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**VIETNAM PARTICIPATION IN GLOBAL VALUE CHAIN WITH  
SPECIALIZING IN THE TEXTILE AND GARMENT INDUSTRY**

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## 1. INTRODUCTION

In the context of increasing globalization, each national economy becomes an integral element of the global economy and tends to be dominated by conglomerates with a network of subsidiaries and dense branches in numerous nations. From this point of view, multinational companies will be important and powerful links in the development of the value chain. Evaluation of business operations business from the perspective of the value chain is an excellent way for evaluating a country's competitiveness, role, and impact in the global value chain. Since 1990, Vietnam's textile and apparel sector has flourished and plays an increasingly crucial part in the country's economic progress. Vietnam's textile and garment industry is the industry with the highest export turnover and growth rate of all existing export industries. In 2021, the textile and apparel industry's export turnover will reach 40.3 billion USD, up 15.2% from 2020. (Export-Import Report Vietnam 2021, 2022). Vietnam's principal textile and garment export markets are the United States, the European Union, China and South Korea (Appendix I). Vietnam's textile and apparel exports represent 5.2 percent of the worldwide market. Vietnam ranks fourth among the top 10 garment exporting nations in 2021 (after China, the European Union, and Bangladesh) and seventh among textile exporting nations (after China, the European Union, India, Turkey, Pakistan, and the United States). (Ha, 2022). According to the Ministry of Industry and Trade (2016), currently, 65% of garment exports are processed using the CMT technique, 25% are processed using the FOB method, and just 9% are processed using the ODM method. Consequently, the added value of exported textiles remains low. Today, Vietnam's textile and apparel industry's competitive edge is being eroded by rising input prices. The growing cost of fuel and electricity has an immediate impact on the productivity of businesses and the lifestyles of their employees. The significant rise in the cost of cotton, textiles, and other textile resources has hampered Vietnam's garment manufacturers. In addition, the demands of global buyers in terms of product quality, production cost, and delivery time are growing daily. The purchasing habits of the world's largest importers are shifting, with customers in the United States, Japan, and Europe preferring companies that can generate end-to-end from spinning to weaving to cutting and sewing. On the basis of the global textile value chain theory, this paper aim (1) Vietnam's textile and apparel industry's current position in the global textile value chain, (2) The textile industry in Vietnam's strengths and weakness (3) suggestion to increase the valued added of Vietnam in textile and garment chain.

## **2. LITERATURE REVIEW**

### *2.1. Foreign Direct Investment*

Global study has demonstrated that FDI plays a crucial deterministic role in the economy of emerging nations. (Caves, 1971 ) provided two explanations for the direction of FDI investment: vertical and horizontal motives. Horizontal FDI is an investment kind targeted at locating new markets. The primary objective of this form of investment is for foreign enterprises to take use of some of the host country's advantages in order to distribute products, sell products, and extend the business cycle. In contrast, vertical FDI is an investment strategy targeted at locating resources. The primary objective of this sort of investment is to utilize raw materials, take use of the host country's technology, resources, and inexpensive labor, and optimize costs and the production process.

### *2.2. Global Value Chain*

According to (Kaplinsky, 2000) research article on the value chain, the value chain comprises the essential activities of a product or service's production cycle, beginning with the research phase and continuing through the remaining phases. The production process, delivery to the end consumer, and waste management following usage are all included. Thus, a value chain can be regarded as a collection of values created at various phases of the process of manufacturing a product or service, including research and development, design, input supply, production, marketing, and distribution to the final consumer. If a product or service's value chain spans multiple countries on a worldwide scale, it is referred to as a global value chain.

## **3. RESEARCH METHODOLOGY**

This study chosen is qualitative research. The paper based on the theory of global value chain and analyzing data identify the strengths and weakness of Vietnam participation in textile and garment chain. The majority of the information in this study is derived from secondary data collecting. They were gathered from a variety of sources, including prior studies, newspapers, journals, publications, and the World Wide Web.

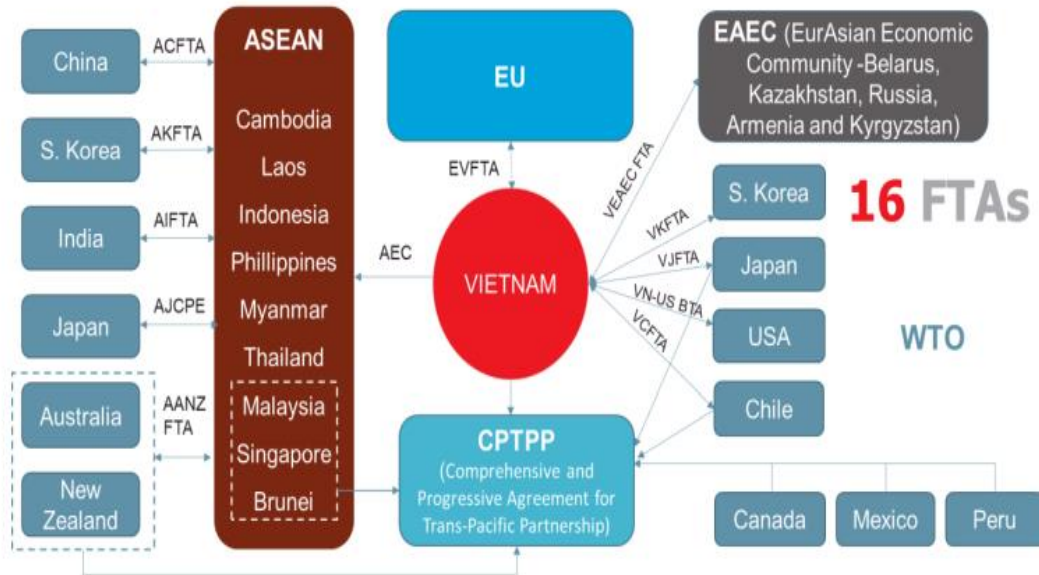
#### **4. VIETNAM PARTICIPATION IN GLOBAL VALUE CHAIN**

Viet Nam's economy has been thriving since the country was reunited in 1975. Since then, the economy has gone through two distinct phases: (1) the centrally planned economy from 1975 to 1985, and (2) the economic reform towards a market-based economy beginning in 1986. Even though thousands of tons of food were imported annually, famine was still a persistent problem because of the agricultural sector's low level of development and productivity. The economy's poor performance between 1975 and 1985 made economic reform an absolute necessity.

Initiating economic reform in December 1986 was a watershed moment in the process of reshaping Viet Nam's economy into a more open, market-oriented, and internationally connected model. Among the goals of the reform were the following: the abolition of the state subsidy mechanism; the diversification of public property ownership; the encouragement and stimulation of organizational, individual, and private sector development; the enactment of policies to promote regional and global economic integration; the promotion of foreign trade and the attraction of foreign direct investment (FDI); integrating administrative reform with economic policy reform, enhancing state management, and promoting international commerce. Vietnam has been able to attract a growing amount of FDI thanks to its membership in ASEAN (1995), admission to the WTO (2007), a number of bilateral investment treaties and preferential trade agreements with, among others, ASEAN, China, the European Union, Japan, South Korea, the United States, and others. By increasing its integration with ASEAN and, more recently, by signing a free trade agreement with the European Union (EVFTA). Vietnam has broadened its range of economic partners. As of date, Vietnam has signed a total of 13 free trade agreements (FTAs) and is in the process of negotiating the terms of 3 other FTAs.

