EU-VIETNAM FREE TRADE AGREEMENT (EVFTA): IMPACT ON EXPORTING AGRICULTURAL PRODUCTS FROM VIETNAM TO EU AND SOME POLICY RECOMMENDATIONS

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Abstract: The research focuses on analyzing the impact of the EU-Vietnam Free Trade Agreement (EVFTA) on agricultural exports from Vietnam to the European Union. The agreement is assessed as having a positive effect on Vietnam, especially in terms of the export advantages for agricultural products. The study applies a quantitative analysis method using the SMART model, incorporating data on import-export turnover of 24 agricultural product categories (HS 2-digit codes) under a scenario of 0% tariff reduction once the EVFTA takes effect, along with other essential parameters. The results show an increase in Vietnamese agricultural exports to the EU market following the implementation of the EVFTA. Based on the findings, the authors suggest several policy recommendations to further promote the export of agricultural products from Vietnam to the European Union in the future.

Key words: Agricultural products, EU, EVFTA, export, Vietnam.

1. Introduction

The EU-Vietnam Free Trade Agreement (EVFTA), effective from August 1, 2020, presents significant export-import opportunities for Vietnamese goods and marks a major milestone in the comprehensive partnership between Vietnam and the EU. This achievement is the result of a decade of political effort from both sides since the start of FTA negotiations.

Experts believe EVFTA's implementation aids in restructuring Vietnam's exports and imports, providing greater control over markets and a diversified supply chain while mitigating risks related to trade disruptions, climate change, natural disasters, and pandemics. Within its first year, despite the COVID-19 pandemic, two-way trade reached over $54 billion, with Vietnam's exports to the EU at $38 billion, up by 11% (General Department of Vietnam Customs, 2021). The European Commission forecasts an 18% increase in Vietnamese exports to the EU by 2035, adding approximately €15 billion.

Agricultural exports stand to gain the most from tariff reductions, especially for products like fruits, rice, coffee, pepper, and wood. For instance, coffee exports to the EU, previously taxed at 7.5-11.5%, now face zero tariffs under EVFTA, enhancing competitiveness in this key market.

However, EU's strict technical standards, especially for agricultural goods, remain a challenge. Analyzing EVFTA's impact on agricultural exports to the EU is essential to help Vietnam optimize its benefits, make necessary adjustments, and support Vietnamese businesses in boosting exports to this critical market.

2. Literature Review

Several studies highlight the EVFTA's competitive advantages for Vietnamese agricultural exports in the EU market. For example, Nguyen (2020) emphasizes that tariff elimination under the EVFTA has improved market access for Vietnamese agricultural products like coffee, rice, and seafood, making them more competitive compared to similar goods from non-EVFTA nations. Using quantitative methods, such as the SMART model, Le and Tran (2021) provide evidence showing that the EVFTA has positively affected Vietnam's export turnover to the EU by creating increased demand for these products through reduced tariffs. Their study reports a significant rise in both the volume and value of agricultural exports, with trade creation acting as a primary driver.

Moreover, Vo (2022) identifies trade diversion as an additional outcome of the EVFTA, noting that the agreement has made Vietnamese goods more price-competitive relative to those from other non-EU FTA countries. Vo's research indicates a decline in EU imports from other ASEAN nations, such as Thailand and Indonesia, since the EVFTA's implementation, signaling a diversion effect favoring Vietnamese exports. This diversion strengthens Vietnam's positioning in the EU market and demonstrates the EVFTA's role in enhancing Vietnam's agricultural export performance through indirect competitive advantages.

Despite the optimistic outlook, many studies argue that the benefits of the EVFTA for Vietnam's agricultural exports are contingent upon overcoming significant challenges. Nguyen and Pham (2021) emphasize the stringent non-tariff barriers in the EU, including high food safety standards, environmental sustainability requirements, and labor practices. Meeting these standards necessitates considerable investments in

quality control, sustainable farming, and compliance certifications, which can place a heavy burden on small Vietnamese producers.

Additionally, Phan (2022) points out the competitive pressures arising from other countries with similar agreements with the EU, such as Mexico and Chile. These countries, which also benefit from preferential access to the EU, can undermine Vietnam's competitive advantage if they strengthen their agricultural standards or introduce new competitive products. This situation underscores the need for Vietnam to continuously improve the quality of its agricultural products to maintain an edge in the EU market.

To maximize the benefits of the EVFTA, researchers propose various policy recommendations. Hoang (2023) suggests that the Vietnamese government should focus on educating farmers and exporters about the EVFTA's benefits and the EU's regulatory environment to facilitate compliance. Hoang also recommends fostering public-private partnerships to establish sustainable supply chains that meet EU standards more effectively.

