Estimated Tariff Savings from the Trade Agreement between the EU and Vietnam – EVFTA
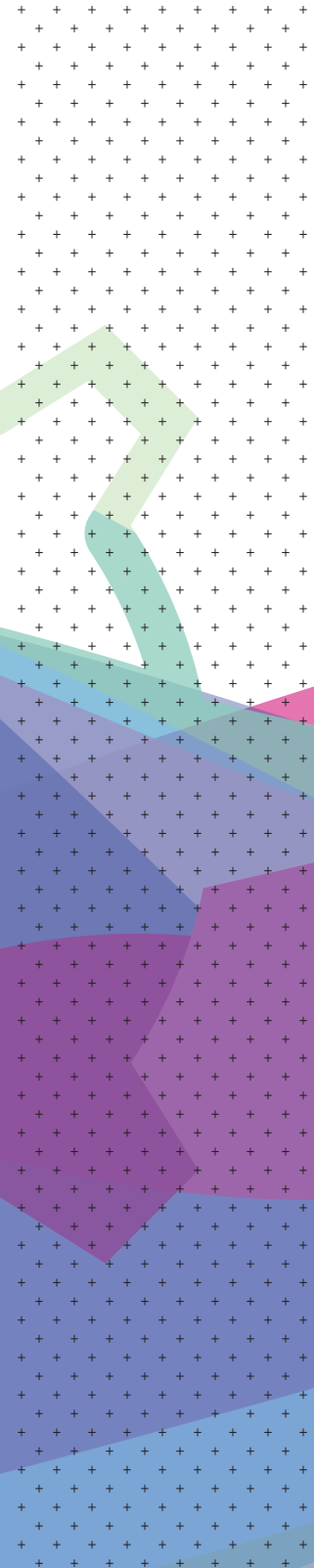
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CLS+

Core Labour Standards Plus

Linking trade and decent work in global supply chains

FRIEDRICH EBERT STIFTUNG

Contents

List of Figures

List of Tables

List of Abbreviations

AMECO   Annual Macroeconomic Database
ATC   Agreement on Textiles and Clothing
EU   European Union
EVFTA   European and Vietnam Free Trade Agreement
FDI   Foreign Direct Investment
FTA   Free Trade Agreement
GSP   General System of Preferences
MFN   Most Favoured Nation
OECD   Organisation for Economic Co-Operation and Development
UK   United Kingdom
WTO   World Trade Organization

Foreword

The changing nature of international trade, dominated by global value chains, has led to downward pressure on working conditions. Fundamental rights at work, such as the right to organise and bargain collectively, are not upheld. Child labour exists in many supply chains, and minimum wages, when paid, are not sufficient to ensure decent living standards. Forced overtime and lack of safety measures are also common.

This publication estimates the potential tariff savings for EU importing companies upon entry into force of the EU-Vietnam Free Trade Agreement.

It is one of the outputs of the regional project Core Labour Standards Plus (CLS+), which was launched by Friedrich-Ebert-Stiftung Asia in 2016. This project aims to promote and develop binding labour standards in trade and global value chains. With growing consumer concern and strong criticism of free trade agreements in Europe, there is momentum to push for binding social clauses in international trade. If governments can show that trade agreements contribute to making the life of workers in Asia better, the growing scepticism towards such agreements could be reduced.

The scope of the CLS+ project is ambitious in the sense that it goes beyond the ILO core labour standards. These core conventions are recognised as an important element of decent work and are used by the European Union (EU) in trade agreements, but they do not cover other important rights such as living wages, maximum working hours including overtime, and safe and healthy workplaces. A living wage is, for example, crucial to lift people out of poverty.

In the first phase of the project, four countries— Bangladesh, Cambodia, Pakistan, and Vietnam—were selected to explore the link between trade and labour standards in key industries characterized by global value chains, namely garments, footwear and electronics. In Europe additional studies and research was conducted. Apart from the present study, a second study examines social or labour chapters in trade agreements and explores the reasons for their ineffectiveness. Furthermore, the CLS+ project has commissioned a model labour clause that could be incorporated in future trade agreements. Although the future of the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) is uncertain, the EU is pursuing negotiations over bilateral free trade agreements with other countries in the world, not least in Asia.

The findings of the project could also be used to improve the schemes of generalised tariff preferences applied by the EU, both in terms of conditions to be met for the benefitting country and sanctions in case of noncompliance. In the second phase of the project, once the research is finalized, a set of policy recommendations will be drafted for advocacy purposes. The office for regional cooperation in Asia and the national FES offices in the countries concerned will carry out a number of activities together with partners to disseminate the findings of the project, and continue to work on solutions to the challenges that have been identified.

Lastly, we would like to thank all those who have contributed to the project with their knowledge and insights, and helped shape this publication.

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Introduction

Context

The European Union (EU) and the Socialist Republic of Vietnam signed the European Union - Vietnam Free Trade Agreement (EVFTA) in December 2015. Subject to ratification, the agreement is expected to enter into force in 2018.[1] Before, Vietnam already benefitted from preferential access to the EU market though the General System of Preferences (GSP), which the EU grants to developing countries. The GSP provides duty reductions for around 66 per cent of all EU tariff lines. While non-sensitive products receive zero tariffs, sensitive products receive tariff reductions of 3.5 percentage points from the most favoured nation (MFN) tariff. Duties for textiles and textile goods are reduced by 20 per cent of the MFN tariff. The EVFTA provides that the EU will liberalize 71 per cent of its imports from Vietnam upon entry into force and 99 per cent after a transition period of seven years. Hence, the agreement bears the potential for EU importing companies to realize significant tariff savings. The present study is an attempt to estimate these savings. The analysis focuses on the apparel, textile,

electronics, and footwear sectors. The study is structured as follows: The next section presents some information on the agreement. Section 2 explains the methodology. Section 3 discusses limitations of the approach. Section 4 presents the empirical analysis and the results. Section 5 provides a short discussion on the beneficiary of the savings and the last section offers conclusions.

