios allows the study to distinguish the potential export gains Vietnam could obtain when it is the sole beneficiary of tariff preferences from the gains under a more realistic policy environment in which competing exporters may also enjoy preferential access to the UAE market.

4. Results

Vietnam's exports of footwear to the UAE that are derived from the SMART model, under the two assumed scenarios, are presented in Table 01. The baseline data for 2023 used in the SMART simulation are cross-checked with ITC Trade Map statistics to ensure consistency in both the magnitude and structure of Vietnam's footwear exports to the UAE.

Indicators	Scenario 01	Scenario 02
Initial footwear exports (in 1,000 USD)	677,966.621	677,966.621
Final footwear exports (in 1,000 USD)	736,873.649	706,330.996

Total export value change (in 1,000 USD)	58,907.041	28,364.364
Trade creation effect (in 1,000 USD)	25,521.669	25,521.669
Trade diversion effect (in 1,000 USD)	33,385.373	2,842.696
Total trade effect (in 1,000 USD)	58,907.041	28,364.364

Table 1: Vietnam-UAE's footwear exports in the 2 assumed scenarios (2023)

Source: The calculation in SMART model by author.

Under the assumed Vietnam - UAE CEPA, Vietnam's footwear exports to the UAE are projected to increase in both scenarios, although the magnitude and composition of the gains differ considerably depending on whether competing suppliers also receive preferential tariff treatment.

In Scenario 01, where tariff elimination applies exclusively to Vietnam, footwear exports are projected to rise from approximately USD 677,966 thousand to USD 736,873.649 thousand, representing an increase of about USD 58.9 million (8.69%). This result implies that tariff elimination could generate a considerable positive effect on Vietnam's footwear export performance in the UAE market. The gain can be explained by two related mechanisms. First, once UAE tariffs on Vietnamese footwear are reduced to zero, Vietnamese products become more price-competitive for UAE buyers. Second, since competing suppliers do not benefit from equivalent tariff concessions in this scenario, Vietnam enjoys an improved relative price position, which in turn encourages UAE importers to redirect part of their sourcing toward Vietnamese suppliers. This mechanism is reflected in the composition of effects: trade diversion reaches USD 33,385.373 thousand (about 56.7% of the total trade effect), exceeding the trade creation effect of USD 25,521.669 thousand (about 43.3%).

This interpretation is further supported by Vietnam's established position in the UAE market. Having consistently ranked among the top three footwear suppliers to the UAE in recent years (ITC Trade Map, 2025), Vietnam already possesses a solid competitive foundation. The assumed tariff exemption under a Vietnam–UAE CEPA would therefore serve to reinforce this existing presence rather than create competitiveness from scratch, providing an additional impetus for UAE importers to reallocate their sourcing toward Vietnamese footwear.

In Scenario 02, where tariff elimination is extended to both Vietnam and its competing partners, Vietnam's footwear exports still increase, though the gain is considerably smaller. Exports are projected to reach approximately USD 706.3 million, corresponding to an increase of USD 28.4 million (4.18%) relative to the initial level. Compared with Scenario 01, the total export gain declines by roughly USD 30.5 million, a reduction of approximately 51.85%. This substantial narrowing suggests that once the UAE grants comparable tariff preferences to other major footwear suppliers, Vietnam's relative preferential advantage diminishes markedly, weakening the incentive for UAE importers to redirect their sourcing toward Vietnam.

A decomposition of the trade effects confirms this mechanism. The trade creation component remains unchanged at USD 25.5 million across both scenarios, indicating that the demand-expanding effect of tariff removal is unaffected by whether other suppliers also receive preferential treatment. The critical difference lies in trade diversion, which falls sharply from USD 33.4 million in Scenario 01 to merely USD 2.8 million in Scenario 02 - a decline of approximately 91.49%. This drop accounts for nearly the entire difference in Vietnam's export performance between the two scenarios. Under Scenario 01, the dominance of trade diversion reflects the fact that a substantial portion of Vietnam's projected export expansion derives from its exclusive preferential access, which diverts UAE imports away from competing suppliers. Once those competitors obtain equivalent tariff concessions in Scenario 02, Vietnam's preferential margin is effectively eroded, and the remaining export gain becomes driven predominantly by trade creation rather than competitive displacement.