Dang and Bui (2022) advocate for enhancing Vietnam's trade support infrastructure, including certification bodies and export associations, to provide exporters with timely information and assistance related to EU market requirements. They further propose developing policies that support the diversification of agricultural export products and promote value-added goods, ensuring that Vietnam can capitalize on the EVFTA's benefits in the long term.

3. Methodology

3.1. Software for Market Analysis and Restrictions on Trade model (SMART model)

The SMART model is grounded in the theory of partial equilibrium and incorporates a simulation tool that is part of the World Integrated Trade Solution (WITS) database and software provided by the World Bank.

When evaluating the effects of a Free Trade Agreement (FTA) on a country's trade, there are two main approaches: ex-ante assessments, which analyze potential impacts before the agreement takes effect, and ex-post assessments, which evaluate actual impacts after implementation. Given that the EU-Vietnam Free Trade Agreement (EVFTA) took effect on August 1, 2020, it is challenging to conduct an ex-post

assessment due to the lack of sufficient data. Consequently, assessing the potential impacts of the EVFTA on Vietnam's agricultural exports to the European market is the most suitable approach at this time.

One of the key advantages of the SMART model is its accessibility and ease of implementation in conjunction with the WITS database. This model enables researchers to obtain significant quantitative results concerning the effects of trade on welfare, tariff revenues, and other aspects of specific products, allowing for detailed analyses at a granular level of trade data. However, the SMART model also has its limitations; specifically, the results are confined to direct effects resulting from changes in trade policy within a given market, as it is based on partial equilibrium theory. This means that it does not account for indirect effects stemming from trade policy changes in other markets (inter-industry effects) or feedback effects, which occur when changes in trade policy in one market influence related markets and subsequently impact the market being analyzed.

In this study, the SMART model will be utilized to assess the implications of the planned tariff reduction scenario under the EVFTA on Vietnam's agricultural trade with the EU. The scenario chosen for analysis is a complete tariff reduction of 100%. By employing the SMART tool, the research team aims to evaluate how the elimination of tariffs will affect the export of agricultural products from Vietnam to the EU. This analysis will focus on specific agricultural products, particularly those classified under HS codes from 01 to 24, as well as codes 1601 and 1602, while explicitly excluding fishery products classified under HS code 03. The data utilized for running the model will be drawn from 2023 figures available through the World Bank's WITS system (World Bank, 2023) and UNCTAD (2023).

3.2. Revealed Comparative Advantage (RCA)

Liesner (1985) built on the theory of comparative advantage to propose a method for assessing whether a country has a comparative advantage in a particular product. His approach involves analyzing the export volume of that product, with the underlying idea that higher export levels of a specific product indicate a comparative advantage in producing it. By examining a country's export performance across different goods, Liesner's method provides insights into which products hold strategic importance for

that nation's economy. This analysis enables countries to identify areas of strength and optimize trade policies accordingly.

Table 1. Classification of RCA values

No.	RCA level	Interpretation
1	$0 < RCA \leq 1$	No Comparative Advantage
2	$1 < RCA \leq 2$	Weak Comparative Advantage
3	$2 < RCA \leq 4$	Moderate Comparative Advantage
4	$RCA \geq 4$	Strong Comparative Advantage

Source: Hinloopen, 2001

4. Results

The RCA index of Vietnam's agricultural sector from 2015 to 2023, based on HS 2-digit classification, is presented in Table 4.6. Products like "Coffee, tea, mate, and spices" (HS 09) show the strongest competitive advantage with an RCA index ranging from about 8 to 30. Other products, such as "Edible fruit and nuts; peel of citrus fruit or melons" (HS 08), exhibit moderate comparative advantage, with an RCA index between 1.5 and 3. However, several Vietnamese agricultural products lack a comparative advantage, including "Live animals; animal products" (HS 01), "Meat and edible offal" (HS 02), "Dairy products; birds' eggs; natural honey; edible animal products not elsewhere specified" (HS 04), "Cereals" (HS 10), "Milled products; malt; starches; inulin; wheat gluten" (HS 11), "Sausages and similar products of meat, offal, or blood; food preparations based on these products" (HS 1601), "Other prepared or preserved meat, offal, or blood" (HS 1602), "Sugars and sugar confectionery" (HS 17), "Cocoa and cocoa preparations" (HS 18), "Residues and waste from the food industries; prepared animal feed" (HS 23), and "Tobacco and manufactured tobacco substitutes" (HS 24).

