



Research Paper

The Impact Of Evfta On Situation Of Vietnam’s Rice Export To Eu

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ABSTRACT

The agricultural industry, especially rice production, is one of the key exports of Vietnam, making an important contribution to the country's GDP. Vietnamese rice is a commodity with a very high comparative advantage in the world market. With the free trade agreement between Vietnam and the European Union (EVFTA) coming into effect on August 1, 2020, the article will focus on the changes in the trade balance, reviewing comparative advantage as well as evaluating the level of intra-industry trade between Vietnam and the EU countries for rice through two indices: the index of comparative advantage and the level of intra-industry trade. The analysis results show that although the advantage of Vietnamese rice is still high, it has decreased significantly in the period 2009 - 2018 compared to other countries in the market. The article also presents opportunities and challenges that Vietnamese rice will face when approaching a large and strict market like the EU.

KEYWORD: EVFTA, rice export, comparative advantage, intra – industry

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I. INTRODUCTION

The European Union - Vietnam Free Trade Agreement (EVFTA) is a new generation of free trade agreement between Vietnam and the European Union. Along with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), this is the agreement with the largest scope and extent of commitments between Vietnam and partner territories on the international market. According to statistics from the Ministry of Industry and Trade, the EU is one of the largest strategic trading partners of Vietnam, with a total two-way trade turnover of 56.45 billion USD in 2019, of which export value from Vietnam to EU reached 41.5 billion USD.

Table 1: Statistics of import and export turnover of Vietnam – EU

(Unit: million USD)

Year	Export		Import		Total	
	Value	+/- (%)	Value	+/- (%)	Value	+/- (%)
2015	30,940.1	10.77	10,433.9	17.16	41,374.0	12.31
2016	34,007.1	9.92	11,063.5	6.03	45,070.7	8.93
2017	38,336.9	12.75	12,097.6	8.57	50,434.5	11.72
2018	41,885.5	9.42	13,892.3	13.95	55,777.8	10.59
2019	41,546.6	-0.81	14,906.3	7.30	56,452.9	1.21

(Source: General Department of Customs)

It can be seen that in the 5-year period from 2015 to 2019, the total value of two-way exports between Vietnam and the EU always achieves great value, with export value from Vietnam always tripling the amount of import value. This explains why the EU is always one of the two largest markets of Vietnam along with the US market.

In the field of agricultural exports, rice is a traditional and advantageous agricultural product of Vietnam with the volume always in the group of the world's largest exporting countries. However, for the world market in general and the EU market in particular, the rice export value of Vietnam is not high when it does not reach the top 10 of the main export value commodities in the EU.

Table 2: Some main export products of Vietnam to the EU

(Unit: million USD)

Order	Product	2017	2018	2019	2019/2018
01	Footwear	4,612.3	4,677.8	5,029.4	+7.51%
02	Textile	3,733.3	4,101.7	4,261.9	+3.90%
03	Seafood	1,422.1	1,435.2	1,247.6	-13.07%
04	Coffee	1,365.4	1,360.5	1,157.7	-14.91%
05	Furniture	751.4	779.1	846.6	+8.65%
06	Computer	4,097.5	5,072.9	4,660.4	-8.13%
07	Phone	11,778.0	13,161.4	12,209.2	-7.23%
08	Handbags, purses, suitcases, hats & umbrellas	879.5	929.8	965.6	+3.85%
09	Steel products	399.8	568.8	551.4	-3.06%
10	Vehicles	705	671.6	814.3	+21.24%
11	Cashew	944.4	105.4	102.6	-2.66%
12	Machines	1,688.4	2,063.8	2,510.3	+21.63%

(Source: General Department of Customs)

By coming into force from August 1, 2020, EVFTA will create favorable conditions for the strong growth of Vietnam's key exports such as seafood, wood exploitation and processing, textiles ... and other industries in which Vietnam inherently has competitive advantages. This is also an incentive, for rice products, to lift the demand of Vietnamese rice in one of the largest markets in the world. The paper will analyze the competitive advantages of Vietnamese rice and the potential opportunities in the EU market.

II. METHODOLOGIES

In order to assess the rice export situation from Vietnam to the EU, the study uses two analytical indicators: the level of intra-industry trade and the index of comparative advantage.

