

Assessing the Value Chain and the Affiliation of Vietnam Garment and Textile Export Enterprises in Joining TPP

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Abstract—The objective of this paper is to investigate and analyze the context of the Vietnam global garment and textile value chain. Therefore, the research aims to assess the development and competitive level of the Vietnam garment and textile industry in relation to Vietnam garment and textile export enterprises in global value chain. This paper also tends to offer solutions for Vietnam to improve efficiency in joining global garment and textile value chain. The scope of the study is the garment and textile export enterprises operating in Vietnam from 2010 to 2015. The research use desk research methods: find secondary materials through research such as reference books, articles, magazines, the study by experts. Statistical methods: use metrics related to the export value of garment and textile industry over years from reliable sources such as the Ministry of Industry and Trade and the garment and textile export enterprises. The paper also uses Analysis and Evaluation methods to study information and data in research process. In conclusion, the paper contributes to clarify the concept and nature of the value chain. The research has analyzed the context of enterprises in the value chain and be specific about the successes and limitations exist.

Index Terms—Garment and textile, link, value chain.

I. INTRODUCTION

In recent years, garment and textile export of Vietnam is one of the leading industries, which plays an important role in export of Vietnam to the world market. However, it is heavily dependent on external sources of supply and the value added in each of garment and textile product is low, leading to low production efficiency.

Moreover, the links in the value chain of the Vietnam garment and textile export enterprises are not good, so the contribution of Vietnam's garment sector in the global value chain remains limited. In the context of economic globalization, Vietnam's garment sector is increasingly related to competition from all over the world. The question is that how Vietnam garment to overcome its limitations, especially when Vietnam garment industry is signing the Trans-Pacific Strategic Economic Partnership Agreement (TPP).

TPP is a free trade agreement aims of integrating the economies of the Asia - Pacific. The initial goal of the agreement is to reduce export taxes between the member and reduces at 0 to 2015. The paper aims to study and analyze the situation of the garment and textile global value chain in Vietnam through every stage of the value chain.

The paper accesses the level of competitiveness of Vietnam's garment industry at present, in relation compared to Vietnam garment and textile enterprises in the garment and textile global value chain.

II. OVERVIEW OF THE VALUE CHAIN OF GARMENT AND TEXTILE EXPORT INDUSTRY

Michael Porter described the first time in a book on the analysis about the competitive advantage: "The value chain is a chain of the activities operating in a particular sector [1]. Products pass through all activities of the chain in order and at each production earned a certain number of values. Series of activities bring products more added value than the sum of each other combined.

Raphael Kaplinsky and Mike Morris [2] had introduced the concept of global value chain is a production line of business in the form of globalization, including many participating countries, mainly engaged in various stages from design to distribution and marketing support to consumers. In fact, the global value chain is just a new approach, more comprehensive international division of labor. It is meant that any business that is engaged in the manufacture can be seen to have participated in the global value chain. Accessing to the international division of labor will help businesses understand their position in the world market and be able to actively participate in choosing appropriate steps to achieve higher profits.

The link between economic actors is inevitable in development. Economic integration is a coordination form to discuss and find solutions related to their activities, to promote the economic business development as much as benefit as possible.

Economic integration took place in a narrow range as industrial park, regional economics. But can also occur in a wide range as the whole country, among the nations together. The goal of economic integration is to create economic ties to conduct stable operation, exploit the potential of each join link and to promote a common market to help each other to get higher earnings best.

The basis of the production process or service providers links is vertical link, cross-link and associated mixed.

III. THE CONCEPT OF THE VALUE CHAIN OF GARMENT AND TEXTILE EXPORT INDUSTRY IN VIETNAM JOINING THE TPP

A. General Situation of the Textile Export Industry in Vietnam

Products and markets

Manuscript received July 27, 2016; revised October 29, 2016.

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1) Product category

The value of textile exports tend to increase in future. Enterprises are not only increasing diversified products but also achieving the technical standards for the quality of exports markets such as America, Japan, South Korea, Russia, FranceNevertheless, it remains the average quality.

Some causes may include :

- The sector weather conditions, trends and social needs
- Garment production export in Vietnam mainly receives production processing for foreign partners. The result is that profit value received is not high;
- The restrictions on labor skills, technology and design so that a few businesses of Vietnam has own brands.