The agreement

Figure 1 presents the scheduled tariff elimination by the EU for Vietnamese products in the categories of apparel, textiles, electronics, and footwear per year. Tariffs for less sensitive products, such as the majority of those in the textile and electronics sectors, will be removed immediately by entry into force, i.e. by 94 and 90 per cent respectively. In contrast, tariffs for more sensitive products, for example many products within the apparel and footwear sectors, level out over a transition period of seven years. In regard to apparel, 43 per cent of import duties will be removed immediately, 55 per cent in the fourth year, 87 per cent in the sixth year and in the eighth

Figure 1: Scheduled tariff elimination by the EU for selected Vietnamese products (Value in cumulative per cent). Author's own illustration.
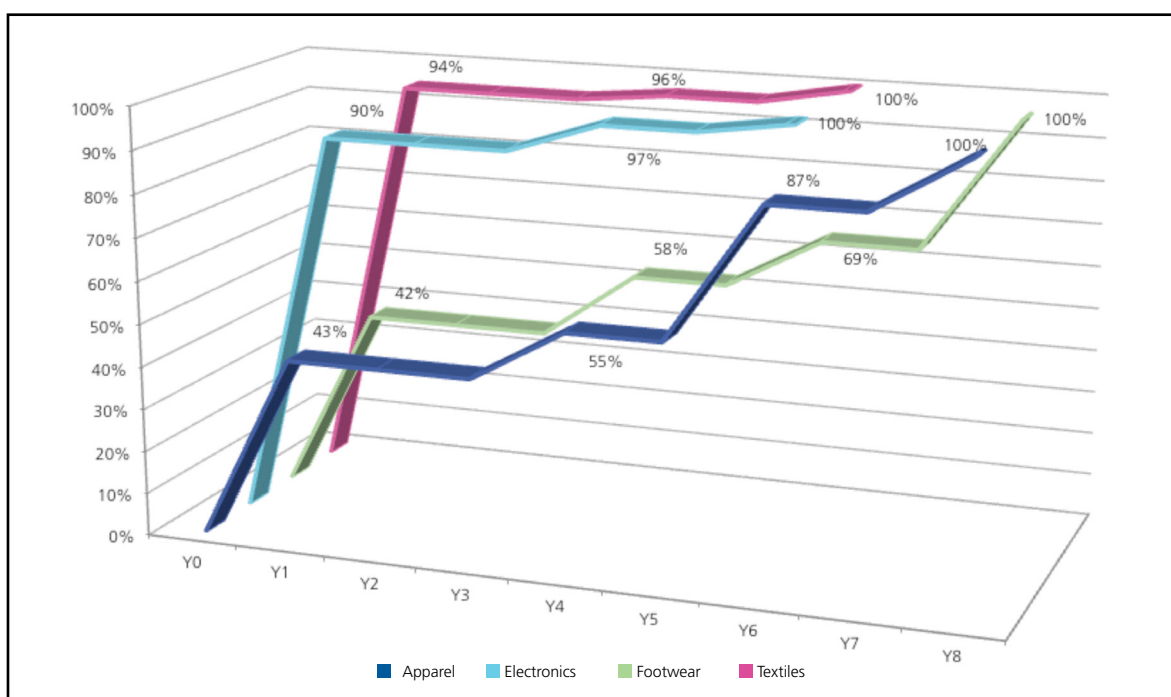
Source: European Commission (2016a): Annex 2-c-i: Tariff Schedule of the EU. Author's presentation.

year tariffs will be removed completely. Concerning footwear, 58 per cent of tariffs on less sensitive items, i.e. athletic/sports footwear, will be removed either at entry into force or after three years, and for the more sensitive items, for instance leather shoes, tariffs will be removed after a period of up to seven years.[2]

Goods in trade are classified according to each party's respective nomenclature in conformity with the 'Harmonised Commodity Description and Coding System 2012' and its amendments.[3]

As is standard in trade agreements, the EVFTA contains a detailed section on rules of origin.[4] Rules of origin are the legal instrument that restricts the national source of a product that will be traded. In order to benefit from preferential treatment, goods must i) originate in the country, ii) be accompanied by a certificate of origin and iii) fulfil certain additional requirements.[5]

In this way, the participating parties to an agreement want to ensure that products from third countries are not granted preferential market access through trade deflection. For example, if Vietnam and the EU sign the trade agreement, with China not being part of the trade agreement, goods from China could be shipped to the EU via Vietnam in order to be subject to less duty. This is what we call trade deflection, which is prevented by rules of origin.

The rules of origin for textile and clothing products under the EU's GSP scheme, as well as under the EVFTA, are especially strict. Here, the EU requires a double transformation, which states that textile or clothing products have to be made of a two-stage transformation process: Stage one requires the yarn woven into fabric and stage two the fabric made into clothing. This rule implies that in order to benefit from tariff reductions, Vietnam is not allowed to import fabric from third countries (except for those countries that also have a free trade agreement with the EU) and make it into clothing (Kommerskollegium 2012).

