Vietnam-EU Trade Imbalance: Analysing the Disparity in Exports and Imports

Introduction

Vietnam's trade relationship with the European Union (EU) has expanded significantly over the past decade, driven largely by the EU-Vietnam Free Trade Agreement (EVFTA). However, despite this growth, a substantial trade imbalance persists.

As of 2024, Vietnam exported approximately $51.9 billion worth of goods to the EU, marking an 18.8% increase from the previous year. In contrast, EU exports to Vietnam remain relatively low, resulting in a trade surplus in Vietnam's favour.

The EU accounts for 27% of Vietnam's total exports, while its own exports hold only a 9% market share in Vietnam.

This article explores the underlying factors contributing to this disparity and examines potential strategies to create a more balanced trade relationship.

Overview of Vietnam-EU Trade

The EU remains one of Vietnam's largest trading partners, with bilateral trade experiencing steady growth. The EVFTA, which came into effect in 2020, has played a significant role in eliminating or reducing tariffs, particularly benefiting Vietnam's export sectors. However, despite this agreement, European market penetration in Vietnam has lagged behind.

Factors Contributing to the Trade Imbalance

1. Differences in Economic Structures

Vietnam's economy is heavily export-driven, with a strong focus on manufacturing and labour-intensive industries. The country's primary exports to the EU include:

- Electronics and machinery
- Textiles and footwear
- Agricultural products (coffee, seafood, rice)

Conversely, the EU specializes in capital-intensive, high-value industries, exporting:

- High-tech products (pharmaceuticals, aircraft, machinery)
- Automobiles
- Processed food and beverages

The nature of these exports explains the imbalance: Vietnam produces affordable, high-volume consumer goods, while the EU's niche, high-value exports appeal to a smaller segment of Vietnamese consumers.

2. Trade Policies and Tariff Structures

The EVFTA has significantly reduced tariffs on Vietnamese exports, making them more competitive in the EU market. However, European exports to Vietnam still face several challenges:

- High import taxes on luxury goods
- Complex customs procedures
- Consumer preferences favouring affordable local and regional alternatives

Vietnamese consumers generally prioritize cost-effective goods, making it difficult for European exporters to gain substantial market share.

3. Consumer Preferences and Market Dynamics

Vietnamese purchasing habits also play a key role in shaping the trade imbalance. Factors influencing consumer behaviour include:

- Preference for budget-friendly, locally produced goods
- A strong reliance on regional trade partners like China, South Korea, and Japan
- Limited accessibility and affordability of European luxury goods and advanced technology
- The EU's exports are often positioned at premium price points, which restricts their reach within Vietnam's developing economy.

Impact of the EVFTA

1. Boosting Vietnamese Exports

Vietnam's export-oriented economy has benefited immensely from the EVFTA. With reduced tariffs, sectors like textiles, footwear, and electronics have experienced rapid growth. The agreement has further strengthened Vietnam's role as a global manufacturing hub.

2. Slow Uptake for EU Exports

Despite tariff reductions, European exports have not experienced the same level of growth. The key challenges include:

- Lower demand for high-value goods in Vietnam's price-sensitive market
- Regulatory and certification barriers
- Competition from domestic and Asian manufacturers

Long-Term Trends and Future Outlook

1. Growing Vietnamese Middle Class

As Vietnam's economy continues to expand, its middle class is growing. This could lead to increased demand for European goods such as:

- Luxury products
- Premium food items
- Advanced technology and machinery

Over time, this shift in consumer behaviour may help reduce the trade imbalance.

2. Diversification of Trade

Vietnam is actively working to diversify its export markets to reduce dependence on any single region. Likewise, European companies are exploring investment opportunities in Vietnam, including:

- Establishing local production facilities
- Strengthening distribution channels
- Enhancing supply chains

Conclusion

The trade imbalance between Vietnam and the EU is primarily driven by structural differences in their economies, varying consumer preferences, and regulatory challenges. While Vietnam excels in exporting cost-effective, high-volume goods, the EU struggles with penetrating the Vietnamese market due to lower demand for high-value products and domestic competition.

However, as Vietnam's economy grows and its consumer base becomes more sophisticated, the demand for European goods is expected to increase. The EVFTA remains a key mechanism in fostering a more balanced trade relationship, and continued investment initiatives from both sides could further close the trade gap in the coming years.

Ultimately, while Vietnam currently enjoys a trade surplus with the EU, the long-term outlook suggests a gradual movement toward equilibrium, driven by economic development, changing consumer behaviours, and enhanced trade cooperation.