2) On the market

a) Export market

According to Vietnam Textile & Apparel Association

(VITAS), textile products Vietnam mainly exports to major markets such as America, Japan, Europe, Korea. There are the main export market and relative stable in recent years, besides that there are other potential markets such as Germany, EU, UK, Netherlands ... In terms of market share, Vietnam clothing exports were present in 180 countries and territories around the world.

As we can see in the Fig. 1, USA is the largest garment and textile export market of Vietnam at just over 3000 million dollars in January and February, followed by that in China at just under 2000 million dollars. Japan ranks the third position at 1800 million dollars. Vietnam also export to many other countries all over the world such as Korean, Malaysia, AE, UK.

TABLE I: THE COMPARISON PRICE OF TEXTILE PRODUCTS FROM MAJOR COUNTRY TO US, EU AND KOREAN MARKET

Country	US - 2013		EU - 2013		Korean- 2013	
	Quantity (M2 Million)	Price (USD/M2)	Quantity (100 Kg)	Price (USD/M2)	Quantity (100Kg)	Price (USD/M2)
Total	565.257.728	1.85	42.509.495	20.73	3,030,684	23.45
China	271.158.651	1.54	19,263,184	18.26	1,922,830	17.51
Vietnam	36.025.151	2.43	998,344	24.01	560,599	29.64
India	37.301.144	1.69	2,083,268	25.95	15,809	34.28
Indonesia	17.262.207	3.03	661,181	23.12 1	176,527	23.17
Campuchia	11.315.194	2.29	1,094,676	20.06	36,945	23.27

b) Competitor

The most giant competitor for Vietnam's garment enterprises is China. Besides that other competitors such as Korea, Taiwan, Thailand, Singapore, Philippines, India, North Korea is also the leading manufacturer of silk that Vietnam businesses must take into account .



Fig. 1. The big garment and textile export market of Vietnam (January and February in 2013) (Million dollar)

Source: General Statistics Office of Vietnam(2013) [3].

c) Export prices

As we can see from the Table I, the export prices of textile products from Vietnam to major markets such as the US, Europe, Japan, South Korea is often higher than the average price of similar competitor like China, Bangladesh, India ... In US in 2013, the price of Vietnam product is 2.43 USD/M2 while that of China is 1.54 USD and India is 1.69USD. There is the similarity in EU market in 2013 that Vietnam's price is 24.01 USD/M2 whereas that of China is

18.26 USD and Indonesia is 23.12 USD. China accounts for the largest percent of garment and text tile export in US and EU but the price is very low.

The cause of the problem is that:

- The input material prices are high. The form of production situation in Vietnam is mainly processing production orders according to available partners including input material.
- Vietnam's labor mainly unskilled workers. The level of labor productivity is not high so labor costs and training costs per labor productivity is quite high. This is the main reasons which pushed up production costs increase and reduce the profits of the industry.

The concept of production and export:

- Production:

Nearly 2014, about 6,000 companies operate in the textile sector but mostly small and medium enterprises. There does not take advantage of economies of scale. Management skills and production levels are less, not been trained professionally.

- Export scale:

Export value increased continuously over the years. In 2014, textile export sector ranked first rise in value of the national exports.

- The status of inputs

Inputs of manufacturing firms in the country do not meet the needs of domestic production, only meet 30% of raw material. The remaining 70% come in from outside and tend

to increase

- Labor:

Lack of professional labor resources. Labor cost is relatively cheap but low labor productivity. In conclusion, the labor cost per productivity is low and not efficient.

Potential development when Vietnam has signed TPP

3) *Factors for the development*

Thanks for the favorable conditions such as the market has been relatively stable, abundant human resources, stable textile export environment. Furthermore there is the support of the Government and the great interest of foreign investors create conditions for the development of Vietnam garment and textile export.

4) *The opportunities for Vietnam garment and textile export when joining TPP*

- There is the opportunity to expand the export market, preferential interest rate of 0% does not only help expand the market, but also increase competitiveness.
- When joining TPP, textile industry has the opportunity to attract direct investment from abroad to invest in technological innovation, improve quality, productivity
- There is a chance to promote the development of enterprises operating in the supply of input materials. It helps to develop the structural balance of Vietnam garment.
- The time for order and export to distributors would be faster thanks to cuts in administrative procedures.