Since its inception in 1986, Doi Moi's economic reforms have had positive effects and significantly aided Viet Nam's economic success in terms of foreign direct investment and gross domestic product (GDP). The stock of foreign direct investment (FDI) in Viet Nam has increased from less than \$41 million to more than \$175 billion over the course of more than three decades. (WORLD INVESTMENT REPORT 2021)

Figure 1: Vietnam's Free Trade Agreement

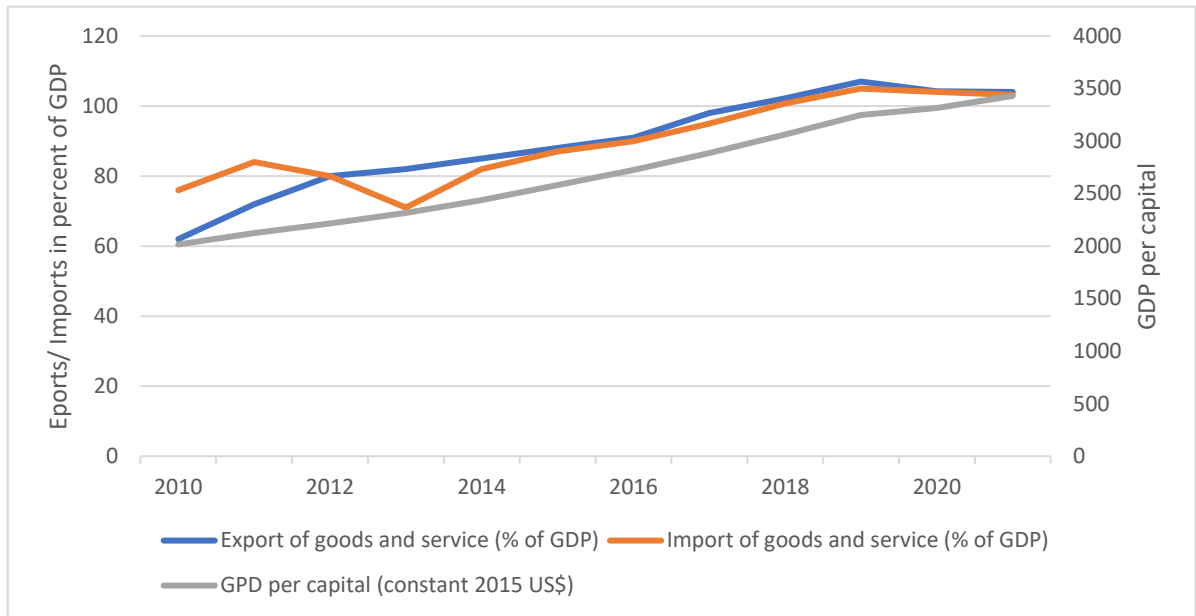


Source: Economica Vietnam

Vietnam's exports, imports, and real per capita GDP ratios over the past nearly three decades are depicted in Figure 2. The Vietnamese government's export-led growth strategy has helped to nearly two times real per capita GDP from \$2016 in 2010 to \$3694 in 2021. This accomplishment is largely owed to trade liberalization supported by multiple free trade agreements (FTAs).

The GVC participation index analyzes a country's participation in global value chains from both an upstream (determined by FVA) and a downstream (determined by DVX) perspective. When a country's FVA proportion of its total exports is larger, and when the value of domestically manufactured intermediates to exports in third countries is also higher, that country is more integrated in global value chains. Since 1990, Viet Nam's involvement in the GVC has ranged from 41% to 62%, primarily as a result of shifts in the more backward parts of the value chain.

Figure 2: Exports/ Imports to GDP ratios & GDP per capital



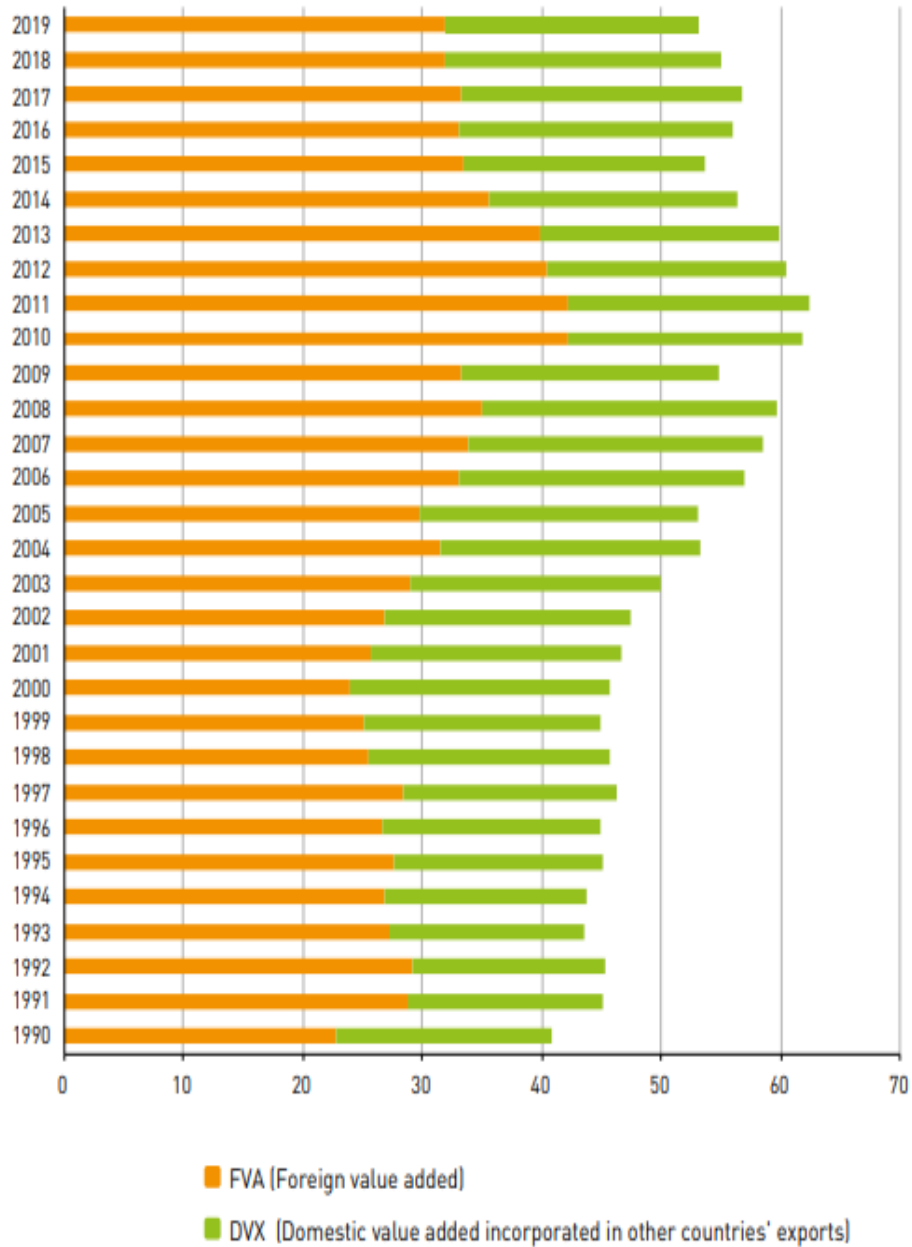
Source: Own combination (Trading Economic, World Bank)

After peaking at 62% in 2011, the GVC participation rate has decreased, primarily due to a smaller FVA share as a result of increased value added creation in Viet Nam by both domestic enterprises and foreign-affiliated firms, with the latter more significant in generating high value added products. An investigation on the participation of various industries in global value chains reveals that the secondary sector has the highest level of global integration, followed by the primary sector and the tertiary sector. To be more specific, the mining, quarrying, and petroleum industries, together with textiles, apparel, and leather, are the top two contributors to the GVC participation index for Viet Nam. Both of these industries are equally essential.