Partner	Scenario 1			Scenario 2		
	Initial export value (in 1,000 USD)	Total export value change (in 1,000 USD)	Total export value change (in %)	Initial export value (in 1,000 USD)	Total export value change (in 1,000 USD)	Total export value change (in %)
Vietnam	677,966.621	58,907.041	8.69%	677,966.621	28,364.364	4.18%
Cambodia	50,276.915	(888.777)	(1.77%)	50,276.915	2,218.396	4.41%
China	955,393.710	(14,910.509)	(1.56%)	955,393.710	49,042.526	5.13%
Germany	34,015.190	(457.853)	(1.35%)	34,015.190	1,771.215	5.21%
India	135,710.067	(1,643.319)	(1.21%)	135,710.067	7,104.234	5.23%
Indonesia	268,434.780	(5,784.972)	(2.16%)	268,434.780	11,442.874	4.26%
Italy	808,515.406	(6,716.407)	(0.83%)	808,515.406	46,045.776	5.70%
Spain	30,870.968	(288.773)	(0.94%)	30,870.968	1,561.199	5.06%

Table 2: Export value of footwear of 8 partners to the UAE

Source: The calculation in SMART model by author

A significant increase in Vietnam's footwear exports will be provided by the implementation of the Vietnam-UAE CEPA which is witnessed from data in Table 02. Under Scenario 01, as Vietnam granted an exclusive tariff, export value is forecasted to increase by approximately 8.69% growth rate, which is equivalent to USD 58.9 million. This growth stems from the fact that Vietnamese footwear is not subject to tariffs, while competitors are all subject to the high standard 5% MFN tariff applied to WTO members (SMART model). This rise leads to a steady trade diversion effect from existing suppliers. For instance, the most significant decline is estimated by China - the market leader, whose export value is lost up to USD 14.9 million, on the other hand, this represents only a tiny 1.56% slip from its initial turnover. Correspondingly, Indonesia and Italy are anticipated to experience slight decreases of about 2.16% and 0.83%, respectively.

Furthermore, other countries and global suppliers are also affected by this downward trend, but at a lower scale. India is forecasted to suffer a significant decrease of USD 1.6 million, similarly, Cambodia is also projected to lose USD 0.9 million. Moreover, in Europe, exporters like Germany and Spain would also suffer a moderate dip of approximately 1%. In Scenario 01 where eight partners witness decline, Vietnam is proven to gain benefit almost by capturing the market share from competitors not by creating new trade demand. These insights can be proven by the dominant supplier of giants, for instance China and Italy, who maintain top 1 and top 2 positions in UAE footwear market, respectively. These two competitors outperformed Vietnam at the 3rd position (ITC Trade Map, 2025). Due to having a solid supply chain and strong brand reputation, this supplier's current market share is only affected by a 5% tariff gap at a very low percentage.

When we compare the actual 2024 ITC Bilateral Trade map data with this simulation result, it was indicated that Vietnam's footwear exports to the UAE reached USD 681.9 million, which was above the model's initial baseline (677.9 million). This discrepancy can be explained by the fact that ceteris paribus was applied during application of SMART model's PE approach, which includes some macro factors such as global inflation or logistics costs that remained constant during calculation. This has affirmed the tendency found in the Scenario 01.

Scenario 02 represents nine Asian nations' broader trade liberalization. Vietnam's footwear loses its unique price edge due to the tariff exclusion (0%) from UAE to all major Asian partners. As a result, Vietnam's export growth moderated to 4.18%.

In this context, China and Italy outpaced Vietnam's absolute rise at USD 49 million and USD 46 million, respectively. This is because these countries owned significant export volumes and prime supplier standing. When the 5% tariff barrier was removed, UAE started increasing its imports more from these established giants than from smaller companies.

As illustrated in Figure 2, erosion of preference has impacted, resulting in the shift. Besides Vietnam, UAE also operationalized CEPAs with other rivals, including India through the India-UAE Comprehensive Economic Partnership Agreement (CEPA) and Indonesia with the Indonesia-United Arab Emirates CEPA (2022). Furthermore, the elimination of the 5% MFN limit allows giants to take when other competing exporters also enjoy tariff preferences advantage of economies of scale, indicating in the fact that China in 2024 held a commanding 31.6% market share. As a result, Vietnamese exporters' competitive advantages were considerably reduced, the competition changed from price war to non-tariff variables such as supply chain sustainability, product quality, or Halal compliance.

