Chapter 12

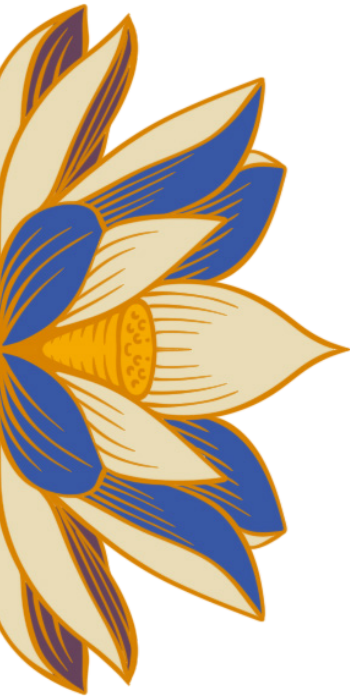## Viet Nam's Textile and Garment Industry in the Global Value Chain
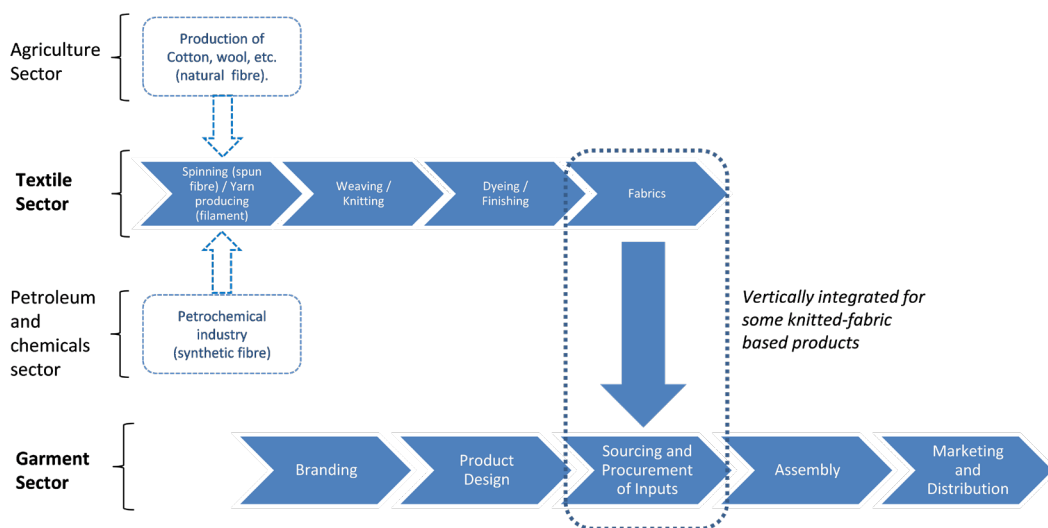
Kenta Goto

1. Introduction

'The textile and garment industry is an archetypal industry through which developing countries achieve industrialisation and economic growth.' This is how the industry is often characterised by academics, policymakers, and development practitioners. Whilst the statement is not entirely wrong, it may not be completely correct either. The problem lies in the attempt to make a useful statement by combining, without making a clear distinction between 'textile' and 'garment.'

The textile and garment industry comprises a wide range of sub-sectors, spanning agriculture to manufacturing (see Figure 12.1). For instance, cotton fibre, which is one of the most widely used natural fibres in textile and garment products, is an agricultural commodity, produced in countries with geological and climatic conditions compatible with the cultivation of cotton. This includes countries such as China, India, Pakistan, and the United States (US). The post-harvesting processes, such as the spinning of the fibre into yarn, belong to the manufacturing sector, which may or may not take place where the cotton is produced. Synthetic fibre, such as polyester, however, is a petrochemical product, produced with modern machinery, and is much more capital- and technology-intensive. It would be rather unrealistic to expect developing countries to use this sub-sector as a 'springboard for industrialisation and economic growth'.

Figure 12.1. Production and Distribution Flow of the Textile and Apparel Value Chain

Source: Modified from Goto (2011) and Fukunishi, Goto, and Yamagata (2013).