Manufacturing is the industry with the highest level of global value chain involvement in Viet Nam (figure 3). The share of FVA in exports of the manufacturing sector was 47% in 2017, which was roughly double that of the service sector (24%), approximately triple that of the primary sector (18%), and 1.5 times higher than the average share of FVA in exports (33 per cent). Specifically, all of the industries that were reported as being part of the manufacturing sector had higher levels of foreign content than the industry average.



Figure 3: GVC participation in Vietnam, 1990-2019



Source: AJC-UNCTAD-Eora database on ASEAN GVCs

The percentage of foreign content that was found in metal and metal products was the highest, coming in at 62%, while the percentage found in precision instruments was the lowest, coming in at 34%. However, the industries of food, drinks, and tobacco, as well as textiles, apparel, and leather, are the primary contributors to value added exports in the manufacturing sector. These two industries accounted for 31% and 27% of the sector's gross exports, respectively.

The proportion of imported materials that are used in the production of primary goods is the smallest of the three categories. The agricultural, hunting, forestry, and fishing industries have highly established value chains (with a percentage of FVA in exports that is equivalent to 27% of total exports). In contrast, the 11% share of foreign content in mining, quarrying, and petroleum – the primary industry for exportation, accounting for more than half of the sector's gross exports – keeps the average share of the primary sector at 18%. These three industries together account for over half of the sector's total exports.

In the services sector, where the foreign share of value-added exports is equal to 24% of the sector's total gross exports, there are four industries that have larger proportions of foreign content than the average for the sector. They are (1) construction, which accounts for 49%, (2) transportation, storage, and communication, which accounts for 34%, (3) medical and social services, which accounts for 32%, and (4) travel agencies and tour operator services, which accounts for 27%. Transport, storage, and communication is one of these businesses that has a considerable impact on the sector's average foreign share as a result of its contribution of roughly one-fifth of the entire value-added exports of the services sector.

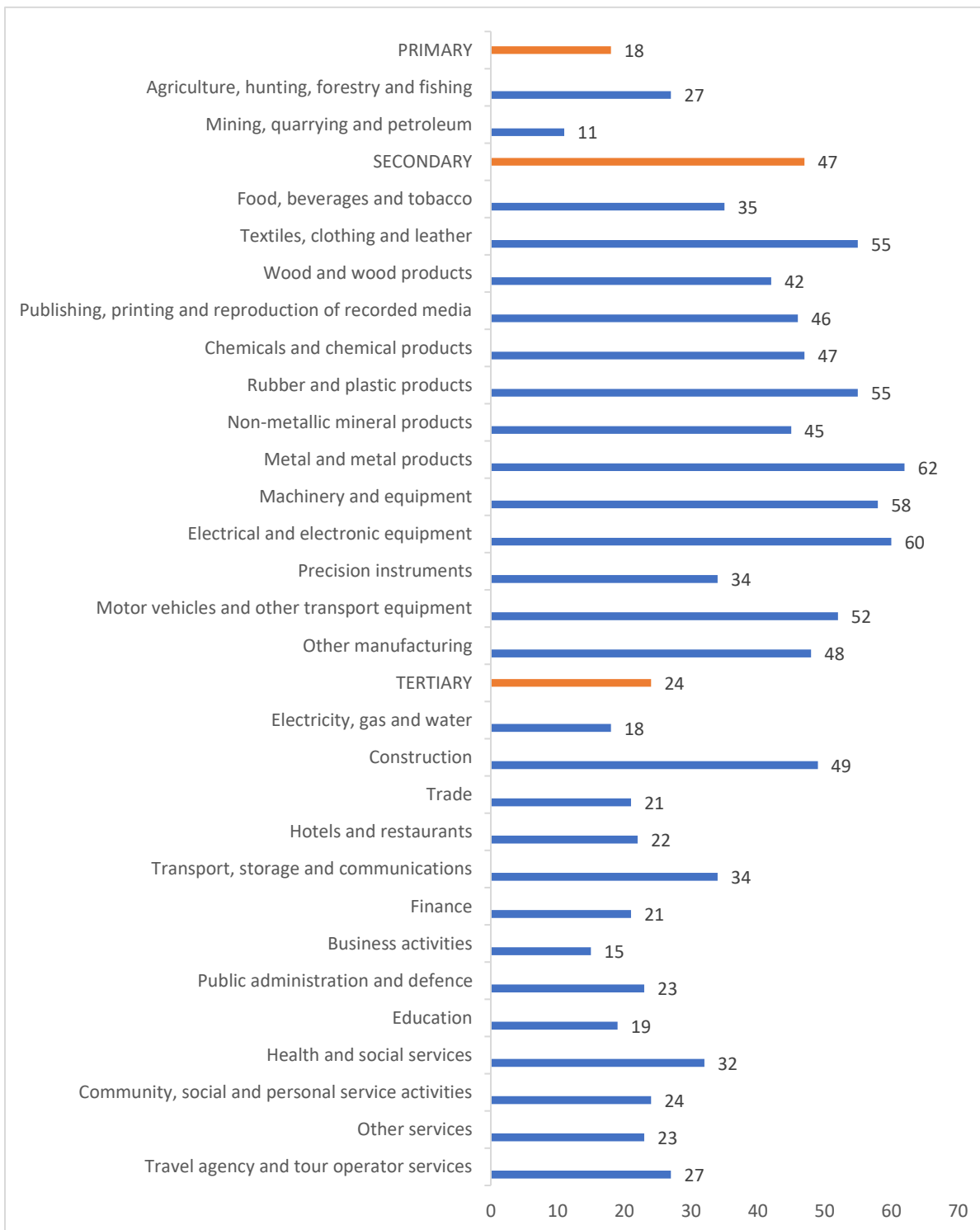
On the basis of their proportion of FVA, the majority of the principal exporting industries (such as those dealing in electrical and electronic equipment, rubber and plastic, wood and wooden products, and textiles, clothes, and leather) are highly involved in global value chains.

## **5. VIETNAM POSITION IN TEXTILE AND GARMENT GLOBAL VALUE CHAIN**

### *5.1. Textile and Garment Global Value Chain in general*

Gereffi (2001) derived the theory of the supply chain from the theory of the value chain, stating that there are two components involved in creating value or determining the supply chain structure of an industry. Firstly, the supply chain is created by the supply factors. These are commodity chains in which are the major manufacturers, often vertically integrated transnational manufacturers, that play a central role in coordinating international production networks. Capital and technology-intensive businesses, such as the production of automobiles, airplanes, and electronics, are examples of supply chains that are driven by the supply side. Secondly, the demand side, often known as the buyer, is the one who decides the supply chain.