5) *The challenge for Vietnam garment and textile export when joining TPP*

- Pressure competition for Vietnam's garment sector.
- The enterprises need to be proactive about input materials. It requires for organizing the commitments and the provisions of the TPP especially in the principle of "origin" of goods and products
- Training and improving workforce to meet the diverse needs of customer
- Enterprises need a roadmap plan and their own path to good use funding from abroad

B. *The Concept of Value Chain and the Chain of Export Garment Industry in Vietnam*

1) *The concept of the value chain of export garment industry in Vietnam*

The process of producing the garment is shown in 5 stages following models:

a) *Designing*

The stage design is mainly carried out only in some foreign enterprises in Vietnam and bring production process. Only a small number of garment export enterprises in Vietnam design but still limited. Many Vietnamese designers try to put out the world brand, causing some buzz and certain success, but overall the design stage of Vietnam's garment industry is still low

b) *Production of materials*

The main raw materials for the garment industry is being imported from China (49%). Other accessories such as input, label, lace ... are also imported from China, Korea, Taiwan The supply of domestic raw materials can only meet about 30% of production needs, the rest still have to

import from outside.

The printing and dyeing equipment are imported from abroad and mostly old, outdated lines. It takes more power consumption leading to high production costs and limited quality which does not meet the increasing demands of the market. Vietnam needs to be more active on the input raw material source to catch the chance from TPP.

c) *Producing garment*

The Vietnam garment export enterprises mainly use the method of processing and assembling. They lack the ability to provide full-service, so profit is only about 5-10% while to import 70-90% of materials. The main business carried out by the method of production is mainly CMT, accounted for 65%, produced by the method of FOB about 30%. The method of FOB Type I, FOB Type II is 10% and only 5% produced by the method of ODM.

d) *Exporting*

Garment exports of Vietnam is growing faster. The biggest market of textile products imported from Vietnam is US, the second is the EU, the third is Japan, followed by Korea and other markets such as Canada, Australia. When Vietnam became an official member of the TPP, the market textile exports is rising thanks to the extensive integration policy.

e) *Marketing and distributing products*

In general, the textile business is not interested in marketing because the domestic garment enterprises are mainly recognized for outsourcing production overseas. They do not pay attention to building strong brands to compete with competitors such as China, India, ...

On the status of channel distribution system: The domestic textile enterprises has no extensive distribution system to the consumers. On the international market they are still mainly relied on suppliers regional level to get outsourcing contracts. Distributors mostly are foreign enterprises.

2) *The concept of the links of the Vietnam textile export enterprises*

f) *Economic benefits associated enterprises*

- Overcoming disadvantages in scale: In the process of production and business activities, each business due to limited resources, can not be done all the work. If economic integration has made, businesses can work together to participate in the project. Every business take over part of the work, from there, seize opportunities from market.
- Helping businesses react quickly to market changes: In growing market, customer needs are always changing and increasing. Economic integration enables enterprises consume its products are faster, access to customer needs with new technologies and techniques. One popular form of link today is the link between businesses and universities with research institutes.
- Economic integration to help businesses reduce risks in business: When participating in economic integration, each business implement a certain provisions on the benefits as well as responsibilities. Recognized in this aspect, the economic integration is to help businesses achieve greater capacity and risk sharing.

- Improving profit and value chain of Vietnam textile industry exports : Businesses joining share has the goal to increase profits for business. This goal comes from that link increasing the sector's value chain.

g) The main forms of association of the Vietnam textile enterprises

According to Hoi Ha Van (2012), there are three main kinds of forms of association of the Vietnam textile enterprises