Methodology

The present study attempts to estimate the potential savings from tariff elimination as laid out in the EVFTA. The base year is 2015, the latest year for which data on import values (imports from Vietnam to the EU, measured in euros) is available. The trade data is taken from Eurostat Comext, which provides data at the most detailed level (CN8). Pre-free trade agreement (FTA) import tariff rates, i.e. MFN tariff rates imposed by the EU and tariff elimination categories are taken from the EU Tariff Schedule, as published in Annex 2-c-i of the EVFTA.

Since data is only available for 2015 and the FTA will not start before 2018, in order to estimate the potential savings from the agreement, it is necessary to forecast the value of future imports.

The forecast will be based on the demand history. Table 1 shows correlation coefficients[6] for private final consumption expenditure of the EU-28 and world imports of apparel, electronics, textiles, and footwear of the EU-28. All items show a high correlation, which means that an increase in consumption expenditure pushes up imports. Apparel and electronics exhibit a correlation coefficient of almost 0.7, textiles of 0.57 and footwear of 0.7.

Table 1: Correlations of growth rates of private final consumption expenditure and world imports to the EU-28 (2002-2015). Author's own calculations.

Product category	Correlation
Apparel	0.69
Electronics	0.68
Textiles	0.57
Footwear	0.70

Source: European Commission AMECO database (2017) and Eurostat Comext (2017).

Data on private final consumption expenditure of the EU-28 is taken from the Annual Macroeconomic Database (AMECO). Figure 2 presents growth rates of EU-28 private final consumption expenditure and EU-28 world imports of apparel, textiles, electronics, and footwear. As becomes apparent from Figure 2, even though the development of the growth rate of private final consumption expenditure and the growth rates of world imports of the respective products are correlated, the growth rates of imports are more volatile.

The present study will forecast future growth rates based on two scenarios. A worst-case scenario will rely only on growth rates of private final consumption expenditure of the EU-28. For the years 2016, 2017 and 2018 growth rates are taken from AMECO, which provides forecasts for these years. For the following years, the average growth rate for the period 2010-2018[7] is used. According to the forecast by AMECO, private final consumption expenditure is predicted to grow in 2016 by 0.19 per cent, in 2017 by 2.6 per cent and in 2018 by 3.4 per cent. For the following years, an average growth rate of 2.5 per cent is assumed, which is the average growth rate for years 2010-2018[8].

To take account of the volatile behaviour of the import growth rate, a best-case scenario is estimated which considers elasticities[9]. Here, the numerator gives the percentage change in imports over the period 2010-2015[10], while the denominator gives the percentage change in personal consumption expenditure over the same period. This factor is then multiplied by the growth rate of private final consumption expenditure.

The calculated elasticities are as follows: In the case of apparel the calculated factor is 2.23, for textiles 3.27, for footwear 3.03 and for electronics 3.23.

Figure 2: Growth rates of private final consumption expenditure and EU-28 world imports of apparel, textiles, electronics and footwear, 2002-2015. Author's own illustration.
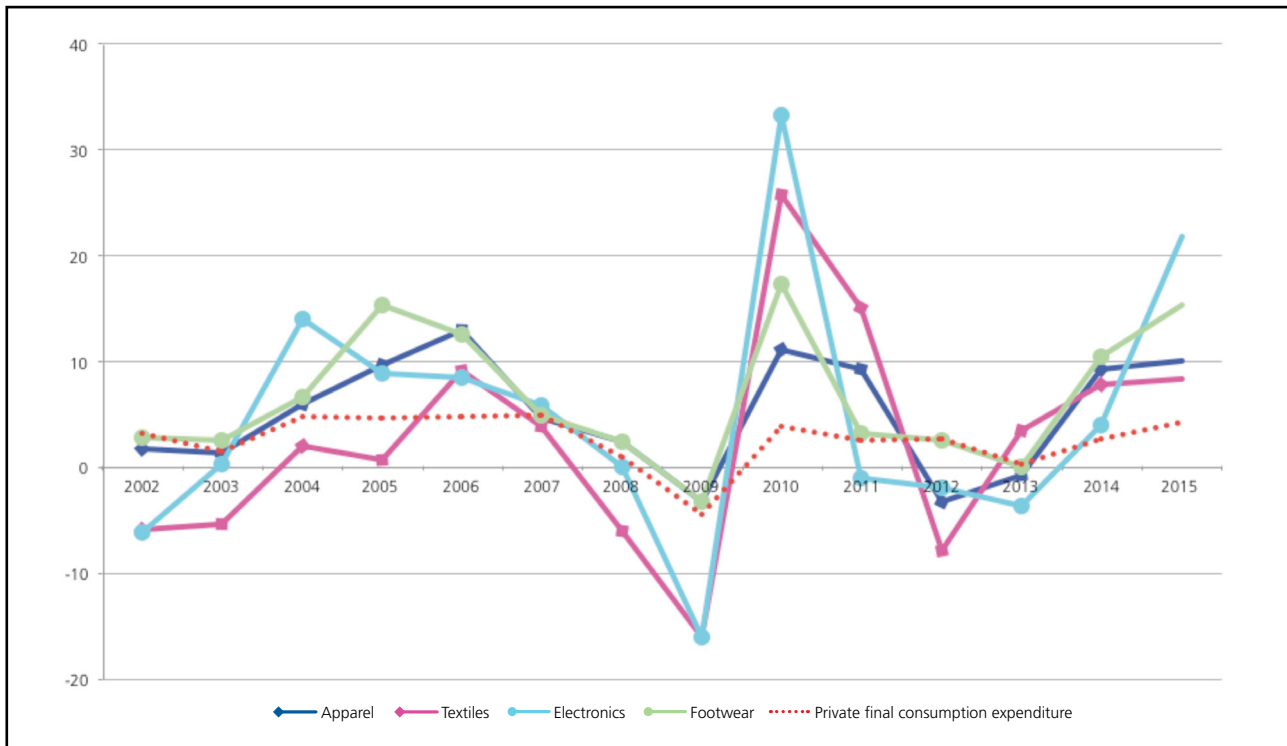
Source: European Commission AMECO database (2017) and Eurostat Comext (2017). Author's presentation.