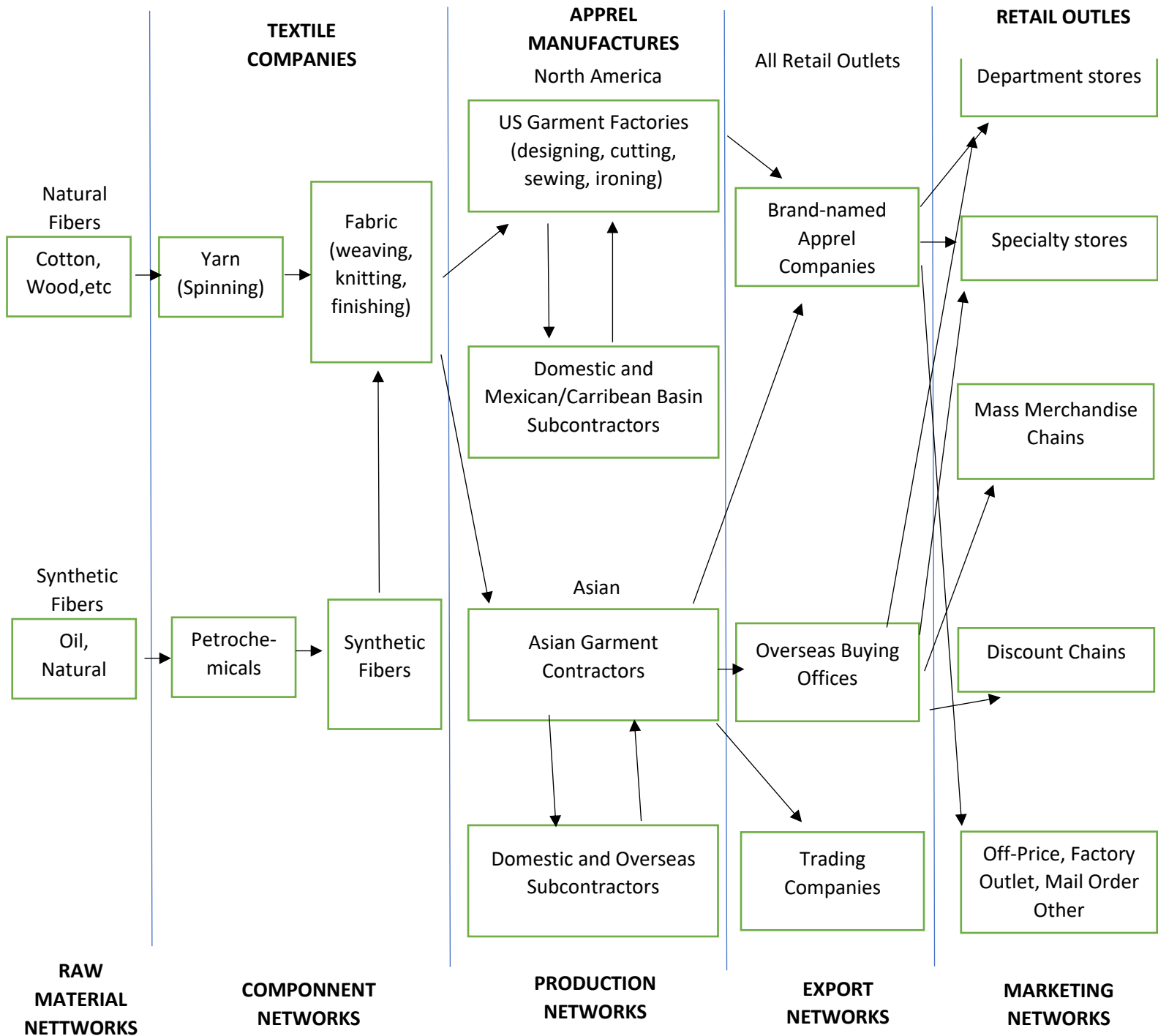
Figure 4: Share of foreign value added in exports from Viet Nam, by industry, 2017 (Per percent)



Source: AJC-UNCTAD-Eora database on ASEAN GVCs

This is typical of industries producing consumer goods, for instance apparel, footwear, and handicrafts. In many exporting nations, retailers, wholesalers, and manufacturers play a crucial role in the establishment of decentralized production networks. The consolidation of networks to facilitate the promotion of the development of export processing zones and the implementation of global outsourcing of manufacturer retail is the primary characteristic of the buyer-determined value chain. The textile industry is a great example of a value chain determined by the buyer. The production of the finished good must go through a number of stages, each of which is determined by a unique combination of factors including geographic location, labour skills, working conditions, the level of technological advancement and the nature of the enterprise. Wholesalers and retailers, as well as manufacturers with well-known brands, play an essential role in the establishment of production networks and influencing mass consumption through high brand recognition. (Gereffi, 2002). According to the findings of the research that Gereffi conducted on the global textile value chain, the textile and garment value chain may be broken down into five primary categories as figure 5.

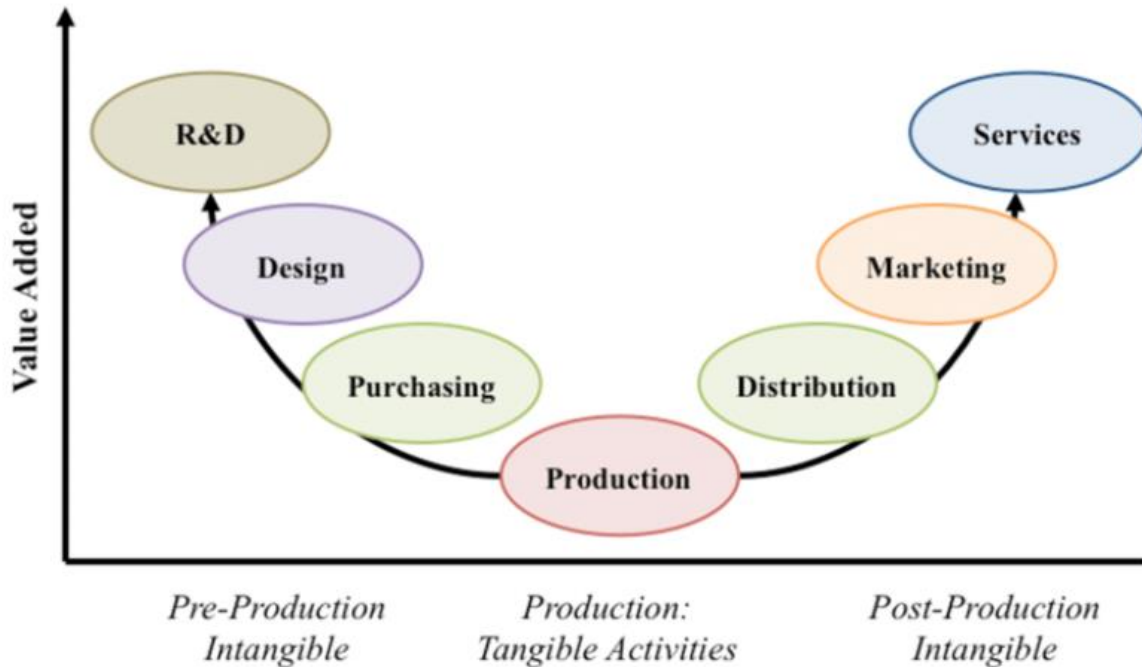
Figure 5: The Apparel Commodity Chain



Source: Gary Greffi, The International Competitiveness of Asian Economies in the Apparel Commodity Chain

Using smile curve theory, the researchers have constructed the present global textile value chain, which consists of seven primary linkages according to figure 6

Figure 6: Textile Global Value Chain Curve



Source: Fernandez-Stark, Karina & Frederick, Stacey & Gereffi, Gary. (2011). Workforce Development in the Apparel Global Value Chain

Firstly, **Research & Development and Design**: This is a crucial link in the price chain value of exported clothing as the style define the product's value. After outsourcing production activities to other nations, the top countries in the textile sector concentrate on research and creation of new products in order to build well-known brands with the highest profit margins. On the global textile market, competition between brands is fierce; brands fight with gorgeous, innovative designs. To effectively infiltrate and "stand" at this stage, organizations must have designers who understand the fashion trends, marketplaces, and preferences of global consumers.