Meanwhile, the garment sector has its own set of processes that are very different from the textile sector.[1] The most important in this is the sewing process of the garments, using textiles as key inputs. This is essentially an assembly process, often referred to as Cut-Make-and-Trim (CMT). It is highly labour-intensive, even compared to the production of cotton yarn (spinning). Countries that are richly endowed with cheap labour, therefore, tend to exhibit a clear international comparative advantage in the CMT process. As such, the garment sector has in fact often served these developing countries to establish a foothold in the global economy, primarily by undertaking the CMT function. In the global garment industry, Viet Nam consistently performs well, ranking third only after China and Bangladesh (Goto, forthcoming).

It would be crucial to make this distinction when we look at the textile and garment industry of a particular country, such as Viet Nam, because textiles and garments are two interrelated but different sub-sectors, with significantly different factor intensities and technological attributes. And whilst Viet Nam's garment sector has played a pivotal role, particularly in the context of its export-oriented industrialisation trajectory, its textile sector has yet to evolve to consolidate its position in the global industrial landscape.

2. Background

The textile and garment industry of Viet Nam has a relatively long tradition, particularly its cotton-spinning sub-sector, which dates back to its French colonial past. Even prior to this, there were many local cotton weavers using imported yarn, which were eventually crowded out as the colonial government increased its tariff rates on the yarn to promote domestic production. This occurred when large and modern spinning factories were established by the French: the first in Nam Dinh in 1889, followed by another in Hanoi in 1894, and then later in Hai Phong. These three were finally integrated into the *Société Cotonniére du Tonkin* in 1912, boasting the largest and most sophisticated spinning facility in Indochina at the time (Itsumi, 1943; Goto, 2003).

A more indigenous industry started to evolve after World War II (Tuan et al. 2001; Goto, 2003). The North introduced textile machinery from the former Eastern bloc, primarily the Soviet Union, whilst the South depended entirely on the West. After reunification, however, all the large textile-related companies in the South (which also included garment companies) were nationalised and became state-owned enterprises (SOEs) and rearranged into production units in the central-planning-based economic system.

One of the characteristics of the industry at the time was that it was highly integrated vertically. Firms in both upstream (textiles) and downstream (garment) sectors were connected through strong interfirm relationships, maintaining a clear division of labour within the industry. However, the subcontracting agreement (The May 19th Agreement) with the Soviet Union of 1986, under

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[1] While this is mostly true for woven-textile-based garments (HS62), the production of knitted-textile-based garments (HS61) may be more integrated, where the division between textile production (knitting) and garment production (CMT) is indivisible. Typical products include underwear, socks, and knitted gloves. See Figure 12.1.

which Viet Nam was to import Soviet textiles for domestic processing and re-export the final outputs (garments) to the Soviet Union, drastically reduced domestic demand for Viet Nam's textiles. This effectively ended the domestic integrated production structure. As a response, a significant number of large textile companies started to produce garments as well, emerging as competitors of incumbent garment companies. Another key feature of Viet Nam's textile and garment industry during this period was that its growth potential was strictly limited to its domestic markets and foreign channels through COMECON, as it did not have any diplomatic and trade relationships with the West allowing it to access and explore the wider global economy.

The real take-off for Viet Nam's garment industry occurred in the early 1990s, when Japan was instrumental in connecting it to the global garment value chain, with a primary orientation towards the Japanese market. In 2001, Viet Nam restored its economic relationship with the US as their Bilateral Trade Agreement (USBTA) came into effect. This was a key turning point for the industry, resulting in an unprecedented export boom. The US has since been the largest garment export destination for Viet Nam. The abolition of the Multi-Fibre Arrangement/Agreement on Textiles and Clothing (MFA/ATC) in 2005 and Viet Nam's accession to the World Trade Organization (WTO) in 2007 further ignited the growth of the industry, surpassing the export value of crude oil in 2010.

Table 12.1 provides an overview of Viet Nam's textile and garment industry. The number of companies, turnover, and workers for both textiles and garments (apparel) have all been increasing since 2015, with a slight drop in 2020, probably due to the COVID-19 pandemic. Growth rates during this period have been higher, in general, for textiles than for garments. One interesting difference between the textile and garment sectors is the number of workers. Whilst there were about 1.45 million workers in the garment sector in 2020, there were only 331,000 workers in the textile sector, which could reflect the fact that the garment sector tends to be more labour-intensive (note the small difference in net turnover). Another is the high share of female workers in the garment sector compared to the textile sector, which may have to do with the relatively lower level of average monthly compensation.

