

## **EE361 ECONOMICS OF CLMV COUNTRIES**

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### **Trade Growth in Vietnam's Textile and Garment Industry since 2000s**

Group 4

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## **Background**

Global productivity is enhanced through trade. When a nation opens up its economy to trade, resources such as money and people move into sectors where they may be put to better use. The economic well-being of societies improves. In particular, Vietnam's trade sector has expanded and developed significantly in recent years, making it a major player in international commerce. The country's strategic location, availability of natural resources, and pool of qualified workers are all selling points for foreign investors and businesses looking to expand their operations. As a result of its commitment to market-oriented policies and trade liberalization, Vietnam has become one of Southeast Asia's fastest-growing economies. Understanding the factors at play, as well as the opportunities and challenges Vietnam confronts, is crucial if the country is to further cement its place as an important player in the global trade arena.

After becoming a World Trade Organization member in 2007, the economy was given a huge boost, attracting significant foreign direct investment (FDI) to the garment and textile industry with a value up to \$1.55 billion for 184 projects, according to UNCTAD data, led by Hong Kong, Singapore, China, and South Korea. Vietnam's strong growth has also been supported by its export-driven economy, young, affordable, and productive workforce, and the signing of 13 free trade agreements. These factors allowed Vietnam to become one of the most potential markets for the manufacturing industry right now.

With the second-highest export revenue in Vietnam, the clothing and textile sector is one of the country's most important industries. In 2019, the industry's export value accounted for 16% of total GDP. The textile sector has expanded steadily over the last five years at a 17% annual average rate. For developing countries with a large population like Vietnam, the textile and garment industry is crucial to socio-economic development, job creation, labor mobility, and economic restructuring. It has always been essential to the process of industrialisation and modernization.

To focus on the driving forces of market expansion, low labor costs and multilateral free trade agreements (FTAs) are considered to play a vital role in emerging Vietnam to become one of the leading textiles exporting countries worldwide. This has resulted in increased textile exports to the European Union, the United States, Japan, and South Korea, and continuing to provide Vietnamese manufacturers access to new markets, minimizing the effect of growing trade protectionism.

This report which is categorized into four main parts seeks to analyze Vietnam's trade growth which is considered essential for economic development, global competitiveness, policy formulation, and international relations. The first part of the report is the general background of Vietnam's economy, especially Vietnam's trade growth. The second part discusses in detail the three main key issues in the garment and textile industry

which are the effect of shortage in raw materials in textile industry during Covid-19, the lack of technology in producing textile and garment industry in Vietnam and competition in the textile industry from neighboring nations. The government policies aiming to address these challenges are discussed in the third part. The conclusion, which is the final part, provides a summary of the key findings and lessons learned from this report for a better understanding of trade growth in Vietnam’s textile and garment industry.

We do hope that this report could be of use in a number of areas, including but not limited to: economic growth, which is fostered by embracing trade; global competitiveness, which is boosted by having a good understanding on trade growth; employment opportunities, in which policymakers and businesses are better able to identify sectors with job-creation potential; and a higher standard of living, which is improved by a well-managed policy framework.

### Key Issues and Challenges

- *The Effect of shortage in raw materials in textile industry during Covid-19*

Since most of the raw materials for the textile industry are not produced in Vietnam, most of the raw materials used in the textile and apparel industries are imported from other countries, implying that transportation affects the price of the final product and incurs significant cost and time. As the majority of the raw materials are imported from China, Korea, and Taiwan, manufacturers may not be able to fulfill orders on time.

China has traditionally been the largest supplier of textiles and garment accessories to Vietnam, providing between 50 and 55 percent of the country's raw materials and textile accessories. Despite the fact that China shows no indication of changing its zero-Covid policy, numerous fabric shipments are stuck at its ports due to the border closures, causing businesses to postpone the production and delivery. Thus, they are compelled to place purchases in advance to obtain input supplies.