Secondly, **Purchasing (Production of raw material)**: An essential link that will help support the expansion of the garment industry, and it is a stage that requires a significant amount of land and capital. The value of the raw materials used in the production of clothing is a important

factor in determining the quality of finished products. In the textile industry, raw materials are often separated into two categories: major materials and accessories. Fabrics, which are the main materials, are the primary components that go into the production of a garment. Trims are materials directly attached with the fabric to make a garment such as sewing threads, buttons, zipper, etc. which contribute to shape forming. In addition, materials other than fabric and trims that are utilized to make a garment appealing for selling and packaging are known as accessories, for instance hand tag, price tag, poly bag.

Thirdly, **Production (Sewing)**: Sewing requires the most labor yet yields the lowest profit margin. It is typically the first step that new entrants to an industry choose to enter, as it does not require a significant investment in technology. This is a prevalent characteristic of the production stage in the global textile industry. Nations participating in this stage frequently outsource for countries that have previously joined. Countries with a sophisticated textile industry that have participated in the global value chain for a long time frequently outsource these phases to other nations, which are new entrants having low-cost labor, and undeveloped raw materials production characteristics such as Bangladesh, Pakistan, and Vietnam. Depending on whether the export method is CMT, FOB, or ODM, the share of value earned in the garment market by businesses engaged in outsourcing will also change rapidly.

Fourthly, **Distribution**: Export network is knowledge-intensive including branded companies, purchasing offices, and international trade companies. One of the most noteworthy characteristics of the buyer-determined textile value chain is the introduction of retailers with well-known brands that do not engage in production. They are described to as "manufacturers without factories" because the majority of their production takes place in other countries, such as in the case of Supreme, Nike, and Reebok. These companies combine the supply chain between clothes producers, sub-suppliers, and global retailers as intermediaries.

Fifthly, **Marketing and Service**: This is the link with the highest profitability, controlled by multinational corporations, who frequently establish entry barriers, making it difficult for new countries to enter the value chain at this point. Companies in this stage only distribute activities to the final consumers without directly manufacturing products. However, they play a significant

role in directing and influencing the global textile value chain because they understand consumers' needs, create fashion trends and maintain distribution channels.

### *5.2. Vietnam position in global textile value chain*

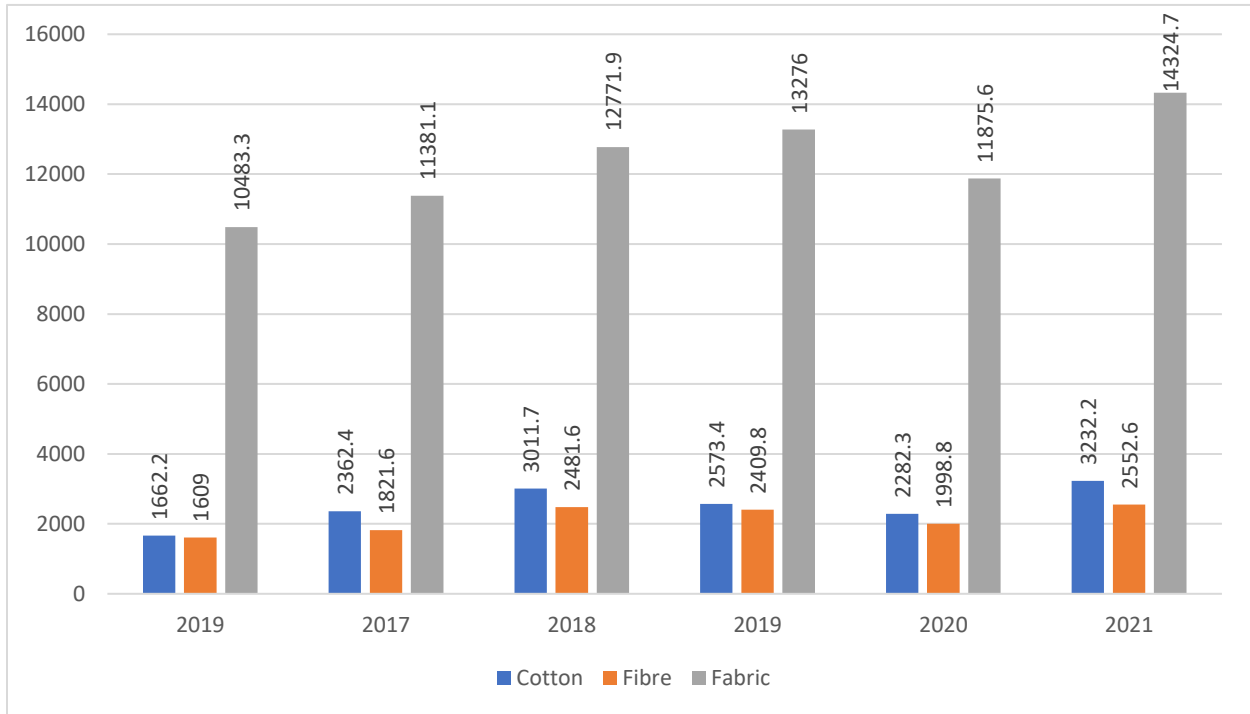
One of the sustainable directions for manufacturing sectors at present is to approach and participate in high-value-added stages of the global value chain. Vietnam's textile sector, which accounts 5.2% of the world market (Ha, 2022), has contributed to employment creation and strong export turnover. Vietnam's current position in the global textile value chain is production (sewing), which generates the least amount of added value. According to smiling curve in figure 6, Design is increasing the most value added in a value chain but this is the weakest part of Vietnam enterprises. Most of the design are completed in countries with developed fashion industries, such as the United Kingdom, France, the United States, etc. Following this, the designs were transmitted to Vietnam, where they are processed exclusively based on customer specifically ordered. To situate the Vietnamese textile and garment industry within the global textile value chain, the features and development process of Vietnam's textile and garment industry in each individual segment, from cotton cultivation to final product distribution, are examined.

#### **Cotton, fiber, and yarn supply**

Vietnam has had to import most of the cotton and fiber for many years in order to meet its yarn textile's requirement for raw materials (Figure 7). Except for 2019 and 2020, it decreased because of COVID-19 then expanding drastically again when the economy recovers. In the first seven months of 2022, Vietnam imported cotton worth 2.14 billion US dollars, an increase of 15.1%, and textile fiber worth 1.64 billion US dollars, an increase of 5.8% compared to the same time in 2021. (Newsletter-Statistics VCOSA August/2022, 2022) The data indicates that, from 2016 to 2021, the value of cotton and fiber imported for textile and garment industry have increased steadily (Figure 8). In the first six months of 2022, the average price of cotton materials imported into Vietnam was \$2,690 per ton, a 49.4% increase from the same period in 2021. The average price of fiber imported into Vietnam reached 1,391 USD per ton, a 9.4% increase over the same period in 2021.