Table 12.1. Overview Statistics of Viet Nam's Textile and Garment Industry

		2015	2017	2018	2019	2020
Number of Acting Enterprises	Total	442,485	560,413	610,637	668,503	684,260
	Manufacturing	67,490	84,142	96,715	109,917	107,100
	Textile	**2,789**	**3,518**	**4,404**	**5,086**	**4,858**
	Apparel	**5,981**	**6,961**	**7,627**	**8,655**	**8,370**
Net Turnover (D billion)	Total	14,949,181	20,660,022	23,637,554	26,327,115	27,374,963
	Manufacturing	5,838,043	8,044,332	9,211,394	10,079,725	10,522,386
	Textile	**222,005**	**303,367**	**372,552**	**406,702**	**393,715**
	Apparel	**267,514**	**340,887**	**411,804**	**451,872**	**428,772**
Profit Rates	Total	3.63%	4.25%	3.79%	3.38%	3.48%
	Manufacturing	4.83%	5.39%	4.52%	3.82%	4.26%
	Textile	**3.27%**	**4.51%**	**4.00%**	**2.72%**	**3.16%**
	Apparel	**1.43%**	**1.82%**	**2.51%**	**2.75%**	**3.07%**
Number of Workers	Total	12,856,856	14,518,326	14,817,812	15,151,631	14,702,546
	Manufacturing	6,234,593	7,082,889	7,303,704	7,557,711	7,516,598
	Textile	**243,428**	**283,986**	**309,488**	**315,751**	**330,698**
	Apparel	**1,337,132**	**1,467,767**	**1,560,751**	**1,598,372**	**1,449,929**
Share of Female Workers	Total	46.0%	46.1%	46.7%	47.3%	46.7%
	Manufacturing	60.6%	59.9%	59.3%	59.1%	57.0%
	Textile	**54.4%**	**53.7%**	**52.8%**	**52.7%**	**53.9%**
	Apparel	**80.2%**	**79.5%**	**79.2%**	**78.6%**	**76.0%**
Average Compensation per month (D thousand)	Total	6,966	8,269	8,836	9,325	9,547
	Manufacturing	6,346	7,725	8,226	8,569	9,020
	Textile	**6,365**	**7,369**	**8,206**	**8,618**	**9,176**
	Apparel	**5,585**	**6,638**	**7,184**	**7,437**	**7,633**

Source: Prepared by the author using GSO (2022).

3. Viet Nam's Textile and Garment Industry in the Global Economy

This chapter will mainly focus on assessing Viet Nam's textile and garment industry in the context of the global economy by looking at its position within the global textile and garment value chain. As such, there will be an emphasis on export orientation. However, the latter part of this chapter will discuss the important roles of local and domestic markets.

Table 12.2. Overview of Viet Nam's Textile and Garment Trade (US$ million)

	2017	2018	2019	2020
Exports				
Textiles (HS52, 54, 55, 58, 59, 60)	**5,456**	**6,313**	**6,838**	**6,047**
HS52 (Cotton)	2,641	2,843	3,055	2,708
HS54 (Man-made filaments)	923	1,144	1,133	980
HS55 (Man-made staple fibres)	500	605	649	522
HS 58 (Fabrics, special woven)	90	110	121	119
HS59 (Textile fabrics, others)	543	629	712	584
HS60 (Knitted fabrics)	758	983	1,168	1,134
Garments (HS61, 62)	**24,396**	**28,152**	**30,038**	**27,031**
HS61 (Knitted garments)	12,059	13,850	14,885	13,701
HS62 (Woven garments)	12,337	14,301	15,153	13,330
All Commodities	215,119	243,699	264,610	281,441
Imports				
Textiles (HS52, 54, 55, 58, 59, 60)	**16,190**	**18,507**	**18.724**	**16,515**
HS52 (Cotton)	4,055	4,765	4,374	3,693
HS54 (Man-made filaments)	2,512	2,988	3,399	2,884
HS55 (Man-made staple fibres)	3,060	3,389	2,959	2,327
HS 58 (Fabrics, special woven)	1,013	1,086	1,081	991
HS59 (Textile fabrics, others)	1,115	1,277	1,465	1,416
HS60 (Knitted fabrics)	4,434	5,002	5,446	5,204
Garments (HS61, 62)	**519**	**487**	**492**	**464**
Apparel (Knitted, HS61)	285	231	224	245
Apparel (Woven, HS62)	234	256	269	219
All Commodities	213,215	236,869	253,442	261,309