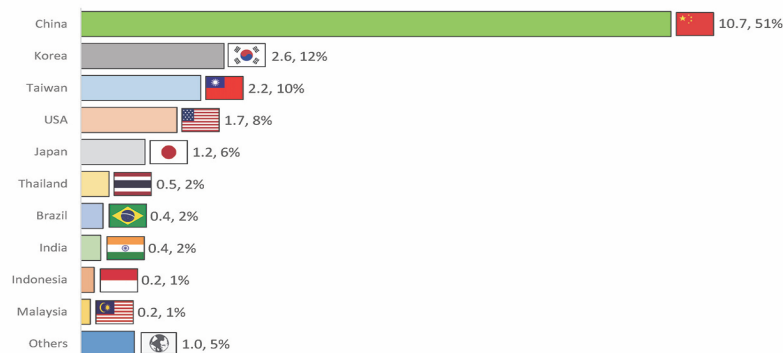


Fig. 1. Top supplier of textile and apparel to Vietnam in 2019

Source: UN Comtrade and Wazir Analysis

Their items are seasonal fashion items. The preparation of imported goods occurred six months ago. At this time, the partners have indicated that they require border closures, which implies that all items planned for sale in this season must be moved to the next year, rendering them out of style. Over 40 percent of existing textiles will be discarded or sold at reduced costs (*Anujeshwar P., 2020*). This causes enterprises to incur substantial extra costs while their cash flow is 'frozen'.

Furthermore, The situation has exacerbated as the price of cotton has increased. According to a report by the Vietnam Cotton and Spinning Association (VCOSA), it shows that cotton prices imported from Brazil, the United States, and India increased by 0.87 percent, reaching around US\$1,625 per tonne (*Celina P., 2022*). It is a challenge for manufacturers to pass on the surge in price to customers in the short term. Once the price of the final product increases, textile share prices fluctuate. The export value of garments and fiber products fell by 6 percent and 6.6 percent, respectively, compared with the same period last year. According to Vitas, during the second half of March, a number of large customers from the United States and the European Union have requested that Vietnamese businesses postpone shipments or terminate contracts.

- *Lack of Technology in producing textile and garment industry in Vietnam*

The domestic textile and garment industries have not yet developed machinery and equipment, and their textile and dyeing efficiency does not meet local demand. As a result, 70% of the textile and apparel industries in Vietnam are small and medium-sized businesses with high demand (*Piyanuth P.,2017*). With access to foreign markets that are not linked to large enterprises, there are many businesses that have lost their lives for lack of international competence.

The majority of the technology applied by textile and apparel businesses in Vietnam was created in the first decade of the twenty-first century. Yet, there are still some Vietnamese textile and apparel businesses that employ technologies from the 1980s or 1990s of the previous century. In other words, Vietnamese textile and garment firms fall behind international textile and garment enterprises by one to three generations of technology. The proportion of technological lag is greater in the textile industry than in the apparel industry.

In accordance with the results of a sample study done by the General Statistics Office of Vietnam(GSO) between 2010 and 2015, the large majority of Vietnamese garment and textile businesses utilized technology from a decade earlier. Compared to the global level of technology, only a tiny percentage of Vietnamese businesses employ antiquated technologies that are two to three decades old. Yet, between 2010 and 2015, there was an upward trend in the share of garment businesses employing technology that is 20 years out of date.

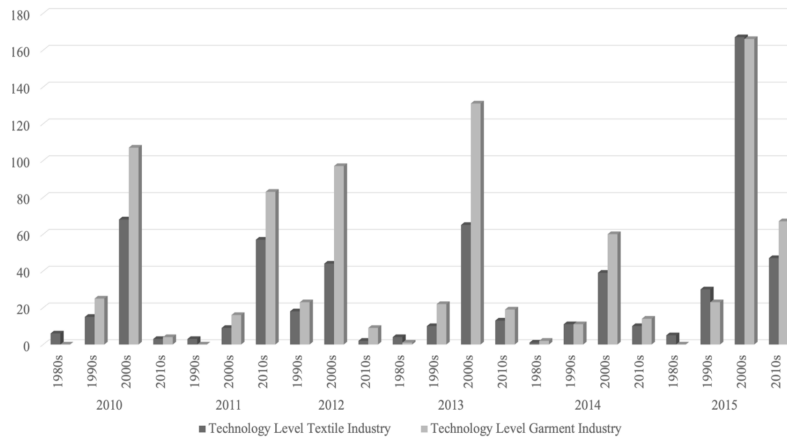


Fig. 2. Current status of technology level in textile and garment industries 2010-2015  
Source: compiled from statistics of GSO

The issue is the development of high-quality human resources. In the past, firms relied on inexpensive and lower secondary school graduates for production; however, the integration of robotic technology and automation necessitates fewer laborers with the capacity to run the robots-system today.