Caveats of the approach

Trade creation and trade diversion
This study does not take the effects of trade creation and trade diversion into consideration. Since most tariffs are reduced on a stepwise basis, these effects might be substantial. Hence, the figures presented in this study might be dramatically underestimated. Using a general or partial equilibrium model would be desirable, though both approaches are not applicable for the given research question.

FTA utilization rates and rules of origin
Although FTAs and preferential agreements generally facilitate trade by eliminating tariffs, recent research (Tran 2012) has shown that FTA utilization rates[11] among participating countries are often low. This is due to different reasons: As mentioned before, preferential market access is subject to strict rules of origin. In order to satisfy the rules of origin, firms are obliged to prove compliance with these rules, which bears significant administrative costs. Moreover, often products do not fulfil the applicable requirements. Nilsson and Matsson (2009) calculated GSP utilization rates (i.e. imports under GSP in relation to GSP-eligible imports)

for the years 2003-2007. Their findings suggest that Vietnam's preferential utilization rate in the apparel sector was on average 17.2 per cent. Simply put, this means Vietnamese exporters did not make use of the tariff reductions in more than four out of five cases. Low utilization rates can be attributed to the very strict rules of origin whereby clothing products must be made from domestically produced fabrics or fabric from EU countries (Brenton and Manchin 2002).

Currently, Vietnam is highly dependent on textile input materials from third countries, above all China, which provides approximately 50 per cent of imported textile raw materials. In anticipation of EVFTA and FTAs with other parts of the world, foreign direct investment (FDI) is already directed towards Vietnam, which is supposed to boost Vietnam's own textile industry and to produce more apparel inputs domestically (Textile World Asia 2014). Although GSP utilization rates were rather low in the past, the present study assumes that Vietnamese exports meet the strict rules of origin. In the following calculations, it is assumed that all imports to the EU-28 are eligible for tariff reductions.

Results

In this study, for each sector two scenarios are estimated: A worst-case and a best-case scenario. In both cases, MFN tariff rates are taken as a basis.

Worst-case scenario

In the worst-case scenario, it is assumed that imports to the EU-28 from Vietnam grow in line with private personal consumption expenditure. If the EVFTA enters into force, the potential tariff savings are as presented in tables 2-5.

a) Apparel

In regard to apparel, in 2018, the estimated tariff savings amount to 78 million euros. Given the stepwise elimination of tariffs as laid out in Figure 1, savings increase tremendously over the transition period and amount to 404 million euros in 2025.

b) Textiles

In regard to estimated tariff savings from textiles, and given that 94 per cent of tariffs are already eliminated upon entry into force, the estimated savings are much less than in the apparel sector. In 2018, estimated savings amount to 22.8 million euros and in 2025 29.9 million euros in textiles.

Table 2: Estimates worst-case apparel (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	2 804	2 810	2 884	2 981	3 055	3 131	3 208	3 288	3 369	3 453	3 538
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	329	330	339	350	359	368	377	386	396	406	416
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	329	330	339	271	234	194	152	108	68	22	11
Estimated Tariff savings in m €/year				78	125	173	224	278	327	383	404

Table 3: Estimates worst-case textiles (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	326	327	335	347	355	364	373	382	392	401	411
Original tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	23	23	24	25	25	26	27	27	28	29	29
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	23	23	24	2	1	1	1	0.5	0.3	0	0
Estimated Tariff savings in m €/year				22.8	23.9	25	26	27	28	29	29.9

c) Footwear

Concerning footwear, in 2018 estimated savings amount to 315 million euros and are predicted to reach 569 million euros by 2025.

d) Electronics

The estimates in regard to electronics are rather moderate. In 2018, estimated tariff savings are 18 million euros and in 2025 26 million euros. This can be explained by the fact that many products are already imported from Vietnam free of duty.

Table 4: Estimates worst-case footwear (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	3 580	3 588	3 682	3 806	3 901	3 997	4 096	4 198	4 302	4 408	4 517
Original tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	459	460	472	488	500	513	526	539	552	566	580
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	459	460	472	173	142	109	75	40	30	20	10
Estimated Tariff savings in m €/year				315	358	403	450	498	521	545	569

Table 5: Estimates worst-case electronics (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	10 732	10 753	11 037	11 409	11 691	11 981	12 277	12 581	12 893	13 212	13 539
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	20	20	21	21	22	23	23	24	24	25	26
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	20	20	21	3	2	1	1	0.1	0.06	0	0
Estimated Tariff savings in m €/year				18	19	21	22	24	24	25	26

Best-case scenario

In the best-case scenario, it is assumed that imports from Vietnam to the EU-28 grow in line with private personal consumption expenditure multiplied by a factor that measures the respective elasticity of each sector (see p.5: apparel 2.23, textiles 3.27, footwear 3.03, electronics 3.23). If the EVFTA enters into force, the potential tariff savings are as presented in tables 6-9.

a) Apparel

In this best-case scenario, estimated tariff savings in the apparel sector amount to 84 million euros in 2018, and are projected to increase to 533 million by 2025.

b) Textiles

In regard to textiles, in 2018, estimated savings from tariffs are 26 million euros and 49 million euros in 2025.

