

# FTA Awareness, Compliance Costs, and Tariff Preference Utilization: Evidence from Exporting Firms in Ho Chi Minh City, Vietnam

Võ Thị Thu Hồng; Nguyễn Vũ Hiếu Trung; Nguyễn Thị Cẩm Ly

PhD., Trường Đại học Quốc tế Sài Gòn (SIU)  
PhD., Trường Đại học Quản lý và Công nghệ TP.HCM (UMT)  
Trường Đại học Quốc tế Sài Gòn (SIU)

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**Abstract:** Although Vietnam has signed and implemented a large number of free trade agreements (FTAs), the actual use of tariff preferences by firms remains below potential. This gap raises an important question: why do many exporting firms fail to take full advantage of available tariff preferences even when the agreements appear beneficial in principle? This study examines the factors affecting the utilization of FTA tariff preferences among exporting firms in Ho Chi Minh City, Vietnam. Drawing on comparative advantage theory, transaction cost theory, the new-new trade theory, the behavioral theory of the firm, and the technology acceptance model, the study develops a framework linking FTA awareness, rules of origin, compliance costs, firm capability, and government support to tariff preference utilization. Survey data from 205 exporting firms were analyzed using Cronbach's Alpha, exploratory factor analysis, correlation analysis, and multiple regression. The results show that FTA awareness has the strongest positive effect on tariff preference utilization, followed by compliance costs and government support. By contrast, rules of origin and firm capability do not remain statistically significant in the final regression model. These findings suggest that firms' actual use of tariff preferences depends less on formal eligibility alone than on how well they understand FTAs, how they perceive compliance burdens, and whether they can access effective institutional support. The study contributes firm-level evidence from Vietnam and offers practical implications for exporters and policymakers seeking to improve the real utilization of FTA benefits.

**Keywords:** Free Trade Agreements; Tariff Preference Utilization; Exporting Firms; Compliance Costs; Government Support; Vietnam.

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## I. INTRODUCTION

Free trade agreements have become one of the most important instruments shaping international trade in the contemporary global economy. For an export-oriented country such as Vietnam, FTAs are expected to create significant opportunities through tariff reduction, better market access, and stronger integration into regional and global value chains. In principle, these agreements should help Vietnamese firms improve price competitiveness and expand export activity. However, the reality is more complex. The existence of tariff preferences does not automatically translate into their effective utilization by firms.

This issue is particularly relevant in Vietnam, where export growth has remained one of the main engines of economic development and where firms have access to a wide network of FTAs, including EVFTA, CPTPP, and RCEP. Despite these institutional advantages, many firms still do not fully use the tariff preferences available to them. The problem becomes even more important in Ho Chi Minh City, one of Vietnam's most dynamic commercial and export centers, where firms operate in a highly competitive and internationally exposed environment.

The gap between potential and actual utilization suggests that the issue is not simply a matter of trade policy design. It is also a matter of firm-level behavior and decision-making.

Even when tariff preferences exist, firms may not use them if they lack sufficient information, face complicated rules of origin, perceive compliance costs as too high, or do not receive adequate institutional support. In that sense, tariff preference utilization is not only an economic outcome but also a strategic and organizational one.

Previous studies have discussed FTAs from both macro and micro perspectives, but several gaps remain. Much of the literature has concentrated on trade expansion, export performance, or the broad effects of trade agreements at the national level. Fewer studies have examined the firm-level determinants of tariff preference utilization, especially in the context of Vietnamese exporters. In addition, the evidence on how awareness, rules of origin, compliance burdens, capability, and government support jointly influence FTA use remains limited. This study addresses that gap by focusing on exporting firms in Ho Chi Minh City and testing a quantitative model of the determinants of tariff preference utilization.

The article makes three main contributions. First, it provides firm-level empirical evidence from Vietnam on an issue that is often discussed in policy terms but less often measured through enterprise data. Second, it distinguishes between the formal availability of tariff preferences and the actual organizational conditions needed to use them. Third, it highlights that effective FTA utilization depends not only on trade rules but also on awareness, support mechanisms, and firms' perceptions of procedural burden.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### ➤ *FTA Tariff Preference Utilization*

Tariff preference utilization refers to the extent to which firms use the preferential tariff rates available under FTAs in their export operations. In practice, this usually depends on whether firms can meet origin requirements, complete documentary procedures, and judge that the benefits of preferential tariffs exceed the associated compliance costs. The issue is therefore more complex than simple market access. A firm may be eligible for tariff preferences in principle but still decide not to use them in practice.