Note: HS52 is 'Cotton'; HS54 is 'Man-made filaments; strip and the like of man-made textile materials'; HS55 is 'Man-made staple fibres'; HS 58 is 'Fabrics; special woven fabrics, tufted textile fabrics, lace, tapestries, trimmings, embroidery'; HS 59 is 'Textile fabrics; impregnated, coated, covered or laminated; textile articles of a kind suitable for industrial use'; HS 60 is ' Fabrics; knitted or crocheted'; HS 61 is 'Apparel and clothing accessories; knitted or crocheted'; and HS 62 is 'Apparel and clothing accessories; not knitted or crocheted.'
Source: Prepared by the author using UN Comtrade.

Table 12.2 summarises Viet Nam's recent trade values for textiles (HS52, 54, 55, 58, 59, and 60) and garments (HS61 and 62). In terms of exports, the importance of its garment sector is very clear. In 2020, it exported US$27 billion of garments, which accounted for about 9.6% of all exports, whilst that for textiles was just 2.3%. Garments are the third-largest export commodity of Viet Nam; the other two larger commodities being electronics (HS85) and machinery (HS84), which together occupy 46% of total trade. The fourth-largest export item was footwear (HS64), with a 6.1% share. The small trade value of Viet Nam's textiles is a manifestation of its weak position in the global textile and garment value chain.

As stated earlier, the textile and garment industry of Viet Nam has experienced a significant uplift since the turn of this century, however, all these developments have been limited to the garment sector. The textile sector had been facing strong headwinds as the yarns and fabrics used in export-oriented apparel value chains were essentially imported from other countries that were more competitive. These include neighbouring countries such as China, the Republic of Korea (hereafter, Korea), Taiwan, and Thailand. Whilst the number of companies and workers in this sector has been significant, it has also been suffering from quality and productivity issues, unlike the garment sector. As such, this chapter will primarily focus on the garment sector but will address the latest trends in Viet Nam's textile sector in the latter section.

4. Viet Nam in the Global Garment Value Chain

Viet Nam's textile and garment companies are highly heterogeneous in terms of firm characteristics; some are privately owned with varying degrees of foreign ownership, whilst some remain state-owned. Whilst some utilise modern machinery and employ thousands of workers under formal contracts, others operate more informally with limited capital utilisation. Tables 12.3 and 12.4 summarise the size distribution of companies in the textile and garment industry, with reference to manufacturing and the overall national economy.

The general trend is that the manufacturing sector tends to be larger in both number of workers and capital in its overall economy. Within this, the share of companies in the garment sector with a large workforce (say, above 300) is significantly larger than the textile sector, manufacturing, and the national average. On the other hand, the share of companies with larger capital values is much lower than for manufacturing and the textile sector. As mentioned earlier, this is most likely due to the high labour intensity of its production processes.

Table 12.3. Size Distribution of Firms (number of workers)

	Less than 5	5-9	10-49	50-199	200-299	300-499	500-999	1000-4999	5000-	Total
Total	414,406	126,341	109,918	24,046	3,156	2,625	2,018	1,521	229	684,260
Share (%)	60.6%	18.5%	16.1%	3.5%	0.5%	0.4%	0.3%	0.2%	0.0%	
Manufacturing	48,816	19,000	24,152	9,359	1,611	1,549	1,330	1,117	166	107,100
Share (%)	45.6%	17.7%	22.6%	8.7%	1.5%	1.4%	1.2%	1.0%	0.2%	
Textile	2,116	754	1,126	544	114	**84**	**62**	**53**	**5**	4,858
Share (%)	43.6%	15.5%	23.2%	11.2%	2.3%	**1.7%**	**1.3%**	**1.1%**	**0.1%**	
Garments	3,469	1,065	1,693	996	225	**305**	**286**	**288**	43	8,370
Share (%)	41.4%	12.7%	20.2%	11.9%	2.7%	**3.6%**	**3.4%**	**3.4%**	**0.5%**	

Note: Number of firms as of 31 December 2020.
Source: Prepared by the author using GSO (2022).