Table 6: Estimates best-case apparel (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	2 804	2 817	2 983	3 207	3 384	3 571	3 768	3 976	4 195	4 427	4 672
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	329	331	350	377	398	419	443	467	493	520	549
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	329	331	350	292	259	221	179	131	85	28	15
Estimated Tariff savings in m €/year				84	138	198	264	336	407	492	533

Table 7: Estimates best-case textiles (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	326	328	357	396	428	463	501	541	585	633	685
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	23	23	25	28	31	33	36	39	42	46	49
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	23	23	25	2	2	1	1	0.7	0.4	0	0
Estimated Tariff savings in m €/year				26	28	31	35	38	42	46	49

c) Footwear

The largest possible savings are projected for footwear. In 2018, these amount to 338 million euros, and are projected to increase to 599 million by 2025.

d) Electronics

Estimated savings in the electronics sector in the best-case scenario amount to 21 million euros in 2018 and are projected to increase to 43 million by 2025.

Table 8: Estimates best-case footwear (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	3 580	3 602	3 876	4 079	4 113	4 210	4 314	4 420	4 530	4 642	4 757
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	459	462	497	523	528	540	553	567	581	596	610
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	459	462	497	185	150	115	79	42	32	21	11
Estimated Tariff savings in m €/year				338	378	424	474	525	549	574	599

Table 9: Estimates best-case electronics (MFN rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	10 732	10 800	11 724	13 003	14 045	15 171	16 388	17 702	19 121	20 655	22 311
Tariff revenue from Vietnam in m € (with no tariff reductions = MFN rate)	20	20	22	25	27	29	31	34	36	39	43
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	20	20	22	4	3	2	1	0.1	0.1	0	0
Estimated Tariff savings in m €/year				21	23	26	30	33	36	39	43

Who benefits from the tariff savings?

The previous calculations have shown that under certain assumptions (products fulfil the strict rules of origin and the FTA is fully utilized), substantial tariff savings can be achieved. The question that now arises is whether European buyers, Asian producers or consumers are the beneficiaries. Trade theory suggests that free trade leads to a loss of tax revenue for the EU and consumer prices decline. While it is certain that the EU will lose tax revenue, it is, however, uncertain whether price reductions are passed on to consumers or whether they contribute to more profit for the European companies. It is difficult if not impossible to predict the future price setting of European buyers and their willingness to pass on falling purchasing prices and savings from tariff reductions to consumers.

Until 2005, trade in the textile and apparel sectors was heavily regulated by the WTO Agreement on Textiles and Clothing (ATC), which limited global trade by imposing quotas. Between 1995 and 2005, quotas were stepwise reduced. The EU also maintained quotas on footwear. As emphasized by Francois et al. (2007: 1), »The ATC liberalization of textile and apparel quotas was a large natural experiment« to investigate the impact of trade liberalization on consumer prices. Against the background of this empirical study, in the following paragraphs, the development of general consumer prices and consumer prices of clothing and footwear will be discussed.