### *Theoretical Foundations*

This study draws on several complementary perspectives. Comparative advantage theory explains why trade liberalization creates opportunities for specialization and export expansion. Transaction cost theory highlights that firms must consider not only tariff savings but also the costs of information search, compliance, certification, and administrative procedures. The new-new trade theory emphasizes that differences across firms matter, especially in their ability to absorb fixed costs associated with international trade. The behavioral theory of the firm suggests that decision-making is influenced by limited information, bounded rationality, and managerial perception. Finally, the technology

acceptance model is useful for understanding why firms may use or avoid FTAs depending on whether they perceive them as useful and manageable. These perspectives together imply that FTA utilization depends on both institutional conditions and firm-level interpretation of those conditions.

### ➤ *Hypothesis Development*

- *FTA awareness.*

When firms better understand the content, benefits, and requirements of FTAs, they are more likely to use tariff preferences. Awareness reduces uncertainty, improves preparedness, and allows firms to identify opportunities that would otherwise be overlooked. The thesis specifically treats FTA awareness as a core explanatory factor.

**H1:** FTA awareness positively influences tariff preference utilization.

- *Rules of origin.*

Rules of origin are a key technical requirement for obtaining tariff preferences. Firms that understand and can comply with these rules should, in principle, be more likely to use FTA preferences. At the same time, the complexity of such rules may discourage actual usage.

**H2:** Rules of origin positively influence tariff preference utilization.

- *Compliance costs.*

Firms often need to bear costs related to certification, documentation, administrative procedures, and process adjustment in order to use FTA preferences. These costs may discourage utilization when they exceed the expected gains, but they also become a decisive factor in the firm's use decision. In the present study, compliance costs are treated as one of the most important practical barriers shaping utilization behavior.

**H3:** Compliance costs significantly influence tariff preference utilization.

- *Firm capability.*

Firm capability includes the availability of knowledgeable staff, sufficient resources, export experience, and the ability to meet international standards. More capable firms should be better positioned to comply with FTA procedures and make effective use of tariff preferences.

**H4:** Firm capability positively influences tariff preference utilization.

- *Government support.*

Access to information, training, guidance, administrative simplification, and export-related support programs can help firms understand and use FTAs more effectively. Government support is therefore expected to facilitate preference utilization, especially for firms with fewer internal resources.

**H5:** Government support positively influences tariff preference utilization.

### III. METHODOLOGY

#### ➤ *Research Context and Sample*

The study focuses on exporting firms located in Ho Chi Minh City. This context is appropriate because the city is one of the most important economic and export centers in Vietnam and hosts firms operating in a wide range of export sectors. The target respondents were individuals directly involved in export activities, such as staff in import-export departments, international business units, logistics units, or management positions. The final analysis is based on **205 valid responses**.

#### ➤ *Variables and Measures*

The model includes five independent variables: FTA awareness (FTA), rules of origin (ROO), compliance costs (COST), firm capability (CAP), and government support (GOV). The dependent variable is tariff preference utilization (USE). The questionnaire included multiple items for each construct, such as understanding FTA provisions, ability to comply with origin requirements, perceived compliance burden, internal export capability, and access to government support. The utilization construct was measured using four observed items.

#### ➤ *Analytical Approach*

The data were analyzed using SPSS 22.0. The study first tested the reliability of the scales using Cronbach's Alpha and then applied exploratory factor analysis to assess construct structure. Pearson correlation analysis was used to examine bivariate associations, followed by multiple regression analysis to test the hypotheses and determine the relative influence of the independent variables on tariff preference utilization.

### IV. RESULTS

#### ➤ *Correlation Analysis*

The correlation matrix shows that all five independent variables are positively correlated with tariff preference utilization. Specifically, tariff preference utilization is positively associated with FTA awareness, rules of origin, compliance costs, firm capability, and government support, with all pairwise correlations significant at the 0.01 level. This indicates that firms reporting stronger awareness, better support, and higher capability also tend to report higher levels of FTA utilization at the bivariate level.