Product Code (HS Code)	**Initial export value (in 1,000 USD)**	**Scenario 01**		**Scenario 02**	
		Export value change (in 1,000 USD)	Proportion in total change (%)	Export value change (in 1,000 USD)	Proportion in total change (%)
640411	233,714.297	17,123.711	7.33%	9,142.205	3.91%
640419	161,494.969	12,132.115	7.51%	4,472.931	2.77%
640399	103,727.023	10,172.570	9.81%	4,513.950	4.35%
640299	87,665.844	10,085.267	11.50%	5,525.864	6.30%

640219	25,682.432	2,747.682	10.70%	1,491.118	5.81%
640391	26,706.018	2,299.566	8.61%	1,023.184	3.83%
640590	12,540.292	1,203.385	9.60%	525.754	4.19%
640291	9,493.945	1,133.169	11.94%	560.980	5.91%
640319	8,136.504	805.849	9.90%	421.016	5.17%
640340	2,504.231	259.353	10.36%	117.241	4.68%
640359	2,296.287	250.402	10.90%	97.352	4.24%
640320	321.429	209.754	65.26%	190.114	59.15%
640192	1,288.473	119.851	9.30%	62.296	4.83%
640510	515.191	90.045	17.48%	62.351	12.10%
640220	610.702	62.206	10.19%	26.582	4.35%
640520	477.924	61.719	12.91%	28.763	6.02%
640420	262.091	56.773	21.66%	38.911	14.85%
640351	232.603	44.344	19.06%	28.834	12.40%
640212	200.868	21.879	10.89%	11.921	5.93%
640690	67.820	20.102	29.64%	17.226	25.40%

Table 3: Top 20 HS 6-digit footwear products experiencing the greatest upturn in absolute export value thanks to the Vietnam - UAE CEPA

Source: The calculation in SMART model by author

Vietnam's traditional strengths have been highlighted through examining specific footwear categories in Table 03. The products with rubber or plastic outers and textile uppers, specifically HS 640411 and HS 640419 significantly affect the growth. Especially, according to Scenario 01 there is a significant rise to 17.1 million, HS 640411. This performance strengthened the fact that Vietnam constitutes most of its trade with the UAE and became a top-tier athletic and textile-based footwear producer. Furthermore, HS 640320 (footwear with leather straps) witnessed a considerable rise of 65.26%. On the other hand, Scenario 01 proves the advantages of privileged duty-free access from the government plays a more important role than the structural competitive advantages in attracting the UAE to shift its import to Vietnam suppliers for this product line. This also consolidated the Scenario 02's result, where flagship products' growth rate like HS 640411 decreased nearly half. This indicates that the Vietnamese footwear industry will face multiple challenges when the UAE enacts a more comprehensive trade policy, especially in maintaining their development momentum against regional giants who now enjoy the same tax-free benefits.

Erosion of preference was considerable, especially for expensive goods (HS 6403 - leather shoes). Although Scenario 01 projects a large increase for HS 640320 (up to 65.26%), this advantage is quite susceptible since 0% tariff of Vietnam was no longer a differentiator comparing other competitors such as Indonesia and India - two major global leather producers also signed the CEPA with the UAE. On the other hand, India' leather footwear sector significantly benefits from domestic raw material supply and reduced production costs, which reduced the dilution of Vietnam's preference. Therefore, the trade diversion gains initially obtained from India in Scenario 01 will probably revert to competitors in a more liberalized UAE market unless Vietnamese exporters improve other non-tariff variables like product quality and Halal-compliance for leather components.

5. Conclusion

This study provides an early-stage quantitative assessment of the Vietnam–UAE CEPA, focusing specifically on its potential implications for Vietnam's footwear exports. By applying a PE approach, the analysis isolates the direct trade effects of tariff liberalization at a detailed product level. While the simulation results are calculated on a 2023 baseline, the increase in actual 2024 trade data proves that the CEPA will act as a strategic accelerant.