Table 12.4. Size Distribution of Firms (size of capital in D billion)

	Less than 0.5	0.5-1	1-5	5-10	10-50	50-200	200-500	500-	Total
Total	67,636	61,067	251,489	109,181	137,114	38,700	9,971	9,102	684,260
Share (%)	9.9%	8.9%	36.8%	16.0%	20.0%	5.7%	1.5%	1.3%	
Manufacturing	7,496	7,751	35,870	16,351	23,764	10,010	3,205	2,653	107,100
Share (%)	7.0%	7.2%	33.5%	15.3%	22.2%	9.3%	3.0%	2.5%	
Textile	325	367	1,502	724	**1,100**	**516**	**172**	**152**	4,858
Share (%)	6.7%	7.6%	30.9%	144.9%	**22.6%**	**10.6%**	**3.5%**	**3.1%**	
Garments	708	743	3,066	1,232	**1,636**	**656**	**199**	**130**	8,370
Share (%)	8.5%	8.9%	36.6%	14.7%	**19.5%**	**7.8%**	**2.4%**	**1.6%**	

Note: Number of firms as of 31 December 2020.
Source: Prepared by the author using GSO (2022).

Viet Nam's textile and garment industry has a dualistic structure, which is particularly acute in the garment sector. In this, large firms dominate export-oriented businesses, whilst the smaller ones primarily cater for local and domestic markets (Goto, 2014). The latter also includes a sizeable informal economy (Goto, 2013a). As such, much of the focus of this chapter will inevitably be on relatively larger garment firms, which also tend to operate in the formal economy.

The garment value chain of Viet Nam is similar to that of other garment-exporting, countries such as Bangladesh or Cambodia, in the sense that it is almost entirely focused on the assembly process, of the CMT function (Figure 12.2).

As discussed, garments produced for export have always been of high import intensity, where most of the input materials (fabrics) are imported from neighbouring countries, which typically tend to have higher income levels. In 2020, about 60% of the textiles used in export-oriented garment value chains were imported, with China a major supplier of such inputs. The creation of domestic backward linkages by encouraging local textile sector development has long been a major policy goal in this industry, as has been the case for others. Whilst there has been no particular policy intervention with a successful outcome in this, more recent anecdotal evidence suggests domestic supporting industry development happening through the influx of foreign direct investment, particularly from Taiwan, Korea, and China. We will return to this issue later in this chapter.
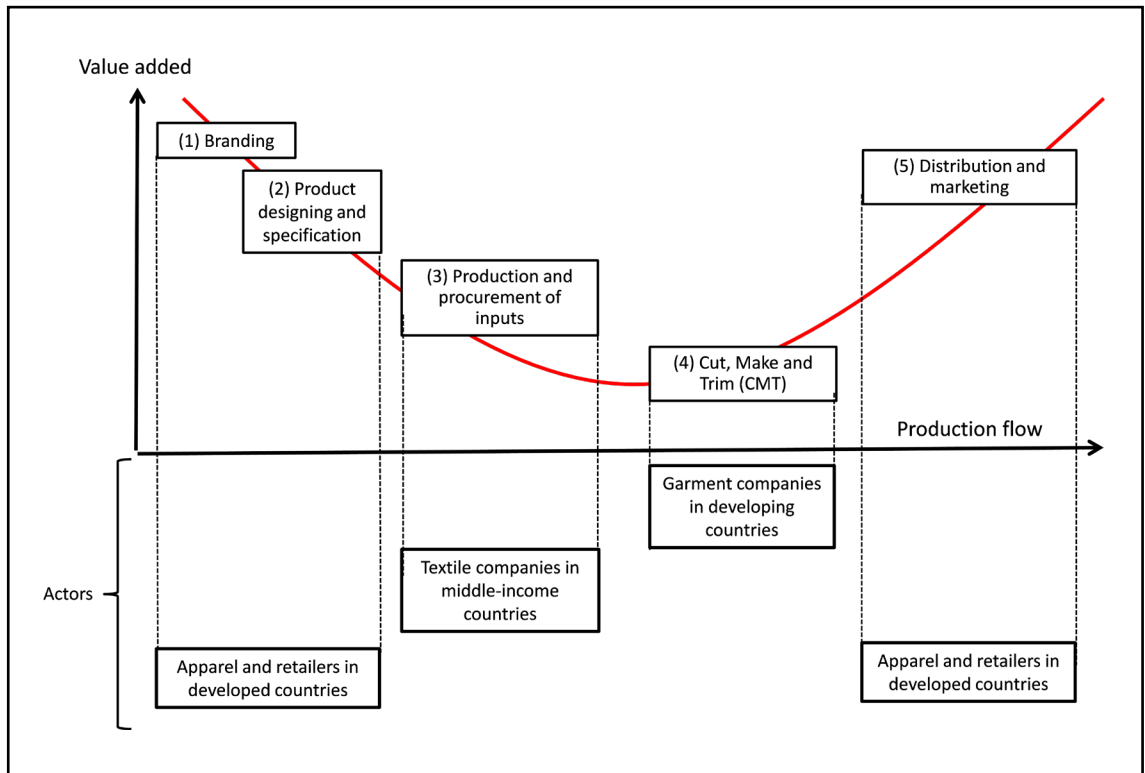
5. The Global Garment Value Chain and Upgrading