- Vertical integration: Vertical relationship of the garment export business can be expressed as follows:
- Designing -> Manufacturing materials -> Producing garment -> Exporting -> Marketing and distributing
- Horizontal integration: In Vietnam, there are two forms of horizontal cooperation between the garment export business. The first is the link among exporting enterprises within a country, as an association. The second is the link between the textile business of a country to another country on the international level and region. This link can form conglomerates, manufacture and distribution of textiles . For example is Vietnam Textile and Apparel Association, Vietnam Textile and Garment Group.
- Mixed link: The textile business is currently implementing mixed link by focusing the business in the industry, garment enterprises and enterprises providing raw materials. For example, textile patterns in Danang, Vietnam include the existing factory of Hue Textile Garment Company, JSC Phu Bai Spinning Company, Hoa Tho Textile and Hoa Khanh textile complex projects. Comes in several ICs textiles are cotton planting projects, large-scale spinning. This idea is agreed by Ministry of Industry and Trade [4]

IV. ASSESSING THE CONCEPT OF VALUE CHAIN AND LINKS OF THE GARMENT EXPORT ENTERPRISES IN VIETNAM

A. Limitations of the Value Chain of Export Garment industry in Vietnam

a) Design

- Vietnam does not have many teaching centers, training in fashion design industry. In general, the designs are not innovative, simple and not diversity.
- The business does not focus on development market such as surveys, searching customer needs and the interaction between enterprises and customers.
- The design of human resources are weak in terms of quantity and quality. Especially restrictions on the number of highly qualified designers.

b) Production of materials

- There is the lack of production facilities and technology. The number of enterprises operating in this stage are often few and the quality of the materials is not high.
- Production of materials depending abroad as imports of machinery, dyes ... makes businesses lose an added value.

c) Producing the garment

- Depending heavily on imported raw materials from

abroad.

- The production of most of Vietnam garment enterprises just stop at simple processing outsourcing
- Poverty of technology and the weakness in skilled manpower.

d) Exporting

- Facing to fierce competition of textile products from other countries such as China, India, Pakistan ...
- Under the legal regulations, it must be the protection for imported textile products.
- Having not accessed to a global buyer and retail customers.

e) Network marketing and product distribution

- Having not understood the importance of this stage and remains old ways of thinking about business products.
- Lack of experience of developing segment brand, distribution network and product marketing.
- Accessing to market information is limited.

B. Accessing the Concept of the Link of Garment Export Enterprises

a) The success and achievements of textile sector exports in Vietnam

- Creating an important source of foreign exchange for industry to modernize the country: Vietnam's garment industry after 20 years of development with an average growth rate of 15% / year, so far has risen to become the leading economic sectors in the country. Vietnam is one of the leading textile exports in the world which contribute significantly foreign exchange for the country. The garment industry is ranked firstly in terms of the value of export turnover in the total exports of goods in Vietnam.
- Attracting social workers: According to the latest statistics of the Vietnam Textile and Apparel Association, textile sector has created jobs and stable income for more than 2.5 million people directly and nearly 2 million indirect jobs (of the industry auxiliary, warehousing and transportation). It resolves employment contribution to social security. Especially in recent years, the garment industry is the pioneer textile reaching the rural areas to tackle jobs for local people.
- Contributing to strengthen production linkages between sectors: Thanks to the development of garment exports, a series of related typically mechanical engineering and manufacturing materials have the development.
- Creating strong linkages within the industry itself and garment exports: The operation of Vietnam Textile and Apparel Association, Vietnam Textile and Garment Group for many years is rated as effective. It brings significant benefits to the participant link and contributes success for Vietnam's garment sector.
- Attracting foreign investment for country: Vietnam today is the ideal destination of investors from major markets such as the US, EU, Japan. There are many subcontracting or outsourcing contracts with the suppliers from Hong Kong, Taiwan and China.

b) *The existence and causes*

- Inner strength and poor competitiveness of enterprises in the market: Vietnam has abundant labor resources, low cost. However, it lacks of the workers with higher qualifications. Technological equipment of Vietnam's garment has both asynchronous backward. Their products have no competitiveness (*According to United Nations Development Programme textile sector*) [5]
- Links are inefficiency: Mixtures linkages through industrial areas also anonymous form and not creating tight relationships between businesses.
- Accessing to markets is limited: For the textile export enterprises in our country, market research, product development, distribution and promotion of the mixture are not focused.
- Environment for garment export enterprises still many obstacles: The market and potential risks of the international environment has many rigorous standards of quality. The determination of the exchange rate of the State Bank of Vietnam and the procedures of customs procedures take a large effect on the export of textiles and garments in Vietnam.

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