#### ➤ *Regression Results*

The multiple regression model shows an  $R = 0.706$ ,  $R^2 = 0.499$ , and Adjusted  $R^2 = 0.486$ , suggesting that the proposed variables explain a meaningful share of the variation in tariff preference utilization. The model is statistically significant overall, and the Durbin-Watson statistic is 1.913, indicating no serious autocorrelation issue.

At the coefficient level, three variables are statistically significant. FTA awareness has the strongest positive effect on tariff preference utilization ( $\beta = 0.261$ ,  $p = 0.000$ ). Compliance costs also show a significant effect ( $\beta = 0.212$ ,  $p = 0.001$ ), followed by government support ( $\beta = 0.188$ ,  $p = 0.008$ ). By contrast, rules of origin ( $\beta = 0.126$ ,  $p = 0.103$ ) and firm capability ( $\beta = 0.074$ ,  $p = 0.285$ ) do not remain statistically significant in the final regression model. Multicollinearity does not appear to be a major concern, with VIF values remaining within acceptable levels.

These findings mean that H1, H3, and H5 are supported, while H2 and H4 are not supported.

### V. DISCUSSION

The most important finding of this study is that FTA awareness is the strongest predictor of tariff preference utilization. This result is meaningful because it shows that the actual use of tariff preferences depends first on whether firms clearly understand what FTAs offer and what is required to benefit from them. In many policy discussions, tariff preferences are treated as if they were automatically available once agreements are signed. The present findings suggest otherwise. What matters at the firm level is not simply the existence of the agreement but whether managers and export staff understand its provisions well enough to act on them.

This pattern is highly plausible in the context of Ho Chi Minh City's exporters. Many firms may be aware that FTAs exist, but that is not the same as understanding origin rules, tariff schedules, documentation needs, or strategic export implications. Awareness, in this sense, is not passive knowledge; it is an operational condition for actual use. Firms that understand FTAs better are more likely to identify opportunities, prepare documents correctly, and treat tariff preferences as part of export strategy rather than as a distant policy promise.

A second notable result is the significance of *compliance costs*. This finding reinforces the transaction cost perspective. Even when tariff preferences are financially attractive, firms still have to weigh the procedural and administrative effort required to obtain them. The result indicates that these costs are not marginal. They matter enough to shape whether firms use tariff preferences in practice. In other words, trade policy benefits can be weakened if the cost of compliance is perceived as too burdensome.

The significance of *government support* also deserves emphasis. Firms appear more likely to use tariff preferences when they can access information, advisory services, and supportive public mechanisms. This is particularly important for exporters with limited internal capacity. The result suggests that government support does not merely accompany FTA implementation; it actively shapes whether the benefits

of FTAs are realized at the enterprise level. This makes policy support a practical enabler rather than a symbolic backdrop.

Two non-significant findings are also revealing. First, *rules of origin* do not remain significant in the final model, despite their technical importance. A plausible explanation is that rules of origin may matter indirectly through awareness and compliance processes rather than as an independent determinant once other variables are considered simultaneously. Second, *firm capability* is also not statistically significant in the final model. This does not mean capability is irrelevant; rather, it may indicate that general organizational strength alone is not enough to explain FTA utilization unless it is translated into specific awareness and procedural action.

Taken together, the findings suggest that tariff preference utilization is shaped less by abstract trade potential and more by the practical conditions under which firms interpret, manage, and access FTA benefits. That is why awareness, support, and procedural burden emerge more clearly than some broader structural factors in the final model.

## VI. THEORETICAL CONTRIBUTIONS

This study contributes to the literature in several ways.

First, it extends the discussion of FTAs from macro-level export potential to *micro-level utilization behavior*. Much of the policy literature assumes that lower tariffs naturally create greater export benefits. The present findings show that actual utilization is conditional on firm-level awareness and the ability to navigate procedural requirements. This makes the study relevant to the growing literature on the gap between formal trade liberalization and realized trade benefits.