Figure 3: Harmonized indices of consumer prices, EU-28 and selected EU countries, 1996-2016 (1996=100). Author's own illustration.
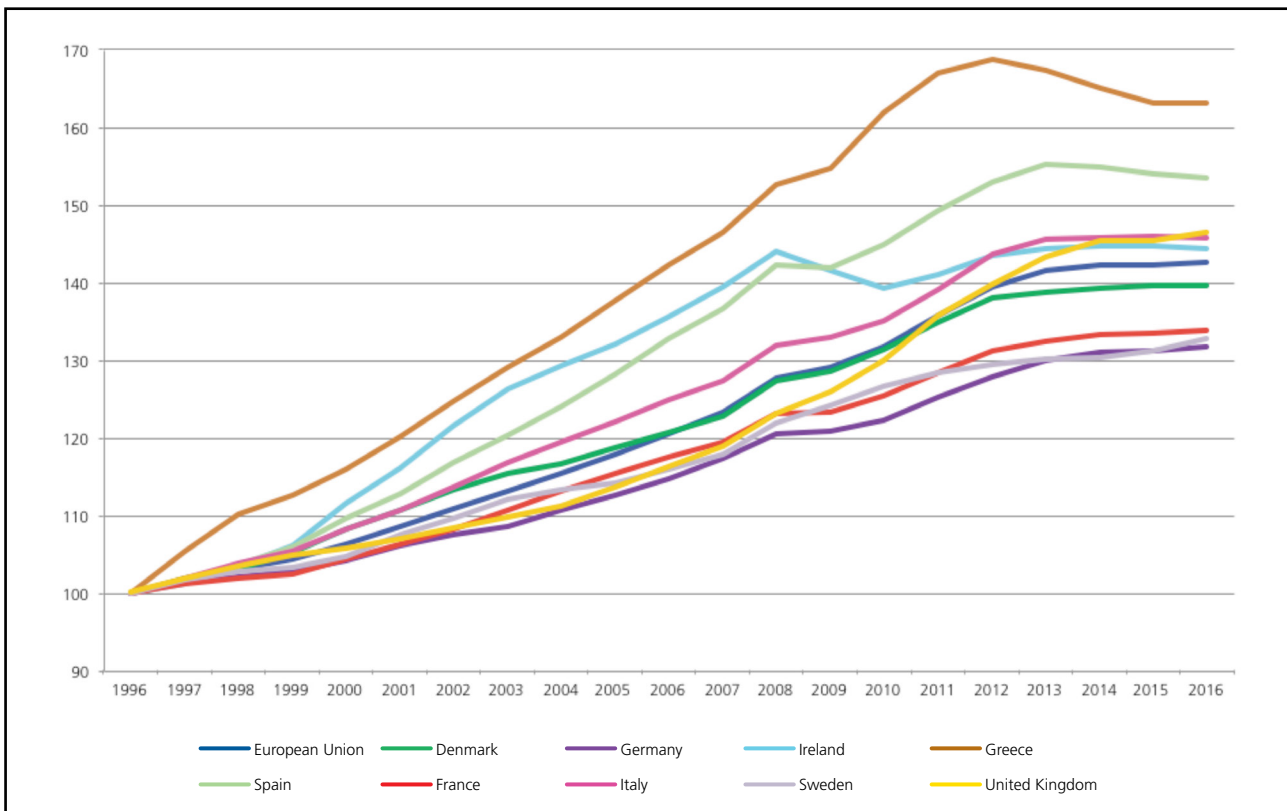
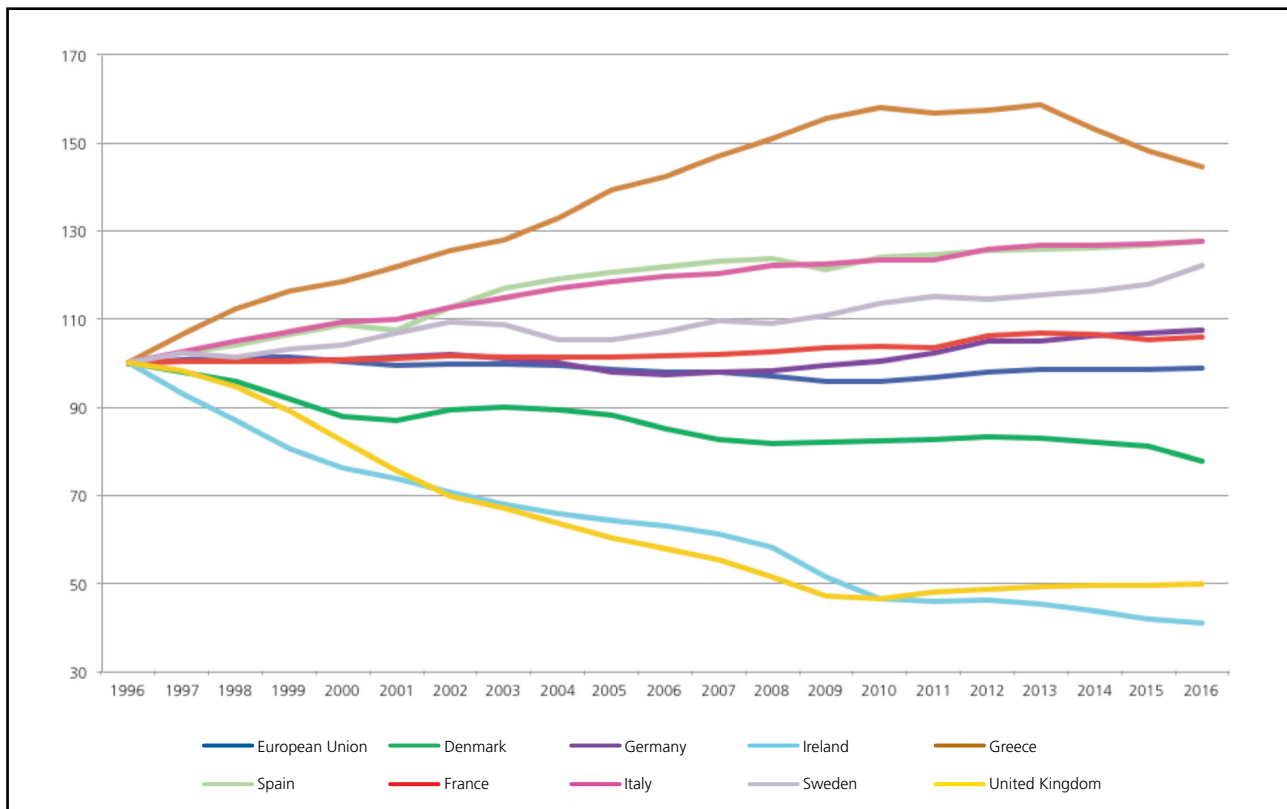*Source: Eurostat (2017). Author's presentation.*

In the last two decades, consumer prices in the EU-28 increased moderately. Figure 3 displays the harmonized indices of consumer prices for all items, for the EU-28 and for selected EU countries for the years 1996 until 2016. During the period under investigation, prices for the EU-28 increased on average by 1.8 per cent. Until 2013, most Southern European countries (like Greece, Spain, Italy and Portugal and Eastern European countries, which are not displayed here), exhibited an average rate of consumer price inflation above two per cent. In most Northern European countries (for example France, Germany and Sweden), the increase in consumer price inflation was more limited.

In contrast, the development of the harmonized indices of consumer prices of clothing, as depicted in Figure 4, shows over the same time period a relative stability for the EU-28. During the last two decades, prices fluctuated around zero, with a minor decline during and after the financial and economic crisis from 2007 until 2012. Consumer prices for clothing evolved very differently in the individual markets. In some countries, above all the United Kingdom (UK) and Ireland, but also in Denmark, prices declined tremendously from 1996. In other countries, above all Greece, but also in Italy, Spain and Sweden, prices increased. In France and Germany, prices increased only slightly.