- Competition in the textile industry from neighboring nations

Vietnamese clothing products were seized by neighboring countries. The Vietnamese Association of Textiles and Clothes revealed that clothing manufacturers in Vietnam are facing intense competition from China, Thailand and Singapore. According to a recent survey, clothing from China accounts for 20-40 percent of Vietnam's department stores.

Vietnamese spent \$1.8 billion on clothing in 2007. Domestic women's clothing is losing more and more market share in urban areas to imported garments from neighboring countries, but it still retains most of its market share in suburban areas.

A major problem in Vietnam's garment industry is its outdated design and unstandard raw material quality. Although some local brands such as NinoMaxx or PT 2000 or Blue are more expensive than imported clothes from China, another major problem is that clothing stores are profitable from expanding into China. It's much cheaper than selling clothes made in the country.

According to supplying Vietnam with the majority of its raw materials, China enjoys a dominating market position. China has a competitive edge over emerging nations due to its well-established supply networks and advanced infrastructure. Chinese laborers are also more productive than Vietnamese employees. Moreover, Chinese products are more diverse than Vietnam's. In addition to that, Bangladesh is also one of the countries that may undercut Vietnam due to its cheaper rates. This makes it Vietnam's direct competitor.

Vietnamese laborers hired as subcontractors in lieu of designers: around 65 percent of all Vietnamese exports are cut-make-trim (CMT) products. CMT's predominance suggests

that consumers control the majority of industrial operations. Hence, Vietnamese employees are not involved in the production of innovative ideas and equipment, despite the larger profit margins in this industry.

### **Government Policies**

- *Policies on the effect of shortage in raw materials in textile industry during Covid-19*

The Vietnamese government has taken many steps to address the textile industry raw material shortage during COVID-19, helping textile and garment manufacturers maintain output despite the epidemic. Some textile firms in Vietnam have looked to other sources of raw materials or altered production to textile goods that use fewer raw materials in order to deal with the shortage of raw materials. To lower production costs, cotton and yarn have been exempted from import taxes. Tax cuts and incentives have also increased domestic raw material production and helped textile companies upgrade equipment and machinery. And providing textile manufacturers with pandemic-related financial assistance. Low interest rates and flexible repayment options help manufacturers meet financial obligations.

To secure a consistent supply of raw materials for the textile sector, the government has sought to facilitate trade and decrease trade obstacles. To speed the importing of raw materials, the government has tried to streamline customs operations and minimize documentation requirements. And to lessen the industry's reliance on imported raw materials, the government has fostered research and development into alternate sources of raw materials, such as recycled materials and natural fibers.

In conclusion, the textile industry raw material shortage during the COVID-19 pandemic has hurt Vietnam's economy. The sector has had to change production methods and find new raw materials to maintain output. The Vietnamese government has supported the industry during this difficult time.

- *Policies to lack of technology in producing textile and garment industry*

The Vietnamese government encourages the textile and garment industry to adopt advanced technology to boost competitiveness, productivity, and sustainable development. The textile and garment industries are supported by the government's technological infrastructure including upgrading facilities and equipment and establishing research and development centers to foster innovation and the technology transfer and support textile and garment industry research into eco-friendly, intelligent, and wearable textiles.

Advanced technology and equipment have been subsidized for textile and garment manufacturers and educational institutions. This promotes the development of new technologies and products by facilitating the exchange of knowledge and expertise. Businesses that upgrade their equipment and adopt new technology receive tax breaks and low-interest loans from the government.

Training and education programs for textile and garment laborers have been funded by the government. This includes advanced technology, production, and management and leadership training. The industry still struggles with the high cost of adopting new technologies and the lack of financing for small and medium-sized businesses. New technology adoption must also overcome cultural and organizational barriers. The government is addressing these issues, but the industry needs more support to modernize and sustain.