Integrated production processes have been sliced up according to differences in factor intensities unique to each of the processes/functions and relocated across borders in locations where factor endowments are most compatible with those factor requirements, leading to the creation of global value chains (GVCs). The garment sector is one of the early industries in which such dynamics, often referred to as fragmentation, have evolved. This trend particularly accelerated in the late 1990s as significant reductions in service-link costs, due to progress in trade liberalisation, reductions in international transportation costs, and the proliferation of information and communications technology (ICT), particularly the internet, occurred (Jones and Kierzkowski, 1990; Kimura, 2022).

Fragmentation is dynamically efficient because it capitalises on the differences in factor intensities of the different processes in the garment production flow. Figure 12.2 depicts a highly simplified picture of this. The first set of functions is of high knowledge and skill intensity, including (1) managing branding strategies, and (2) product design and technical specification, both of which are undertaken by lead firms (apparel firms and retailers from developed countries). Lead firms are important in value chains because they configure them by allocating the processes to selected value chain participants, and exercise power through key parameters (quality, price, and delivery) under which these firms must operate (Humphrey and Schmitz, 2000; Kawakami and Goto, 2020; Sturgeon, 2009; Goto, forthcoming).

Figure 12.2. The Production Flow and Value Added in the Apparel Industry

Source: Based on Goto (2014).

The next process is (3) to produce and procure the inputs (fabrics and accessories), which tend to be capital- and technology-intensive functions. Lead firms optimise efficiency by allocating these functions to middle-income countries, which exhibit comparative advantages in such processes. This is then followed by (4) the labour-intensive CMT process, typically undertaken by firms in developing countries with abundant workers, such as Viet Nam. Then they will finally go through (5) marketing and distribution, for which functions are again managed by lead firms in developed countries.

One of the main concepts of the GVC framework is upgrading, defined as a form of innovation to improve a firm's position in value chains to generate economic rent. Upgrading in the GVC literature is often categorised into the following three broad areas: (1) *process* upgrading, (2) *product* upgrading, and (3) *functional* upgrading (Gereffi and Memedovic, 2004; Goto, Natsuda, and Thoburn, 2011; Kaplinsky and Morris, 2001; Kawakami and Goto, 2020; Palpacuer, Gibbon, and Thomsen, 2005). *Process* upgrading refers to increased technological efficiency in the processes of transforming inputs into outputs, and *product* upgrading to undertake the production of higher value-added products. The former is likely the easiest to imagine, where leverage points could be as wide-ranging as to include, for instance, the upgrading of machinery, reorganising production flows on

the shop floor, introducing new accounting and management systems, and upgrading the skills and knowledge of workers in the particular functional area. Successful *process* upgrading through such initiatives is, in many cases, a precondition for *product* upgrading.

Functional upgrading is fundamentally different from *process* and *product* upgrading, which is about the acquisition of higher value-added functions within the value chain. Whilst the former types of upgrading are both forms of innovation that occur *within* a particular process or function, functional upgrading is a *shift* from one process or function to another, which would entail a fundamental change in the utilisation of the factors of production. This is why functional upgrading is often the most difficult to achieve.

The success of upgrading determines the levels of entry barriers each company can gain; the more difficult the type of upgrading realised, the higher the entry barriers. Unless firms are able to build economic rent through continuous and successful upgrading, competitive pressures in the market may eventually compel firms to compete by cutting production costs, including workers' wages. Such survival strategies are often called 'race to the bottom' strategies (Kaplinski, 1998).