The intra-industry trade is an assessment that arises when comparing the value of exports and imports of similar goods or services by a country (Erlat, Erlat and Memis, 2002). This can be considered as a criterion for evaluating the role of economies of scale and level of imperfect competition in a country in the world economy (Helpman and Krugman, 1989). Grubel and Lloyd (1975) gave the GL index with the formula to calculate this indicator:

$$GL_{ij} = 1 - \frac{|X_{ijk} - M_{ijk}|}{X_{ijk} + M_{ijk}}$$

In which, X_{ijk} is the export value of product k from country i to country j , M_{ijk} is the import value of item k of country i from country j . The GL index ranges from 0 to 1, showing the difference between the exports and imports of a given industry. When the index $GL = 1$ (i.e. $X_{ijk} = M_{ijk}$), good k has complete intra-industry trade and vice versa, when $GL = 0$ (i.e., $X_{ijk} = 0$ or $M_{ijk} = 0$), good k does not have intra-industry trade.

Comparative advantage is an extremely important factor in determining the competitiveness of a country's goods and services in the international market. Therefore, the quantification of this indicator to get a visual view is highly essential. In particular, the indicator of comparative advantage (Revealed Comparative Advantage - RCA) introduced by Balassa in 1965 is one of the indicators widely used to assess the competitiveness of a commodity in a certain time period. The RCA index is calculated based on the formula:

$$RCA_{X_{ik}} = \frac{X_{ik}/X_i}{X_{wk}/X_w}$$

In which, X_{ik}/X_i is the proportion of export turnover of item k over the total export turnover of country i ; X_{wk}/X_w is the proportion of the world's exports of item k over the world's total exports. The RCA index values from 0 to infinity. When $RCA > 1$, it means that the proportion of the export of good k to the total export turnover of the country i is greater than the proportion of the export turnover of that item of the world to the total export turnover of the world. , then country i has a comparative advantage in good k and vice versa.

III. EMPIRICAL RESULTS

3.1 Situation of imports and exports

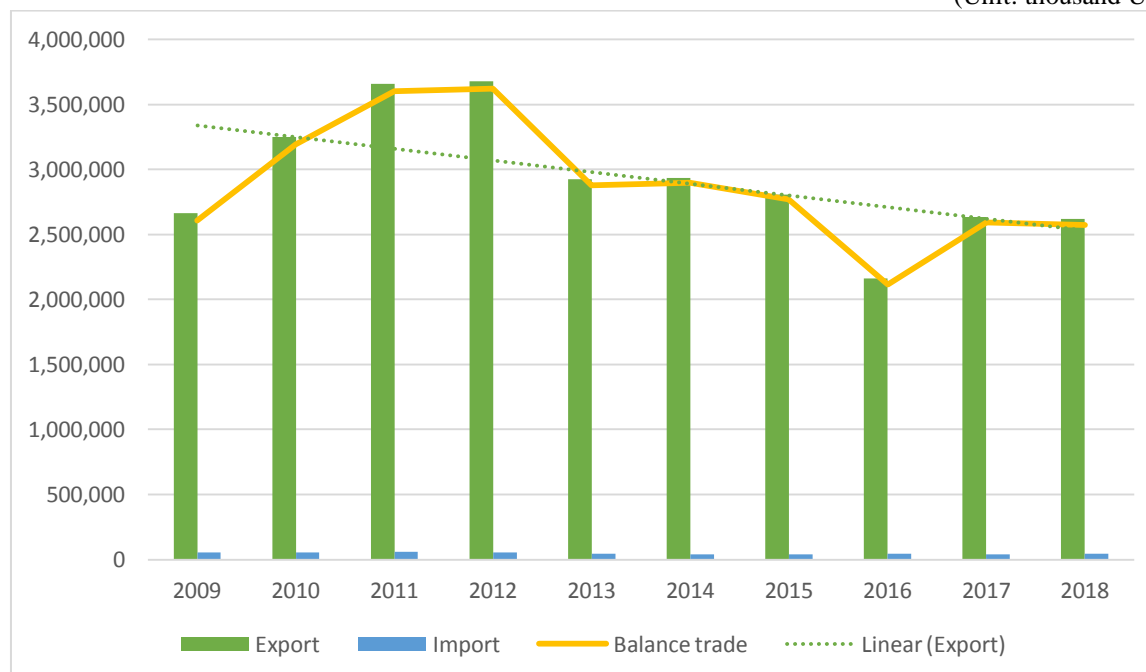
In order to study the import and export situation of Vietnamese rice, the study looked up data of rice products based on the International Convention on the Harmonized Commodity Description and Coding System (HS Convention). This is the goods classification system issued by the World Customs Organization (WCO)

and is used in over 200 countries to collect statistics on international trade. According to the 2012 revision of the HS Convention, rice products are encoded with the number 1006 in list 10 - Cereals, including 04 types: Paddy (HS 100610), Brown Rice (HS 100620), Semi - Milled or Wholly Milled Rice, whether or not polished or glazed (HS 100630) and Broken Rice (HS 100640).