The development of the harmonized indices of consumer prices of footwear, which is presented in Figure 5, shows a similar development. Between 1996 and 2016, for the EU-28 consumer prices for footwear increased on average by 0.6 per cent. The evolution of prices was heterogeneous across countries: In Greece, Spain and Italy, prices increased substantially, while prices in the UK and Ireland declined tremendously. In France and Germany, there was only in minor increase in prices.
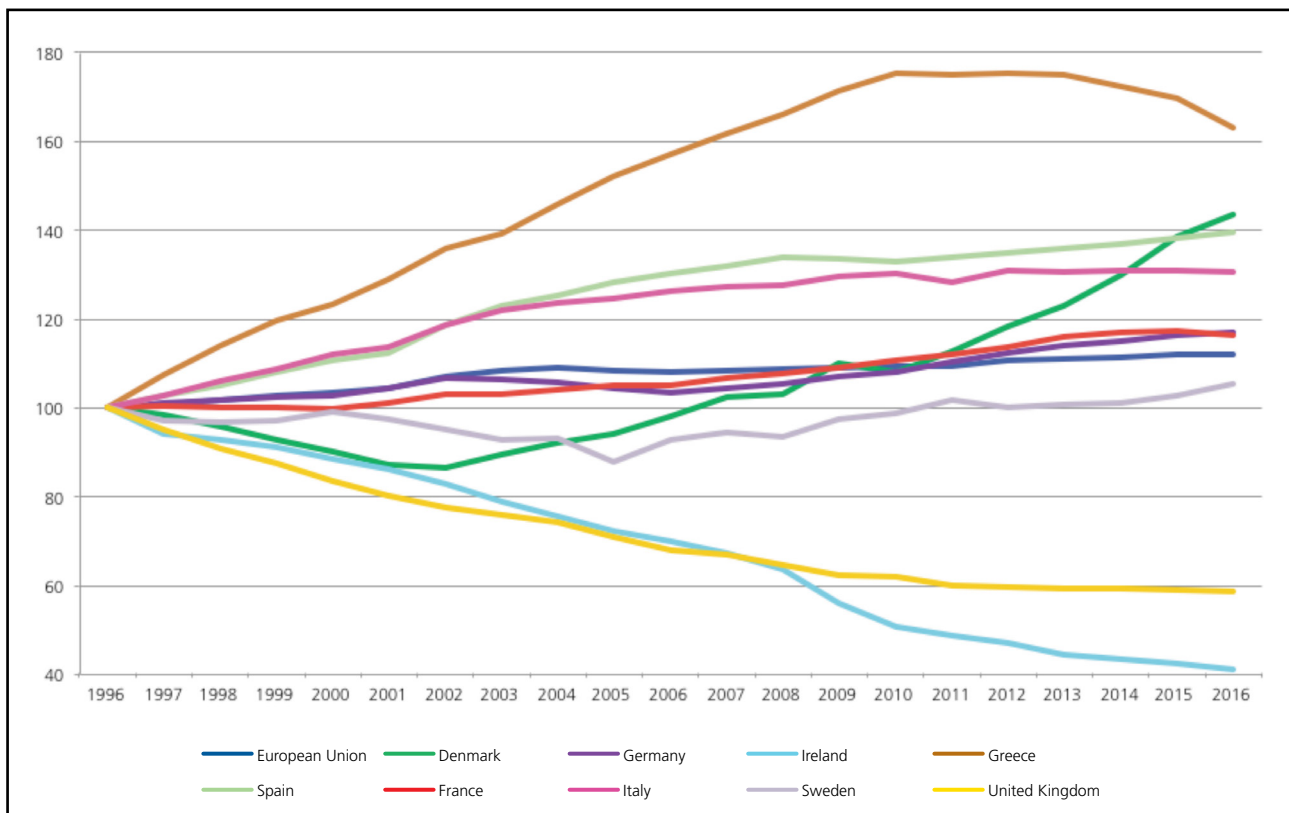
Figure 4: Harmonized indices of consumer prices of clothing, EU-28 and selected EU countries, 1996-2016 (1996=100). Author's own illustration.

Source: Eurostat (2017). Author's presentation.

Figure 5: Harmonized indices of consumer prices of footwear, EU-28 and selected EU countries, 1996-2016 (1996=100).
Author's own illustration.

Source: Eurostat (2017); Author's presentation.

What explains the different developments in consumer prices across individual countries?

In a comprehensive study on the EU-15, Francois et al. (2007) analysed the effect of the ATC liberalization of textiles and apparel quotas on consumer prices. They found that the degree to which consumers benefited from ATC liberalization depends on the specific conditions in individual countries. Above all, deviations in national price developments in the clothing sector could be attributed to the degree of retail sector openness to FDI and the degree of competition in the retail sector. Moreover, the authors point out that »limited price response at the consumer level following trade liberalization implies that margins may be high (even in a competitive setting) and that intermediaries with market power may have increased margins in less competitive settings, absorbing what was supposed to be consumer and producer gains and acting as a private source of

trade restrictions« (ibid.:27). Though it is difficult to find recent data on market concentration in the retail sector, it seems that only a few big European and American buyers now dominate the market. According to Eckhard (2016), market concentration in the sectors of textiles, apparel, footwear and consumer electronics in the EU has increased substantially during recent decades, given a rise in mergers and acquisitions and vertical integration. This rise in market concentration makes it unlikely that tariff savings will result in declining consumer prices. Whether savings are transferred to producers – let's say Vietnamese textile producers – is another discussion. Research on global value chains suggests that most of the value sticks with European buyers (OECD 2013). Furthermore, being only a few the buyers accumulate the negotiation power vis-à-vis the producers over prices. This leads to the conclusion that the savings are neither transferred to consumers nor to the producers.