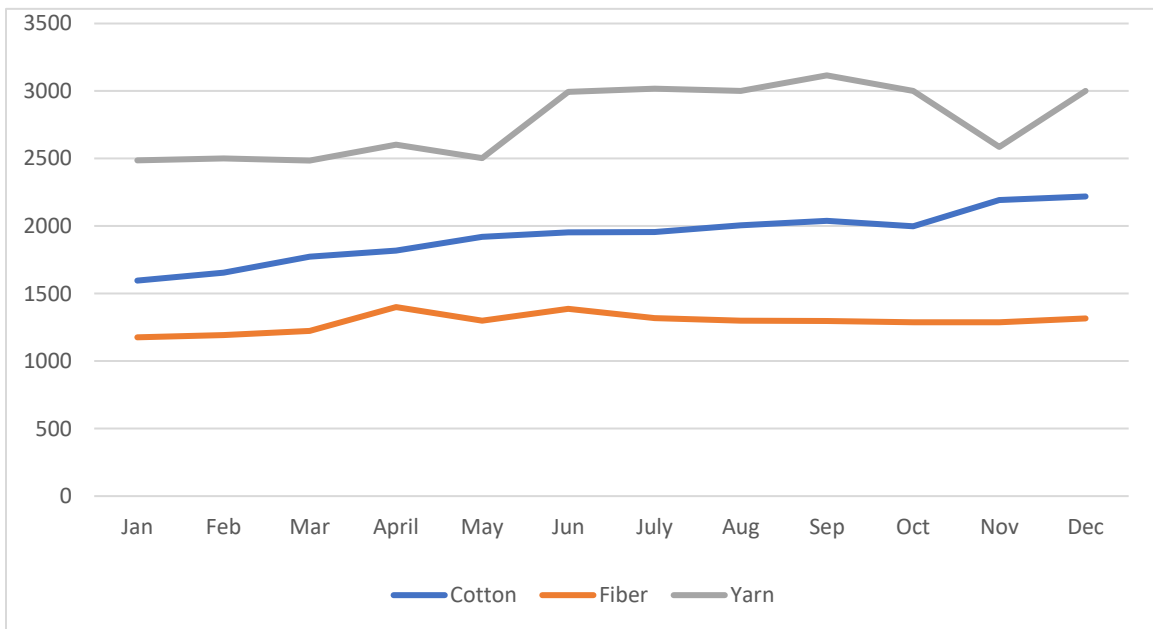


Figure 7: Imported cotton, fibre, fabric from 2019 to 2021 in Vietnam (Million USD)



Source: Vietnam Cotton and Spinning Association (2022)

Figure 8: Prices of imported raw materials in 2021 (USD/Ton)



Source: Own combination from Vietnam Industry and Trade Information Centre

The primary reason for the underdevelopment of the cotton and fiber industry is lacks a natural advantage and investment in cotton cultivation and fiber production. In Vietnam, the lack of a significant cotton area can be attributed to the fact that cotton is cultivated mostly in the second crop during the rainy season, making it difficult to be suitable for all locations. In addition, the low-level skill of farmer, inadequate irrigation systems and manual harvesting make the price uncompetitive with North American and African nations.

In 2016, the export value of the yarn sector only reached 2.9 billion US dollars (Export-Import Report Vietnam 2016, 2017); in 2021, it reached 5.6 billion US dollars (Export-Import Report Vietnam 2021, 2022), expanding approximately two time in comparison. The yarn sector has actively pushed its competitive advantage in terms of low input costs in comparison to nations where the expenses of labor, power, water, and land rent may be higher. Even though the yarn industry has grown, it is still strange that most of the yarn made in the country is exported while domestic textile companies purchase yarn from overseas. According to the Vietnam Cotton & Spinning Association, the reason for this predicament is that the local supply and demand for yarn in terms of quantity and quality are not yet compatible with each other. As a result, the majority of yarn production is dedicated toward the export market. High-class textile businesses have a high need for a wide variety of yarn materials with specialized input resources, but Vietnam yarn products lack the diversity and high quality needed to meet this demand. Due to limited financial resources, the yarn industry's technology investment cannot keep up with the changing needs of the yarn industry in the future market, nor preserve the capacity and competitive position of Vietnamese yarn in comparison to other nations. In addition, enterprises in the country cannot be proactive in the operations of ordering fabric resources because the features of garment sector are mostly production.

Finally, the current competitiveness of Vietnam's yarn sector is primarily due to cheap labor costs and electricity expenses. These are essentially temporary and unsustainable comparative advantages. In the meantime, cotton and fiber, which account for over 60 percent of the cost and are entirely dependent on foreign sources, are the most essential input item.

## **Weaving and dying**

The fabric is a significant component in deciding the ultimate price and quality of a garment's product, so it is evident that the textile sector plays a crucial part in the apparel business.

Currently, Vietnamese garment exporters are dissatisfied with the quality of local fabrics since they do not meet their production standards. In addition to quality, the textile industry's output does not meet the garment industry's requirements. Vietnam imported fabrics worth USD 14.32 billion in 2021, which is up 54.67% from 2020 (Figure 7). In 2021, the value of textile and garment exports was almost \$32 billion, while the value of fabric exports only accounted for \$788 million of that total (Export-Import Report Vietnam 2021, 2022). This indicates that the textile industry provided a value that is less than 3% of the total export value.

Contradictions in the state's policy on investment in the textile and dyeing industry, small scale textile businesses, a lack of good management personnel, outdated technology, and the absence of a textile industry cluster to support development are some of the main factors that contribute to the textile industry's inability to keep up with the garment industry.

First, there is a conflict between the government with an aim of reducing environmental pollution and its current policy of supporting investment in the textile and dyeing industries. Investing in textiles and dying needs substantial amounts of capital, technology, human resources, and adherence to strict environmental regulations with slow capital recovery. Dyeing factories often encounter environmental issues due to the use of numerous chemicals required by a standard wastewater treatment system. Companies looking to invest in the textile and dyeing industry face this difficulty, which is impacted by the current high interest rates.

Second, the scale of the textile business is tiny, therefore the investment capital is modest, and the textile industry's technology is extremely antiquated as a result of the small investments. There are more than 3,100 textile and garment export businesses, of which 1.2% have an export turnover of more than 100 million USD, 3.25 % have more than 50 million USD, and 30% have more than 1 million USD. (Vietnam Industry Research And Consultancy, 2014). It can be noted that the majority of textile and apparel businesses in Vietnam are small enterprises. Rapid

advances in textile technology around the world have increased the competitive pressure on the manufacturing sector to provide high-quality materials that are not only functional, but also safe for consumers and the environment. In addition, Vietnam lacks highly qualified management and technical human resources for the textile sector; this is a crucial aspect for this industry to improve productivity and product quality through innovation.

Third, there is not enough of a local supply chain to support the growing of the cotton farming, weaving, fabric weaving, dyeing, design, and garment production segments of the textile and apparel industry in Vietnam. So far, there has been no cooperation established between businesses in different phases, such as between businesses with advanced yarn technology and those with advanced dyeing and weaving capabilities.

### **Garment production**

Since the late 1980s and early 1990s, and especially since the Bilateral Trade Agreement with the United States went into effect in 2001, Vietnam's garment export has grown tremendously. Export statistics for textiles and garments from 2016 – 2021 (Table 1) reveals that the garment industry has grown significantly in Vietnam across the board.

Table 1: Export market of textile and garment from 2016 to 2021 (Billion USD)

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Total</b>	28.1	31.8	36.2	38.8	29.81	40.3
USA	11.7	12.5	13.7	14.85	13.98	16.6
China	2.8	3.45	1.54	1.59	1.37	4.54
South Korea	2.7	3.1	3.3	3.35	2.86	3.69
EU	3.8	3.9	4.09	4.26	3.07	3.51

Source: Own combination from Vietnam Industry and Trade Information Centre

With a large export market, it is evident that Vietnam is becoming a global competitor in the garment industry. Exporters of Vietnamese clothing are still relying on simple, low-tech methods of processing that leave them unable to offer packaging. Table 2 details the existing garment and export procedures used by Vietnam.