Vietnamese rice has always played a role as one of the goods with the highest supply to the world market, with a high proportion in the period of 2009-2018. Figure 1 shows the growth rate in rice export turnover from Vietnam during this period.

Figure 1: Import and export situation of HS 1006 in the period of 2009 – 2018

(Unit: thousand USD)



(Source: Calculated from Trade Map - ITC data)

During the period 2009 - 2018, the large trade surplus was the main trend of Vietnamese rice to the world market. This trend derives from the characteristic of Vietnam's economy with agricultural strengths, of which rice is the main commodity. During this period, while import turnover had no significant fluctuation, export turnover had witnessed a downward trend (the trend line in figure 1 had a downward trend). Export value in 2009 and 2018 reached 2.66 billion USD and 2.62 billion USD, respectively. This result also caused the trade balance to decrease slightly during this period.

According to statistics from Trademap - ITC in 2018, for product code 1006 - Rice, Vietnam's total export turnover ranks third in the world, only after India and Thailand, accounting for approximately 10% of the total global export turnover. In particular, the largest markets of Vietnamese rice are still China and the Philippines with the total export value of these two countries accounting for 43.5% of the total export turnover of Vietnam. By 2019, according to data from the General Department of Customs, the Philippines has surpassed China to become Vietnam's largest rice importer, with a total value of approximately 885 million USD, accounting for 31.5% of market share.

3.2 Comparative advantage analysis

With the export turnover of HS 1006 code accounting for a large proportion in the international market, Vietnam is an important importer with other countries in the world. Table 3 and Table 4 examine the level of intra-industry trade (GL index) and the comparative advantage index (RCA) in Vietnam's HS 1006 code against the European Union (EU).

Table 3: Comparative advantage of HS 1006

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
RCA	29.98	33.56	28	24.52	16.27	13.93	12.33	9.42	8.77	7.96

Table 4: The level of intra – industry trade of HS 1006

(Unit: %)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GL*	0.044	0.122	0.126	0.124	0.156	0.195	0.142	0.205	0.382	1.581

(*: Figures are only for 27 EU members due to the Brexit process of the UK)

(Source: Calculated from Trade Map - ITC data)

Table 3 shows that the RCA index of HS 1006 in the period 2009 - 2018 was always very high, reflecting the obvious comparative advantage of Vietnamese rice compared to other countries in the world market. This is also reflected in the proportion of Vietnam's rice exports, which are always among the largest exporting countries in the world. This data can be explained by the fact that Vietnam is an economy based on agricultural strengths. Furthermore, despite having an abundant workforce, most occupations in Vietnam lack capital and advanced technology, so there is often a comparative advantage in labor-intensive goods such as agriculture, particularly, rice production. However, in the period 2009 - 2018, the RCA index of Vietnamese rice could see a clear downward trend (29.98 in 2009 and 7.96 in 2018). This shows that while still retaining a comparative advantage in international markets, the influence of Vietnamese rice on the world rice market is no longer as strong as before.

While the RCA index remains high, the GL index for the countries of the European Union (EU) is very low. In the period 2009 - 2018, the GL index of rice between Vietnam and the EU was only below 1% (except in 2018, it was approximately 1.6%). This is explained by the fact that Vietnam's export value to the EU outperforms the import value (Table 5), with imported rice coming mainly from France and Spain (but the value is also negligible). With the GL index at a very low level, in contrast to the RCA index, it shows that Vietnamese rice mainly has advantages in the world market in general and the EU in particular thanks to comparative advantage over economies of scale or brand preference of the consumers. This also explains the huge difference between Vietnam's rice exports to the EU and the total rice exports to the world market (compare data in Figure 1 and Table 5) due to the EU market has strict standards in terms of quality as well as the conditions for importing goods.

Table 5: Balance trade of HS 1006 between Vietnam and EU*

Unit: thousand USD

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Export	40,883	19,663	22,294	29,087	33,208	20,513	28,226	18,561	12,543	13,050
Import	9	12	14	18	26	20	20	19	24	104
Balance trade	40,874	19,651	22,280	29,069	33,182	20,493	28,206	18,542	12,519	12,946

(*: Figures are only for 27 EU members due to the Brexit process of the UK)

Source: Trademap – ITC

IV. IMPACTS OF EVFTA ON RICE EXPORT

Before signing the EVFTA Agreement, the volume and value of rice imported into the EU by Vietnam was not much higher than the output supplied to the world market (see Figure 1 and Table 5). In the EU, Vietnamese rice can hardly compete with rice in some other countries such as Thailand, the United States or Philippines when these countries have tax incentives as well as quotas in the market. With the EVFTA Agreement coming into effect from August 1, 2020, according to Chapter 2, Appendix 2 - A, the EU has granted Vietnam a tariff quota of 80,000 tons of rice with a tax rate of 0%, specifically:

- 20,000 tons / year in the form of husked rice, including the following codes:

1006.10.21	1006.10.92	1006.20.11	1006.20.92
1006.10.23	1006.10.94	1006.20.13	1006.20.94
1006.10.25	1006.10.96	1006.20.15	1006.20.96
1006.10.27	1006.10.98	1006.20.17	1006.20.98

- 30,000 tons / year in the form of milled rice, including the following codes:

1006.30.21	1006.30.42	1006.30.61	1006.30.67
1006.30.23	1006.30.44	1006.30.63	1006.30.92
1006.30.25	1006.30.46	1006.30.65	1006.30.94
1006.30.27	1006.30.48	1006.30.98	1006.30.96

- 30,000 tons / year in the form of milled rice, including the following codes:

1006.10.21	1006.20.11	1006.30.21	1006.30.61
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1006.10.23	1006.20.13	1006.30.23	1006.30.63
1006.10.25	1006.20.15	1006.30.25	1006.30.65
1006.10.27	1006.20.17	1006.30.27	1006.30.98
1006.10.92	1006.20.92	1006.30.42	1006.30.67
1006.10.94	1006.20.94	1006.30.44	1006.30.92
1006.10.96	1006.20.96	1006.30.46	1006.30.94
1006.10.98	1006.20.98	1006.30.48	1006.30.96

(Source: Appendix 2 – A, EVFTA)

Although the tariff quota on Vietnamese rice is still quite modest compared to the potential consumption in the EU market, the opening of the EU for Vietnamese rice to enter the market is a good signal for Vietnamese rice to enhance competitiveness, helping EU consumers know more about Vietnamese rice brands. The rice categories eligible for preferential treatment listed above include rice codes of the Paddy (HS 1006.10), Brown Rice (HS 1006.20) and whole or semi - milled rice, whether or not polished or glazed (HS 1006.30). These are quite high taxed items on the EU market, with export taxes of 211 EUR / ton, 65 EUR / ton and 175 EUR / ton, respectively. The removal of tariff barriers will help Vietnamese rice to lower prices, thereby enhancing competition with rice from Thailand, the US and other countries in the market.

Besides the opportunity to expand potential markets, Vietnamese rice also faces challenges when entering the EU market. First, the quota of 80,000 tons / year of Vietnamese rice will not enjoy the full 0% tax incentives immediately but will be divided into sub – periods allocated by the EU to designated importers. Therefore, Vietnamese rice exporters need to learn about and offer to sell and trade with a small number of these enterprises.

Second, as analyzed in above sections, Vietnamese rice mainly competes with other countries in the world based on comparative advantage rather than economies of scale or brand preference of consumers, so added value is not high. In order to take advantage of the opportunities provided by EVFTA, Vietnamese businesses need to export fragrant rice products with high economic value to the EU. The Appendix 2 - A of EVFTA also stipulates that only 09 types of fragrant rice are eligible for imported tax exemption, including: Jasmine 85, ST (5 and 20), Nang Hoa 9, VD 20, RVT, OM (4900 and 5451) and Cho Dao Resources. Although this list can be modified by a decision of the Trade Commission, the quality of fragrant rice is still a prerequisite for preferential treatment.

Third, for Vietnamese fragrant rice, the EU requires confirmation of the correct type from the competent authority of Vietnam (Department of Crop Production - Ministry of Agriculture and Rural Development). This was stated in the draft Decree "Regulations on certification of aromatic rice varieties exported to the European Union" for submission to the Prime Minister for approval. Therefore, to ensure a smooth legal corridor, rice exporters need to wait for the Decree to be quickly enacted and officially effective.

Finally, control of pesticides, plant protection and fertilizer quality are also challenges for Vietnamese rice. Due to the outdated material and technology conditions as well as the majority of rice farmers doing it on a small and fragmented scale, to ensure strict requirements on food safety and food quality in the EU, rice exporters need to have a strict management mechanism from the beginning until the rice is exported to the EU.

V. CONCLUSION

Agricultural products in general and rice in particular have been Vietnam's export strength in the world market. With the removal of tariff barriers to the EU with certain quotas, this will be an opportunity for Vietnamese rice to elevate its position in one of the largest markets in the world. However, the signing of the EVFTA Agreement also brings a great challenge to Vietnamese rice when it must meet strict conditions in terms of quality and origin of goods. Therefore, Vietnamese rice exporters need to invest in technology, research and promote high quality rice varieties such as the ST24 and ST25 that were honored at the contest World's Best Rice by the end of 2019. At the same time, the legal corridors also need to be quickly and promptly approved by the Government to meet the conditions set by the EU.

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