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Evaluation of the Potential Impact of CPTPP and EVFTA on Vietnam's Apparel Exports:  
Are We Over-optimistic about Vietnam's Export Potential?

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Keywords: CPTPP, EVFTA, Vietnam, free trade agreement

**Background:** Regarded as the “Next China,” Vietnam has enjoyed a fast growth of its apparel exports to the world since the 2010s (WTO, 2017). Most existing studies hold an optimistic view about Vietnam's export potential for apparel, particularly because of its membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EU-Vietnam Free Trade Agreement (EVFTA) (Hollweg, Smith and Taglioni, 2017). These two free trade agreements, likely to be implemented in 2018, will make Vietnam one of the few leading apparel exporters that can enjoy duty-free market access to the European Union (EU) and Japan, which altogether accounted for nearly 40% of the world's apparel imports in 2016 (WTO, 2017).

However, restrained by the country's relatively small population, the apparel industry is increasingly facing the challenge of competing for labor with other export-oriented sectors in Vietnam, which may also try to expand their production and export by taking advantage of the CPTPP and EVFTA (Dinh, 2014; Kikuchi, Yanagida and Vo, 2018). Given the uncertain prospect of Vietnam's apparel export after the implementation of the CPTPP and EVFTA, this study intends to conduct a quantitative evaluation. Findings of the study will significantly enhance our understanding of the textile and apparel (T&A) specific sectoral impact of the CPTPP and EVFTA as well as the pattern of Vietnam's apparel exports in the new era. Results of the study will also provide valuable inputs that can help fashion brands and retailers sourcing apparel from Vietnam prepare for the upcoming changes in the business environment.

**Literature review:** Theoretically, the implementation of the CPTPP and EVFTA could affect Vietnam's apparel exports in two ways: on the one hand, the trade creation effect of these two trade agreements may result in an expansion of Vietnam's apparel exports to other CPTPP and EVFTA members, particularly EU and Japan (Krueger, 1999; Barai, Le & Nguyen, 2017). However, on the other hand, according to the Heckscher-Ohlin model, the CPTPP and EVFTA could result in the shift of nonindustry-specific production factors, such as labor, from apparel to other sectors that offer higher wages in Vietnam (Feenstra and Hanson, 1997). Notably, labeled as a “low-end” sector, the apparel industry offers one of the least competitive wages among all manufacturing sectors in Vietnam (Lopez-Acevedo and Robertson, 2012; Dinh, 2014). Therefore, this study proposes that: *H1: Vietnam's apparel exports to other CPTPP and EVFTA members will expand because of the trade creation effect of the agreements. H2: Employment in Vietnam's apparel industry will be affected negatively by the increase of Vietnam's exports in other sectors after the implementation of the CPTPP and EVFTA. H3: The growth of Vietnam's apparel exports will be affected negatively by the increase of Vietnam's exports in other sectors after the implementation of the CPTPP and EVFTA.*

Methods and data: The computable general equilibrium (CGE) model developed by the Global Trade Analysis Project (GTAP) was adopted in this study to test the hypotheses. Compared with a single-equation econometric model, the GTAP CGE model has the advantage of capturing the input-output relationship between the T&A industry and other sectors in the setting of an open global economy and generate more robust results (Adams, 2005). Data of the analysis came from the latest GTAP9 database, which includes trade, and production data of 57 sectors in 140 countries in 2015 as the base year (Aguiar, Angel, Narayanan & McDougall, 2016). For the purpose of the study, we estimated the following two scenarios: *Scenario 1* (tariff rate reduced from its level in 2015 to zero only for textile and apparel traded between CPTPP and EVFTA members); *Scenario 2* (tariff rate reduced from its level in 2015 to zero for all products traded between CPTPP and EVFTA members).

### Results and discussion:

Table 1 Effect of CPTPP and EVFTA: Volume Change of Vietnam's Apparel Exports (Base year =2015) Unit: \$million

Importers	CPTPP	USA	EU	Rest of the world	Total
Scenario 1 (tariff reduction only for T&A)	\$874.8	\$143.1	\$1,998.2	\$82.7	\$3,098.8
Scenario 2 (tariff reduction for all products)	\$847.7	-\$0.3	\$1,887.3	\$15.5	\$2,750.2

Table 2 Effect of CPTPP and EVFTA: Percentage of Employment by Industry Sectors

Industry sectors	Apparel industry	Other industries
Base year =2015	4.0%	96.0%
Scenario 1 (tariff reduction only for T&A)	4.1%	95.9%
Scenario 2 (tariff reduction for all products)	3.5%	96.5%

First, results of the CGE model estimation support *H1* that Vietnam's annual apparel exports will be able to increase by \$3,098 million and \$2,750 million in *Scenario 1* and *Scenario 2* respectively compared with the base year level in 2015 (Table 1). Notably, most of the expanded exports will go to other CPTPP and EVFTA members

because of the trade creation effect of the two agreements. Second, the apparel industry will account for a higher percentage of total employment in Vietnam when the tariff elimination under the CPTPP and EVFTA applies only to the T&A sector (*Scenario 1*). However, when the tariff elimination applies to all sectors (*Scenario 2*), the apparel industry will account for only 3.5% of total employment in Vietnam, down from 4.0% in the base year level (Table 2). Consistent with *H2*, the results confirm the intensified competition between the apparel industry and other sectors in Vietnam for labor forces after the implementation of the CPTPP and EVFTA. Additionally, it is interesting to note that Vietnam's apparel exports will grow less in *Scenario 2* than in *Scenario 1* when other sectors also try to take advantage of the trade creation effect of the CPTPP and EVFTA (*H3* is supported).

Implications and future research agenda: First, findings of the study suggest that Vietnam's export potential for apparel could be more limited than many previous studies have projected. Second, findings of the study also challenge the view that Vietnam can become the "Next China" for apparel sourcing. Particularly, U.S. fashion brands and retailers currently sourcing from Vietnam may have to compete for orders with their counterparts in EU and Japan after the implementation of the CPTPP and EVFTA. Future studies can continue to evaluate how might inflows of foreign investment and improved labor productivity affect the growth potential of Vietnam's apparel exports.

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