Conclusion

This study presents projections on future estimated tariff savings from the FTA between the EU and Vietnam for EU-28 imports from Vietnam across four sectors: Apparel, textiles, footwear and electronics. Two hypothetical scenarios have been estimated for the years 2018 until 2025. Both scenarios are calculated based on the assumption that, until entry into force, the highest tariff rates as laid out in the agreement are applied.[12] Moreover, it is assumed that all products fulfil the strict rules of origin and the FTA is fully utilized.

The study shows that, especially in the apparel and footwear sectors, significant savings can be achieved. In the worst-case scenario, the cumulated savings (2018-2025) amount to 212 million euros for textiles, 1.992 billion euros for apparel, 179 million euros for electronics and 3.659 billion euros for footwear. In the best-case scenario, the cumulated savings amount to 295 million euros for textiles, 2.452 billion euros for apparel, 251 million euros for electronics and 3.861 billion euros for footwear.

Although price indices of clothing and shoes evolved in a fairly stable manner over recent decades while general consumer prices increased slightly, and given the degree of concentration in the textiles, apparel, footwear and consumer electronics sectors in the EU, it seems very unlikely that the potential gains from tariff suspensions might be passed on to consumers in the form of declining prices or to producing companies in exporting countries. Though the situation might differ in individual European countries, it seems likely that the majority of tariff savings will stick with European buyers.

Notes

1. If the Commission decides that the EVFTA is a mixed agreement, it has to be ratified by the EU and all member states, which will probably result in a delayed schedule, European Parliament (2016).

2. Delegation of the European Union to Vietnam (2015).

3. European Commission (2016b): Compare Article 4.

4. European Commission (2016c) and European Commission (2016d). The "list of working or processing required to be carried out on non-originating materials in order for the product to obtain originating status" consists of 58 pages.

5. Compare: Delegation of the European Union to Vietnam (2015) and European Commission (2016c) and European Commission (2016d).

6. A correlation coefficient measures the degree to which two variables' movements are associated. The range of values is between -1 and 1. A correlation coefficient of 1 for example means a perfect positive relationship between two variables.

7. The years before 2010 are not taken into account, given the volatile behaviour due to the financial and economic crisis (2007-2009).

8. The years before 2010 are not taken into account, given the volatile behaviour due to the financial and economic crisis (2007-2009).

9. Elasticity measures the responsiveness of one variable to a change in another.

10. The arc elasticities are estimated post-crisis to be more accurate.

11. The share of imports under preference schemes in total imports.

12. Tables 10-17 in the Appendix present the calculations for the same two scenarios under the assumption that all imports were charged according to the lower tariff that applies under the preferential treatment of the GSP.

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Appendix

Estimates GSP tariff rates:

Table 10: Estimates worst-case apparel (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	2 804	2 810	2 884	2 981	3 055	3 131	3 208	3 288	3 369	3 453	3 538
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	263	264	271	280	287	294	301	309	317	324	332
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	263	264	271	217	187	155	122	86	54	17	9
Estimated Tariff savings in m €/year				63	100	139	179	222	262	307	323

Table 11: Estimates worst-case textiles (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	326	327	335	347	355	364	373	382	392	401	411
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	22	22	22	23	24	24	25	26	26	27	28
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	22	22	22	2	1	1	1	0.5	0.3	0	0
Estimated Tariff savings in m €/year				21	22	23	24	25	26	27	28

Table 12: Estimates worst-case footwear (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	3 580	3 588	3 682	3 806	3 901	3 997	4 096	4 198	4 302	4 408	4 517
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	304	304	312	323	331	339	348	356	365	374	383
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	304	304	312	106	86	66	44	22	16	11	5
Estimated Tariff savings in m €/year				217	244	273	303	334	348	363	377

Table 13: Estimates worst-case electronics (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	10 732	10 753	11 037	11 409	11 691	11 981	12 277	12 581	12 893	13 212	13 539
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	1	1	1	1	1	1	1	1	1	2	2
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	1	1	1	1	0.9	0.6	0.3	0.04	0.02	0	0
Estimated Tariff savings in m €/year				0.5	0.8	1	1	1	1	2	2

Table 14: Estimates best-case apparel (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	2 804	2 817	2 983	3 207	3 384	3 571	3 768	3 976	4 195	4 427	4 672
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	263	265	280	301	318	335	354	374	394	416.	439
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	263	265	280	233	207	177	143	104	68	22	12
Estimated Tariff savings in m €/year				67	111	158	211	269	326	393	427

Table 15: Estimates best-case textiles (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	326	328	357	396	428	463	501	541	585	633	685
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	22	22	24	26	29	31	34	36	39	43	46
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	22	22	24	2	2	1	1	0.7	0.4	0	0
Estimated Tariff savings in m €/year				24	26	29	32	36	39	43	46

Table 16: Estimates best-case footwear (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	3 580	3 602	3 876	4 079	4 113	4 210	4 314	4 420	4 530	4 642	4 757
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	304	306	329	346	349	357	366	375	384	394	404
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	304	306	329	114	91	69	47	23	17	11	6
Estimated Tariff savings in m €/year				232	257	287	319	352	367	382	397

Table 17: Estimates best-case electronics (GSP rate)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU-28 Imports from Vietnam in m €	10 732	10 800	11 724	13 003	14 045	15 171	16 388	17 702	19 121	20 655	22 311
Tariff revenue from Vietnam in m € (with no tariff reductions = GSP rate)	1	1	1	1	2	2	2	2	2	3	3
New tariff revenue from Vietnam in m € (with tariff reductions according to elimination laid out in the EVFTA)	1	1	1	1	1	0.8	0.4	0.06	0.03	0	0
Estimated Tariff savings in m €/year				0.5	0.9	1	2	2	2	3	3

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