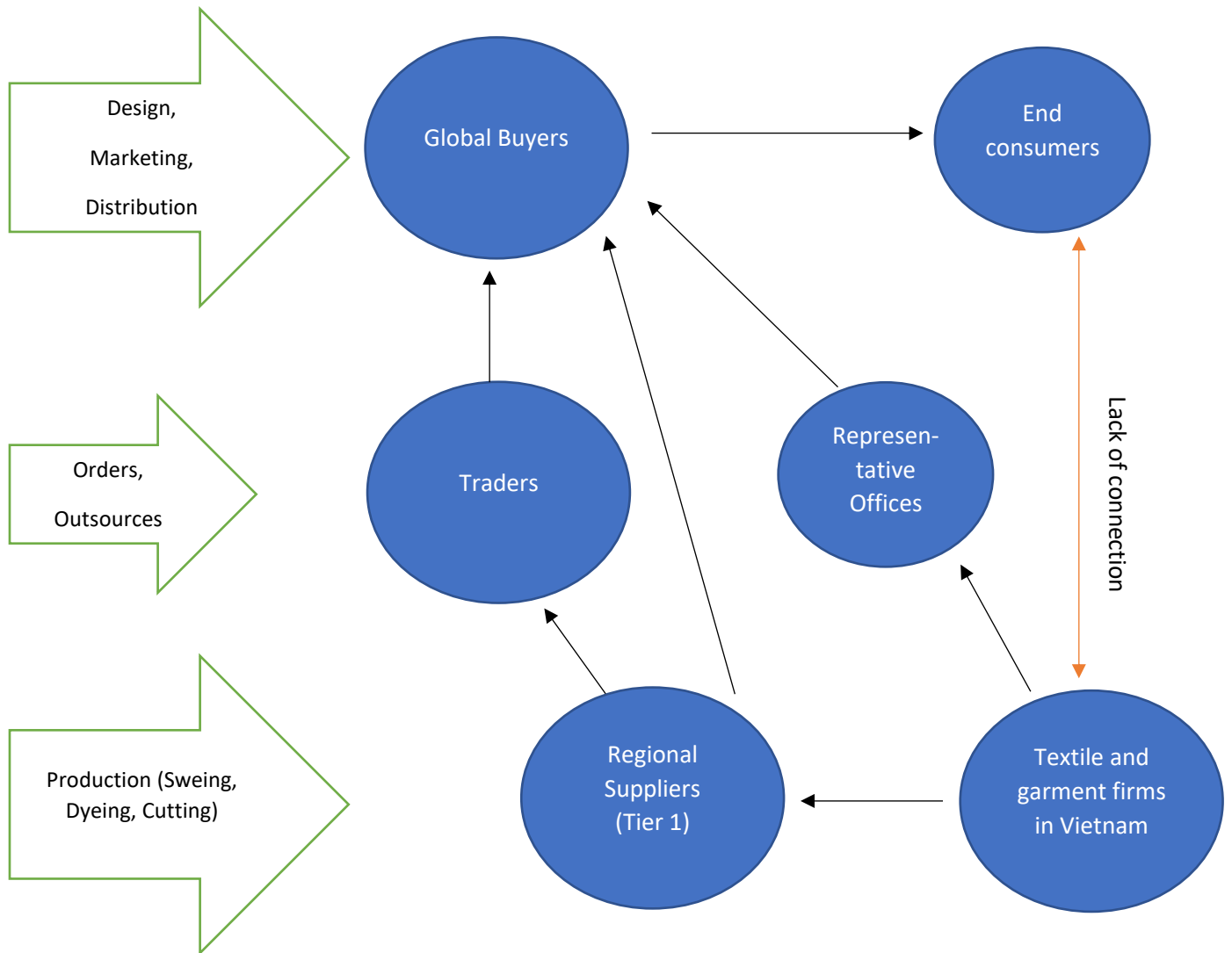
According to Ministry of Industry and Trade Vietnam (2016), the percentage of garments exported using the CMT processing method continues to account for the majority (about 65%), while the percentage of garments exported using the FOB method is only approximately 25% and only 9% export using the ODM technique. This helps to explain why Vietnam is the only nation in the world that does not get any of its raw materials from within its own borders, despite the fact that it is one of the five countries that sell the most textiles to the United States. If Vietnam's garment companies continue to rely on raw materials imported from other countries, they would be exposed to the following risks: When transit, there is a danger of both time and the quality of raw materials; also, there is a risk of time when searching for substitute supplies. If the product has a flaw, it will have an impact on the delivery contract. There are now only a very small number of businesses in Vietnam that are capable of producing FOB standards that are up to par with those demanded by international purchasers. These businesses are mainly Vietnamese clothing manufacturers like Viet Tien, Nha Be, and Phong Phu. The inability of Vietnamese businesses to find fabric sources which satisfy the quality requirements and delivery time is the most significant limitation that causes them to fail at doing FOB. Additionally, these businesses are unable to afford to take precautions to deal with issues and risks that arise from the performance of the contract in order to ensure on-time delivery of goods.

### **Marketing and distribution**

Distribution activities of Vietnamese textile and apparel industries are not yet fully developed, and these businesses are dependent on traders from other countries. This group of purchasers comprises retailers, wholesalers and manufacturers (Figure 9). Leading multinational brands, supermarkets, and retail stores are owned by retailers primarily in the EU, Japan, and US markets. Regional and international garment companies as well as regional merchants from Hong Kong, Taiwan, and Korea are among the manufacturers that import from Vietnam. Meanwhile, traders play a crucial role as intermediates in the textiles and apparel supply chain

from Vietnam to the rest of the world. To cut transaction costs, large retailers rely on wholesalers (mostly from Hong Kong) to expand their supply network in Vietnam. As a result, Vietnamese enterprises (particularly small firms) depend mostly on regional traders. (Khalid Nadvi, John T. Thoburn, 2004).

Figure 9: Vietnamese textile and garment enterprise in global supply chain



Source: Dang Thi Tuyet Nhung, Dinh Cong Khai (2011), Chuoi gia tri det may Viet Nam

Vietnamese textile and garment industries are still required to go through regional suppliers in order to obtain outsourcing contracts. Relatively few textile companies have direct contracts with

retailers to provide their products. Some textile businesses source their products from representative offices of well-known companies in Vietnam. In other words, Vietnamese textile and apparel businesses are still disengaged from the end-products of consumers and solely conduct subcontracts for regional manufacturers.

It is both a cause and an effect that the majority of outsourcing companies in Vietnam are frequently unaware of the end destination of goods they produce. Although some of Ho Chi Minh City's largest textile and clothing exporters have contacts with middlemen in Korea and Taiwan, they have no idea where in the world their products are actually sold. (Khalid Nadvi, John T. Thoburn, 2004). The textile and garment sector in Vietnam is at present struggling with issues related to marketing and distribution activities. This is due to the fact that the company focuses primarily on processing orders at CMT and FOB level I, and as a result, Vietnam does not have a lot of their own branded name reaching retailers in other parts of the world.

After many years of integration into the global textile and garment value chain, and despite a sizable share of the market, Vietnam's textile and garment sector continues to export garments by processing method, occupying the lowest position in the global value chain with relatively low value added. The largest problem is the sector is experiencing unequal growth, notably in the first stages of the textile value chain, which include cotton farming, weaving, dyeing, and finishing. The value contributed to the garment industries has been hampered by the delayed and weak growth of these phases. In addition, Vietnam's textile and garment sector still faces significant barriers to expansion into more advanced stages of the global textile value chain due to insufficient networks in export and marketing.

## **6. SUGGESTIONS**

The aforementioned analysis demonstrates that the Vietnamese textile and garment industry requires major improvements. In accordance with the capability and competitive advantages of Vietnamese textile and garment firms, the development strategy must be more comprehensive in many respects to evolve the industry's position in the global textile value chain.