Whilst Viet Nam's orientation towards Western markets can be traced back to its bilateral trade agreement with the European Union in 1992 (Goto, Natsuda, and Thoburn, 2011), the integration of Viet Nam's garment industry into the global economy was effectively led by Japanese lead firms, as mentioned earlier, who were in most cases trading companies, at around the same time. This was a strategic response of those Japanese multinational enterprises (MNEs) to rising wage levels in more traditional garment production sites in Asia, such as Korea, Taiwan, and Thailand. Because of this, Japan had become the largest export destination for Viet Nam's garments by the late 1990s.

The connection with value chains coordinated by Japanese MNEs had had significant impacts in terms of both process and product upgrading of Viet Nam's garment firms. As the products had to meet the Japanese market's stringent quality requirements, significant technology transfer from Japanese lead firms took place in the assembly function through those value chains, leading to both process and product upgrading (Goto, Natsuda, and Thoburn, 2011; Goto, 2013b). This contributed to building the competitive capabilities of Viet Nam's export-oriented garment enterprises, which were typically large SOEs, most of them

belonging to the former General Corporation, Vietnam National Textile Corporation, or VINATEX, at the time.[2]

Technology transfer from the Japanese lead firms to Vietnamese garment companies was a self-enforcing arrangement, as it proved to be a win–win relationship for both. As Japan already lost its international comparative advantage in the labour-intensive CMT functions, they saw no conflict of interest to transfer such technology and knowledge to their Vietnamese counterparts. Because competitiveness in value chains crucially depends on how competitive the entire chain could become as a production and distribution system (collective efficiency), it was crucial for the Japanese lead firms to ensure significant technological upgrading of their Vietnamese counterparts. It should be noted, however, that the types of technology and knowledge that are transferred from Japanese lead firms have been limited to those related to functions in which Japan has lost international comparative advantages. In other words, there are no incentives for the Japanese to transfer any technology or knowledge that directly relates to their core-competency areas, such as branding and designing, which is why functional upgrading tends to be more difficult.

6. The Middle-income Trap and the Domestic Market

The garment industry in Viet Nam is currently at a crossroads. Whilst it recorded impressive economic growth in the first two decades of the 21st century, spearheading nationwide industrialisation, it also led to increases in wage levels and acute labour shortages (Goto, 2013b; Goto 2014). This, in turn, began to affect the competitiveness of the garment industry, for which operations had predominantly been limited to the labour-intensive CMT function. The country's overall industrial structure also started to change, with a shift of gravity towards the rapidly evolving electronics and machinery sectors.