- *Policies to competition in the textile industry from neighboring nations*

To overcome this competition, the Vietnamese government has implemented policies to increase the textile industry's competitiveness. They encouraged the growth of the textile industry's supporting industries, such as the development of raw materials, machinery, and equipment. This includes encouraging the growth of local suppliers, investing in research and development, and providing training and education programs to improve the skills and knowledge of industry workers. And providing incentives and subsidies to textile and garment manufacturers to encourage them to adopt advanced technology and equipment. This includes providing tax incentives, low-interest loans, and other forms of financial assistance to businesses that invest in upgrading equipment and adopting new technology.

The government is negotiating free trade agreements (FTAs) like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union-Vietnam Free Trade Agreement (EVFTA) to boost textile and garment exports. Vietnam gains preferential access to international markets and industry competitiveness through these agreements. And promoting sustainable textile development, including eco-friendly textiles, energy reduction, and sustainable production practices including funding and promoting sustainable textile production research and development. Training and education programs for textile and garment laborers have been funded by the government. This includes advanced technology, production, and management and leadership training.

Finally, neighboring countries with lower production costs and higher productivity compete with Vietnam's textile industry. However, the Vietnamese government has been promoting industry development and competitiveness. To stay competitive, the textile industry must modernize and innovate.

## **Conclusion**

The three key issues of Vietnam's trade growth are the shortage of raw materials in the textile industry during Covid-19, the lack of Technology in producing textile and garment industry in Vietnam, and competition in the textile industry from neighboring nations. The brief interpretation of these issues are: Firstly, the shortage of raw materials in the textile industry during Covid-19 is caused by the disruption of global supply chains, decreased

demand for textiles, increased competition for raw materials, and hoarding of raw materials. Secondly, the lack of technology in producing textile and garment industry in Vietnam is caused by the limited investment in research and development, lack of skilled labor, dependence on imported machinery, and limited access to financing. And thirdly, the competition in the textile industry from neighboring nations of Vietnam is caused by a combination of factors related to lower labor costs, favorable government policies, access to raw materials, technological advancement, and infrastructure development.

As a result, the Vietnamese government needed to impose some policies or do some encouraging actions to solve these challenges. In terms of the the shortage of raw materials in the textile industry during Covid-19, government untangles these problems by imposing import tax exemption on cotton and yarn to solve the shortage in raw materials in textile industry during Covid-19, enacting tax cuts and incentives to enhance domestic raw material production and to foster textile companies upgrading equipment and machinery, providing financial assistance to the textile manufacturers, setting low interest rates and flexible repayment to help manufacturers meet financial obligations, Streamlining customs operations and minimizing documentation requirements to speed the raw materials imports, fostering research and development into alternate sources of raw materials to lessen the industry's reliance on imported raw materials. In terms of the lack of Technology in producing textile and garment industry in Vietnam, Vietnamese government gets rid of this concern by upgrading facilities, equipment and establishing research and development centers to foster innovation and technology transfer and support textile and garment industry research into eco-friendly, intelligent, and wearable textiles, subsidizing for textile and garment manufacturers and educational institutions, providing training and education programs for textile and garment laborers. In terms of competition in the textile industry from neighboring nations, government rectifies this issue by negotiating Free Trade Agreements (FTAs), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the European Union-Vietnam Free Trade Agreement (EVFTA) to improve textile and garment exports.

In our opinion, we consider that one of the main drivers of this growth has been the country's participation in various free trade agreements (FTAs). The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union-Vietnam Free Trade Agreement (EVFTA), and the Regional Comprehensive Economic Partnership are just a few of the FTAs that Vietnam has signed (RCEP). Vietnam's textile and garment exports have been bolstered by these pacts because of the reduction in tariffs and other trade restrictions. Therefore, Vietnam's textile and apparel exports have skyrocketed, especially to the United States, Europe, and Japan. Vietnam has made significant investments in the modernization of its textile and apparel industries, in addition to

FTAs. Several firms around the nation have advanced equipment and technology, contributing to the country's thriving manufacturing sector. As a result, Vietnamese factories can now make low-priced, high-quality goods. Moreover, Vietnam's textile and apparel sector has become more competitive due to the country's cheap labor costs in comparison to other nations in the area. Foreign investment has increased and the sector has grown as a result of this.

In general, the textile and garment sector in Vietnam is poised for further growth in the years ahead because of the country's involvement in free trade agreements (FTAs), its continued investments in modernisation, and its low labor costs.

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