## **Progressively transferring production from CMT to FOB and ODM**

The variables that provide competitive advantages for CMT production methods, such as low labor costs, supportive costs like as energy, water, and land, will increasingly diminish as the country's economy grows. The transition from CMT production to FOB and ODM needs proactive procurement of raw materials. However, as discussed previously, the manufacturing of raw materials is the weakest link in Vietnam's textile and garment industry. Consequently, a suitable short term and long-term strategy is required for the transition production methods.

Garment businesses still rely heavily on imported materials for the time being; therefore, maintaining strong relationships with their raw material suppliers is crucial. The following actions are required to achieve such a close relationship. The first step is to create a database of reputable raw material providers facilitates businesses can easily determine the ones meeting their unique material needs with high standard and timely shipping. Secondly, companies need to work closely together to strengthen their bargaining power with their respective suppliers. Thirdly, the government plays a significant role in fostering relationships between firms and suppliers through trade promotion and cooperation agreements with supplier nations.

In order to effectively fulfill FOB and ODM orders over the long term, Vietnam's textile and apparel industry must shift towards raw material production. This enables enterprises take full initiative in the sourcing of raw materials, improve their competitive advantage, and increase the textile and garment industry's added value in Vietnam. For FOB and ODM contracts in particular, businesses need to invest in training and education to better prepare their employees to manage and recover from any unforeseen setbacks that may arise during production.

The following reflect the government's role in assisting businesses: first, create circumstances for enterprises for gaining access to preferential loans with affordable interest rates. Second, assist and cooperate with enterprises to develop the technical and management capabilities of textile and garment sector personnel through training.



## **Improving the value chain of Vietnam's textile and garment industry with a view to expanding the availability of textile materials**

Large clients in the United States, Japan, and Europe are increasingly opting for firms with end-to-end capabilities, rather than breaking down the phases and outsourcing intending to expedite the time required for the launching of new items. In terms of expenses and income, organizations will have a greater competitive edge if they reduce order fulfillment time. To accomplish this, the Vietnamese textile and garment industry must move upstream in the textile value chain, holding the stages in the production of raw materials and accessories. This is a long-term strategy to maintain and increase profits, as well as Vietnam's competitive position in exporting garments. Moving up to the raw material production segments demands a coordinated and harmonized plan at each level of the textile value chain. In particular, a policy is required to develop the cotton and fiber stages, as well as the yarn and weaving, dyeing, and finishing processes.

In order to construct and foster a supply of raw materials for the textile and garment industry in Vietnam, a significant investment in money, technological advancement, and most importantly, the capacity for efficient management is required. In order for the government to effectively address these issues, it must establish policies designed to entice foreign investors and capitalize on FDI in the process of growing the textile sector. To attract FDI favorable to the textile sector, Vietnam must have a proper preferential policy as well as a reasonable and stringent market liberalization plan, assuring fair competition between all types of firms.

### **Constructing a textiles industry cluster**

To address the present shortcomings of Vietnam's textile and garment industry, namely the absence of synchronous growth across sectors in the whole supply chain, it is vital to build a comprehensive textile and garment cluster. The creation and growth of a cluster of textile and garment industries in Vietnam will help businesses be more productive and efficient by giving them easier access to services and raw materials. It will also speed up and lower the cost of transactions between businesses and make them more competitive, which will lead to better quality. In furthermore, clusters will facilitate firms' access to information, therefore fostering trade and innovation among companies. In conclusion, the cluster will assist firms in Vietnam's

textile and garment sector to not only raise their competitiveness, but also deepen cooperation and produce a spillover effect that will benefit the industry's overall growth.

### **The government's participation in the development of Vietnam's textile and garment cluster**

To reap the benefits of an industrial cluster, such as increased competitiveness, collaboration, and the creation of spillover effects of firms in the assemble, the government must work with the Vietnam Textile and Apparel Association to form a textile and garment industry cluster. The textile industry cluster includes not only yarn, textile, dyeing, and apparel businesses, but also downstream businesses such as distribution channels, retail to consumers, ancillary product manufacturers, specialized infrastructure providers, training and human resource providers, research centers and technical support such as universities, policy research agencies, vocational schools, and research centers.

To foster the establishment and growth of Vietnam's textile and apparel cluster, the government must provide assistance in the following three areas:

First, create a company atmosphere that encourages competition and collaboration. Vietnam's textile and apparel sector has a long history, the market is relatively substantial, and market institutions have been largely established.

Second, assure companies' approach to production resources; this strategy aims to facilitate businesses' access to production factors at the lowest possible cost, consequently decreasing product costs and enhancing competitiveness.

Thirdly, encourage investment in the manufacture of raw materials, particularly weaving, dyeing, and finishing. The issue of wastewater treatment is the greatest barrier to investment in the textile dyeing industry. Therefore, to address this issue, to attract international investors and increase production capacity at this stage, the government should design and establish a cluster of textile dyeing plants with efficient wastewater treatment systems.

## **7. CONCLUSION**

This paper set out to identify the position of Vietnam in the global textile and apparel value chain with an aim to detect obstacles which Vietnamese firms are facing with and propose suggestion as well as policies to evolve the valued added of export products. Vietnam has participated widely in the global value chain especially textile and apparel sector after the transition economics through free trade agreements signed with various nations. The yearly rise in foreign direct investment (FDI) into Vietnam demonstrates that this market has the potential to attract numerous investors. Vietnam's textile and garment industry is on the growth and retains the production stage because of cheap labor and low production cost. The most problem is not have enough capabilities to produce cotton, fiber, depending significantly on the overseas which leads to higher manufacturing costs and reduces a company's ability to compete on international markets. In addition, marketing and distribution efforts must go via wholesalers, which makes it difficult for Vietnamese textile and apparel enterprises to understand global fashion trends and consumer preferences. Consequently, the suggested remedies aim to raise the value of export products and the competitive advantages of local businesses. Changing export methods to FOB, ODM, growing the supply of textile raw materials, and constructing a textile industry cluster with the assistance of the government and businesses.

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## APPENDIX

### Appendix I. Export market of textiles and raw materials in 2021

Market	Value (Million USD)	Compared to 2020 (%)
USA	16.625	16,44
China	4.537	21,56
South Korea	3.697	9,73
EVFTA (EU Market)	3.516	6,7
ASEAN	2.798	25,91
United Kingdom	628	5,41
Bangladesh	476	152,33
Taiwan	469	21,59
Hong Kong	435	6,07
EAEU	339	39,52

Source: Vietnam Industry and Trade Information Centre

## **Appendix II. Method of exporting textile and garment**

**CMT (Cut – Make – Trim):** is the simplest technique of exporting. When partnering in this manner, buyers, purchasing agents, and purchasing organizations offer all inputs, including designs, supplies, and transportation, to the outsourcing business; manufacturers are solely responsible for cutting, sewing, and completing the product.

**FOB (Free on board):** According to the FOB technique, firms must actively participate in the entire production process, from the procurement of raw materials to the delivery of the finished product. FOB-method activities vary greatly based on the actual contractual relationship between overseas suppliers and customers and are grouped into the three categories below.

**FOB I:** Businesses adhering to this technique will purchase raw materials from vendors selected by the buyer.

**FOB II:** Businesses that use this method will get designs for their products from foreign buyers, and it will be their job to find raw materials, make the products, and ship the raw materials and finished products to the buyer's port.

**FOB III:** Companies adopting to this strategy will make garments of their own design and will not be bound by earlier agreements with international clients.

**ODM (Original Design Manufacturing)** ODM companies make designs and then sell them to buyers, who are usually the owners of the designs. These buyers are some of the biggest brands in the world. After the design is sold, the buyer owns it completely, and the ODM manufacturer won't make similar designs without the buyer's permission.