Second, the study refines the role of *transaction costs* in the FTA context. Compliance costs are often treated as secondary implementation issues. Here, they emerge as one of the statistically significant drivers of utilization. This supports the argument that trade agreements should be evaluated not only by the tariff reductions they promise but also by the organizational burden they impose on firms seeking to use them.

Third, the study contributes to firm-level research in emerging economies by showing that *awareness and institutional support* may be more decisive than some formal technical or capacity variables. In the Vietnamese context, the ability to understand, interpret, and access FTA-related mechanisms appears especially important. This helps explain why legal access to preferences does not automatically translate into actual usage.

Finally, the study offers a useful interpretation of non-significant variables. The lack of significance for rules of origin and firm capability suggests that not all theoretically relevant variables operate independently in practice. Some

may work through awareness, support systems, or other indirect pathways. This opens room for future studies to test mediation or moderation mechanisms more explicitly.

## VII. MANAGERIAL AND POLICY IMPLICATIONS

For managers, the findings suggest that firms should invest more seriously in *FTA literacy*. It is not enough to know that an agreement exists. Exporting firms need staff who understand the practical conditions for using tariff preferences, including eligibility criteria, origin documentation, and the expected cost-benefit balance. In many cases, improving awareness may be the most direct way to increase actual preference utilization.

Second, firms should pay attention to the internal management of *compliance costs*. Better documentation systems, clearer export workflows, and more efficient coordination with logistics and certification processes may reduce the burden of using FTA preferences. If compliance remains cumbersome, firms may continue to forgo tariff benefits even when those benefits are available.

For policymakers, the results suggest that signing FTAs is only the first step. What matters next is whether firms can actually use them. This requires more practical forms of support: accessible information, clearer guidance on origin procedures, administrative simplification, training programs, and responsive advisory services. In particular, exporters need support that is concrete and operational rather than merely promotional.

The significance of government support also implies that public institutions can play a bridging role between formal trade policy and enterprise-level utilization. If policymakers want to raise the real use of FTA benefits, they need to focus not only on negotiation outcomes but also on firm-facing implementation systems.

## VIII. LIMITATIONS AND FUTURE RESEARCH

This study has several limitations.

First, the sample is restricted to exporting firms in Ho Chi Minh City. Although this is a highly relevant context, firms in other parts of Vietnam may face different industrial structures, support systems, and implementation challenges. Future studies should therefore extend the analysis to multiple provinces or conduct cross-regional comparisons.

Second, the study relies on cross-sectional survey data and self-reported perceptions. This limits the ability to make stronger causal claims and raises the possibility that some perceptions do not fully capture actual behavior. Future research could combine survey data with objective export indicators, such as tariff-preference usage records, export turnover, or customs-related documentation patterns.

Third, the analytical design uses Cronbach's Alpha, EFA, and multiple regression, which are suitable for an initial empirical study but do not provide the same confirmatory power as CFA, SEM, or PLS-SEM. Future studies could apply more advanced techniques to test indirect effects, mediating relationships, or sector-specific differences.

Finally, the present model does not fully capture other potentially relevant factors such as export experience, digital capability, legal literacy, firm size heterogeneity, or destination-market characteristics. These factors may help explain why some firms make more effective use of FTAs over time.

## IX. CONCLUSION

This study examined the determinants of tariff preference utilization among exporting firms in Ho Chi Minh City, Vietnam. Using survey data from 205 firms, it found that FTA awareness, compliance costs, and government support significantly influence firms' utilization of tariff preferences, while rules of origin and firm capability do not remain significant in the final model. The model explains a meaningful proportion of the variation in utilization behavior, suggesting that these factors capture an important part of how firms actually respond to FTA opportunities.

The broader message of the study is straightforward but important: tariff preferences do not create value simply because they exist. They create value only when firms understand them, can manage the cost of using them, and receive enough support to convert policy access into operational action. In that sense, the real challenge is not only trade liberalization itself, but the translation of trade liberalization into usable business practice.

For Vietnam, and especially for export-oriented firms in Ho Chi Minh City, improving the real utilization of FTA tariff preferences will require more than ambitious trade agreements. It will require informed firms, manageable procedures, and support systems that are practical enough to help enterprises use what trade policy has already made available.

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