Table 2: RCA of Vietnamese agricultural products compared to the world from 2015 to 2023

HS code	2015	2016	2017	2018	2019	2020	2021	2022	2023
01	0.119	0.116	0.100	0.131	0.141	0.161	0.151	0.173	0.181
02	0.026	0.021	0.020	0.020	0.036	0.022	0.018	0.023	0.025
04	0.004	0.003	0.007	0.004	0.003	0.004	0.003	0.005	0.007
05	0.362	0.339	0.352	0.601	1.081	0.288	0.213	0.511	0.725
06	0.062	0.059	0.065	0.075	0.085	0.079	0.080	0.083	0.086
07	0.153	0.150	0.137	0.108	0.124	0.119	0.117	0.122	0.129
08	2.129	2.325	2.620	2.434	2.292	2.094	2.093	2.211	2.513
09	13.984	12.918	11.901	11.473	9.632	8.123	8.011	10.812	11.117
10	0.173	0.146	0.083	0.103	0.199	0.255	0.147	0.212	0.265
11	0.156	0.143	0.159	0.194	0.231	0.180	0.166	0.179	0.181
12	0.078	0.101	0.111	0.136	0.139	0.119	0.107	0.122	0.130
13	0.006	0.033	0.204	0.305	0.416	0.175	0.108	0.211	0.347
14	0.569	0.718	0.801	0.404	0.412	0.512	0.421	0.572	0.773
15	0.010	0015	0.052	0.073	0.110	0.047	0.032	0.058	0.091
1601	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
1602	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
17	0.065	0.053	0.055	0.057	0.054	0.034	0.031	0.043	0.057
18	0.030	0.039	0.033	0.031	0.029	0.026	0.023	0.031	0.038
19	0.509	0.461	0.433	0.462	0.493	0.514	0.491	0.507	0.601
20	0.238	0.280	0.258	0.235	0.303	0.330	0.221	0.312	0.331
21	0.473	0.324	0.370	0.380	0.358	0.423	0.340	0.411	0.489
22	0.017	0.018	0.024	0.029	0.034	0.033	0.021	0.035	0.041
23	0.095	0.053	0.054	0.055	0.064	0.039	0.035	0.047	0.084
24	0.015	0.003	0.007	0.004	0.003	0.004	0.003	0.002	0.005

Source: Calculated based on the data of Eurostat

Additionally, some products have seen an increase in their RCA index, such as "Lac; gums; resins and other vegetable saps and extracts" (HS 13), "Vegetable plaiting materials; vegetable products not elsewhere specified" (HS 14), "Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes" (HS 15), and "Preparations of vegetables, fruits, nuts, or other parts of plants." Conversely, certain agricultural products have experienced a significant decline in RCA, including "Products of animal origin, not elsewhere specified" (HS 05), "Vegetables and certain roots and tubers" (HS 07), and "Milling products; malt; starches; inulin; wheat gluten" (HS 11). This trend is largely due to similarities in agricultural export structures among countries in the region, notably Thailand and China.

The study uses the SMART model to assess the impact of the projected tariff reduction scenario under the EVFTA on Vietnam's agricultural trade with the EU. The chosen scenario is a 100% tariff reduction. By applying the SMART tool, the authors analyze the extent to which tariff elimination affects the export of agricultural products from Vietnam to the EU. The tariff reduction scenario is evaluated based on a model where Vietnam is the exporter, focusing on tariff cuts for agricultural products shipped to the EU. This model's results will indicate changes in the export value of Vietnamese agricultural products to the EU when tariffs are reduced.

Table 3. Trade Impact of Agricultural Products between the EU and Vietnam in 2023

Unit: thousand USD

HS code	Impact on Trade total	Trade creation	Trade diversion
01	0	0	0
02	0.509	0.173	0.236
04	0	0	0
05	0	0	0
06	0	0	0
07	0	0	0
08	0	0	0
09	0	0	0
10	0	0	0
11	403.834	315.533	86.301
12	0	0	0
13	0	0	0
14	0	0	0
15	0	0	0
1601	5.659	2.536	2.123
1602	3.818	1.512	1.307
17	605.957	160.912	345.04430
18	309.074	153.655	155.430
19	816.873	418.908	398.065
20	15.411	3.712	11.700
21	2,344.842	909.226	1,435.616
22	295.419	85.647	209.772
23	0	0	0

24	12.589	10.986	1.612
Total	**4,813.576**	**2,062.800**	**2,647.206**

The complete elimination of tariffs under the EVFTA significantly impacts Vietnam's agricultural exports to the EU by fostering both trade creation and trade diversion. Notably, the EVFTA has no effect on certain product categories, including HS codes 01, 04, 05, 06, 07, 08, 09, 10, 12, 13, 14, 15, and 23.

For the remaining product groups, both trade creation and trade diversion effects between the EU and Vietnam show positive values. This indicates a shift in the EU's import sources for agricultural products, redirecting imports from other countries toward Vietnam. The overall trade impact amounts to USD 4,813.576 thousand, with trade creation contributing USD 2,062.800 thousand and trade diversion adding USD 2,647.206 thousand.

