Framework Convention on
Climate Change

Propagating response measures - how CBAM, taxes and supply chain regulation in Europe affects jobs and growth in Indonesia and Viet Nam - Risks and Opportunities

1. *Name of proposing Party or organization.*
   Institute for Economic Structures Research (GWS), Germany

2. *Brief description of the proposed study:*
   The European Union's climate and sustainability policies increasingly affect economic activity beyond its borders. Measures such as the Carbon Border Adjustment Mechanism (CBAM), the EU Deforestation Regulation (EUDR), environmental and sustainability requirements embedded in trade policy, and changes in preferential market access can influence production costs, export competitiveness, investment and ultimately employment and economic growth in partner countries. Understanding these spillovers is particularly important for developing and emerging economies whose export-oriented industries are closely integrated into global value chains. Indonesia and Viet Nam provide two particularly relevant case studies. Both are rapidly growing economies, major manufacturing and commodity exporters, and increasingly important participants in global value chains. The EU is Viet Nam's second-largest export market and its largest trading partner in goods within ASEAN, with bilateral goods trade reaching €76 billion in 2025. Indonesia is the EU's fourth-largest trading partner, with bilateral goods trade of €28.9 billion in 2025 and substantial EU investment in the country. At the same time, both economies remain characterised by substantial employment in carbon- and resource-intensive activities, making them particularly exposed to changes in international climate and sustainability standards. The proposed study will use a macroeconomic modelling framework (GINFORS-E) to quantify the transmission of EU policies to sectoral production, employment, wages, trade and GDP in Indonesia and Viet Nam. The analysis will distinguish between different policy channels rather than treating EU climate policy as a single external shock. First, the EU Carbon Border Adjustment Mechanism (CBAM) will be analysed. Since 2026, CBAM applies to imports of cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. The analysis will examine how the resulting changes in the effective cost of accessing the EU

market affect export volumes, domestic production, technological adjustment and employment, while also considering potential incentives for decarbonisation and investment. Second, the study will examine EU sustainability and environmental regulations, notably the EUDR and sustainability provisions incorporated into EU trade policy. The EUDR is particularly relevant for Indonesia because of its importance in palm oil and other commodities covered by the regulation; implementation is scheduled to begin at the end of 2026. Such measures may impose compliance costs but may also generate opportunities for producers able to meet higher environmental standards. Third, the model will assess changes in trade policy and market access, including tariff reductions and preferential trade agreements. The EU-Viet Nam Free Trade Agreement has already eliminated or scheduled the elimination of almost all tariffs, while the EU-Indonesia CEPA concluded negotiations in 2025 and contains provisions promoting sustainable development alongside improved market access. The central objective is therefore to quantify how EU policies designed primarily to achieve environmental objectives translate into economic and employment outcomes in partner countries, identifying both potential adjustment costs and opportunities for green transformation. The comparison of Indonesia and Viet Nam will allow the analysis to identify which effects are country-specific and which represent broader patterns in the interaction between EU climate policy, international trade and sustainable development.

3. *United Nations region to be covered by the case study:*

   Asia-Pacific;

4. *Country or countries to be covered by the case study*

   Indonesia and Viet Nam; Both countries are among the most dynamic economies in Southeast Asia, have undergone rapid industrialisation and urbanisation, and face strongly increasing energy demand. At the same time, both are highly exposed to climate impacts and have committed to substantial greenhouse-gas emission reductions. Their development trajectories therefore illustrate a central challenge of the Paris Agreement: how can ambitious climate action be reconciled with continued economic development, employment creation and improvements in living standards?

5. *Area of the case study:*

Impacts of global macroeconomic structures on diversification ;

6. *Expected duration for completion of the case study (in months):*
   18

7. *Contribution of the submitting organization*
   Technical inputs;Data;Authorship;Outreach and distribution of results;

8. *Can the study be developed without financial support from the UNFCCC?*
   No

9. *If no, please provide the estimated range of required financial support in USD (Please note that the UNFCCC is not a donor organization and has limited funding):*
   185000

10. *Please provide the status of any preliminary work undertaken that could serve as a basis for the study, including a link to any available reports, if available.*
    Typical single country model: 2022: https://downloads.gws-os.com/giz2022-en-supporting-climate-resilient-economic-development-in-georgia.pdf For the approach: https://web.jrc.ec.europa.eu/policy-model-inventory/explore/models/model-ginfors-e/ for value chains: https://www.vestforsk.no/en/2020/quantitative-assessments-transboundary-climate-risks-under-altered-socio-economic-scenario

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