The scenario comparison highlights that the agreement creates clear export opportunities for Vietnam, particularly when major competitors lack similar preferential treatment. However, when the wider context of regional trade liberalisation is considered, the scale of these potential gains appears more moderate. This suggests that Vietnam's export performance under CEPA will depend not only on tariff reductions but also on the competitive dynamics of the UAE market and the country's expanding network of trade partnerships.

Although CEPA may generate certain export advantages, these outcomes should not be viewed as automatic. Their extent will likely depend on how Vietnam's footwear sector adapts to an increasingly competitive trade environment influenced by overlapping regional agreements.

Based on the empirical findings of this study, several strategic recommendations are proposed to enhance Vietnam's merchandise trade with the UAE, particularly within the footwear sector.

Firstly, as the Vietnam-UAE CEPA has officially entered into force, the strategic focus must transfer from the phase of negotiation to the comprehensive maximization of the agreement's practical implementation. This shift is essential to ensure that both established and emerging Vietnamese footwear exporters can effectively penetrate the UAE market and secure a long-term foothold. With the UAE's infrastructure and its status as a potential global redistribution hub, the benefits of the CEPA should be leveraged not only to increase direct export volumes but also to serve as a strategic springboard for Vietnamese products to access broader, untapped markets across the Gulf Cooperation Council (GCC), the Middle East, and Africa. By utilizing the UAE as a logistical gateway, Vietnam can reduce the complexity of reaching these high-potential regions at a great extent.

Furthermore, it is important to recognize that the competitive advantage currently enjoyed by Vietnamese footwear - which is primarily driven by the preferential tariff elimination and tax incentives provided by the UAE - is likely to be transitory in nature. From the SMART model results, it is indicated that a clear "erosion of preferences" effect occurs; specifically, while Scenario 1 shows a robust export gain of $58.9 million, this figure drops by nearly 52% to $28.4 million in Scenario 2 when the UAE extends similar concessions to regional rivals.

Thanks to the SMART model, a critical strategic pivot involving tapping into the Trade Creation is identified beyond competitive displacement. While Scenario 2 sees a total drop in trade diversion, the trade creation effect remains remarkably stable at $25.5 million, representing a lasting growth of the UAE's footwear market due to lowered import costs. Instead of just trying to take customers from established giants like China or Italy, Vietnamese enterprises should make a priority for strategies that stimulate and capture this new demand. This includes leveraging the UAE's high e-commerce penetration rate to reach digital-native consumers and designing product offerings to emerging lifestyle trends, such as premium athleisure and health-oriented footwear. By focusing on market expansion, Vietnam can secure a more sustainable growth trajectory that is less vulnerable to the preference erosion caused by the UAE's broader trade liberalization.

Alongside the effort to capture this new demand, a strategic transition from price-based competitiveness to structural competitiveness is essential. People should prioritize several high-growth types of products, including sport footwear (HS 640411 and HS 640419) and leather-strap footwear (HS 640320), which have been revealed in the data which represented an over 50% increase regarding Scenario 1. China and Italy are already established dominant players due to their superior brand reputation and modern supply chain integration compared to Vietnam. To compete effectively, sustainable domestic raw materials product streamline and specialized industrial clusters must be prioritised throughout government incentive and entrepreneur investment. Supply chain independence is a crucial target to fulfil domestic input demand and comply with strict regulations from CEPA's Rule of Origin, which will help secure export growth sustainability. Clear guidance and technical assistance on RoO compliance are particularly important to enable firms to fully utilise tariff preferences and maintain export sustainability.

Finally, UAE, on the other hand, is a leading Islamic economy in modest fashion, therefore, Vietnamese exporters also give special attention when working with Halal-related standards and other cultural factors during market entry process.

The Halal certification applied for the footwear industry is an emerging demand that might completely remove forbidden materials such as pigskin, through the production chain. Establishing internationally recognised Halal certification systems in Vietnam and providing targeted financial and technical support for small and medium-sized enterprises (SMEs) will facilitate compliance, reduce entry barriers, and enhance the global competitiveness of Vietnamese footwear. By integrating economic, regulatory, and cultural considerations, Vietnam can ensure that the growth momentum generated by CEPA is both sustainable and inclusive.

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