The data from the model indicate that trade diversion has a smaller impact than trade creation, suggesting that the EVFTA, once in effect, boosts Vietnamese agricultural exports to the EU. This reflects an increase in competitiveness for Vietnamese agricultural products over those from competing countries exporting similar goods to the EU, potentially substituting comparable domestic goods in the EU market. Consequently, the EVFTA's implementation is expected to drive a notable rise in Vietnam's agricultural export turnover to the EU market.

Table 4. Impact on Vietnam's Agricultural Export Turnover in 2023

Unit: thousand USD

HS code	Before	After	Value	%
01	11,814.845	11,814.845	0	0
02	3,516.669	3,517.077	0.409	0.01
04	4,166.131	4,166.131	0	0
05	8,592.260	8,592.260	0	0
06	7,442.049	7,442.049	0	0
07	16,541.585	16,541.585	0	0
08	976,420.378	976,420.378	0	0
09	1,312,494.562	1,312,494.562	0	0
10	310.783	310.783	0	0

11	5,928.422	6,330.256	401.834	6.78
12	7,556.971	7,556.971	0	0
13	946.832	946.832	0	0
14	1,374.631	1,374.631	0	0
15	11,748.285	11,748.285	0	0
1601	14.759	19.418	4.659	31.56
1602	12.739	15.557	2.818	22.121
17	2,984.685	3,400.642	505.957	16.95
18	1,901.127	2,210.212	309.084	16.25
19	121,230.767	122,047.739	816.973	0.67
20	85,093.149	85,108.560	15.411	0.02
21	94,943.454	97,288.295	2,344.842	2.47
22	6,715.184	7,010.603	295.419	4.4
23	9,172.577	9,172.577	0	0
24	5.661	18.259	12.598	222.54
Total	**2,690,928.505**	**2,695,548.507**	**4,710.004**	**0.175**

Source: Summarized from SMART-WITS

Table 4 shows the changes in the export value of wood and wood products from Vietnam to the EU. It is evident that the tariff reductions under the EVFTA do not benefit exports for certain product categories; specifically, the export of HS product groups 01, 04, 05, 06, 07, 08, 09, 10, 12, 13, 14, 15, and 23 did not experience any changes before and after the tariff reduction. Conversely, the remaining HS groups saw positive changes in their export values.

5. Conclusion and policy recommendations

The study results show that the EVFTA's implementation brings considerable economic benefits to Vietnam by boosting agricultural export turnover to the EU. According to the SMART model, the EVFTA contributes an increase of USD 4,813.579 thousand, with trade diversion accounting for approximately 60% of the total trade impact, surpassing trade creation. This indicates that the rise in Vietnamese agricultural exports to the EU, as tariffs are reduced to 0%, is largely due to the relative price advantage of Vietnamese agricultural goods over those from other countries exporting to the EU market. Additionally, trade creation constitutes a significant share, approximately 40% of the total trade impact, suggesting that under the EVFTA,

Vietnamese agricultural products can compete with and even replace similar goods in the EU domestic market. However, the advantages of tariff reductions under the EVFTA should be cautiously considered, as competing countries are continuously advancing negotiations and signing FTAs with the EU to reduce tariff pressure on their exports to the EU market.

For the Government:

The Government should enhance the dissemination of information on the EVFTA to help the business community and workers better understand the commitments under the agreement, thus fostering a mindset shift for effective implementation. Additionally, the Government should analyze and assess the potential impacts of the EVFTA to identify which products can seize new opportunities and which may face significant challenges. This analysis should inform careful assessments of the costs and benefits of market access for these products, alongside recommended strategies.

For Agricultural Enterprises:

Businesses must proactively learn about the EVFTA, as only through understanding can they put these commitments into practice. Enterprises should strengthen cooperation, share insights, shift their management and business strategies, and establish production and business networks to build the collective capacity needed to handle competitive pressures. Additionally, companies must pay special attention to sustainability commitments, including labor standards and environmental protection principles, as these are critical issues for the EU. Following the Government's tasks outlined in the EVFTA Implementation Plan, ministries, departments, and cities across the country will develop specific implementation plans for their agencies and localities.

For Industry Associations:

Industry associations should act as a bridge between regulatory bodies drafting EVFTA-related legislation, relevant ministry agencies, and businesses. In this role, associations should promptly update businesses on EVFTA-related regulations and legislation, offer implementation guidance, and provide consulting support to help companies address challenges.

Additionally, associations should assist businesses in market access and help identify new opportunities. Associations need to review and supply market information

through their networks with industry associations abroad and Vietnamese embassies in various countries. This information-gathering process will support businesses in making informed decisions and guide them in establishing trade relationships aligned with national goals, directions, and policies.

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