All these suggest an acute need for the garment industry to shift towards processes and functions that are inherently more capital, technology, and knowledge-intensive within garment value chains. In other words, the long-term growth prospects of Viet Nam's garment industry will be very much dependent on whether it can successfully achieve functional upgrading. Failing to do so will lead to a situation that is widely referred to as the 'middle-income trap' as mentioned earlier.
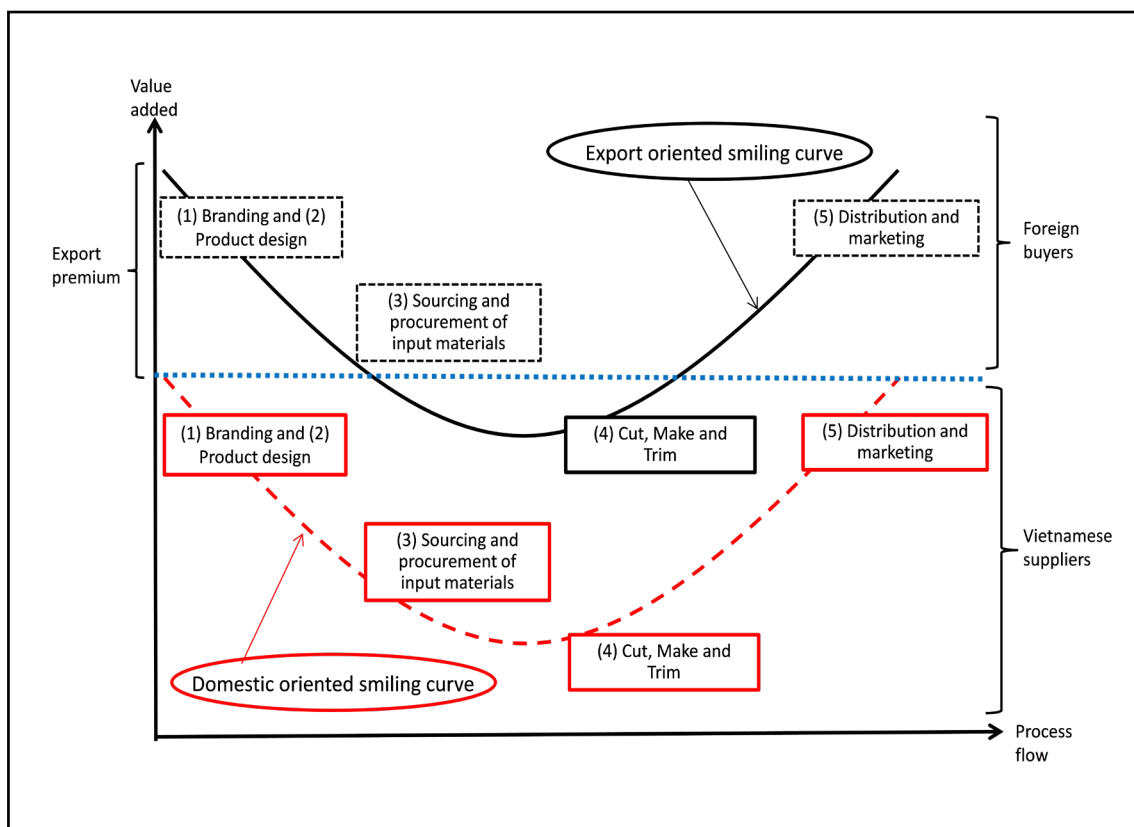
Functional upgrading in the garment industry almost always entails a view to incorporate higher value-added processes and functions that are highly knowledge and skill-intensive, primarily the branding, designing, product specification, and marketing functions. Whilst there has been no strong evidence of such a type of *functional* upgrading occurring in the export-oriented garment industry, domestic and regional markets of proximity may prove much more promising (Goto, 2014).

In Viet Nam, the domestic market has primarily been catered by small local firms, ranging from large private firms to small workshops in the informal economy. Compared to the much larger and formal export-oriented garment firms, these domestic-oriented firms typically lack the

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[2] Formerly 'General Corporation (Tổng công ty)', now re-established as Vietnam National Textile and Garment Group (Tập đoàn).

process technologies that are acceptable at the international level. However, these firms have for a long time been undertaking a much wider range of processes outside of the CMT, including the knowledge-intensive designing and marketing processes (Goto, 2006). However, it is important to recognise that these domestic garment companies operate at a much lower level of technological sophistication and value-addition in each of the processes, primarily because there has been very limited, if any, technological transfer from companies from advanced countries, leading to a notable 'export premium' (Goto, 2014). As such, the two value chains (domestic and export) have co-existed in parallel with almost no interaction (see Figure 12.3).

Figure 12.3. The Apparel Smiling Curve: Functional Hierarchy in Garment Production–Distribution

Source: Modified from Mudambi (2007) and Goto (2003, 2006, 2007, 2014).

However, Viet Nam's robust economic performance in the past two decades has increased local purchasing power significantly, which has made its local market increasingly attractive. Accordingly, some of the large and advanced export-oriented garment companies, and some foreign buyers who have been entirely focused on foreign markets, have started to target and expand into domestic-market-oriented businesses. Reorienting businesses toward such emerging local markets will likely induce changes in how value chains are organised, which also may lead to shifting priorities of those export-oriented companies. New players could evolve as key coordinators of those regional and local market-oriented value chains in Viet Nam.

Upgrading will be crucially important to sustain the growth of the garment industry. As mentioned earlier, failing to do so might leave those garment companies to compete by taking a 'race to the bottom' approach, for instance at the expense of working conditions. It could also lead to the 'informalisation' of production and working arrangements, some of which have been observed in Thailand (Goto and Endo, 2014).

7. Regional Trade Agreements and FDI in the Textiles Sector

Regarding the textile sector of Viet Nam, there has been an interesting development in relation to the negotiations of a particular regional trade agreement (RTA), the Trans-Pacific Partnership (TPP) agreement. RTAs often influence how GVCs evolve and expand. For Viet Nam, the negotiation process of the initial TPP, particularly when was still led by the US before it withdrew from it, had a significant impact, particularly on the textile sector.
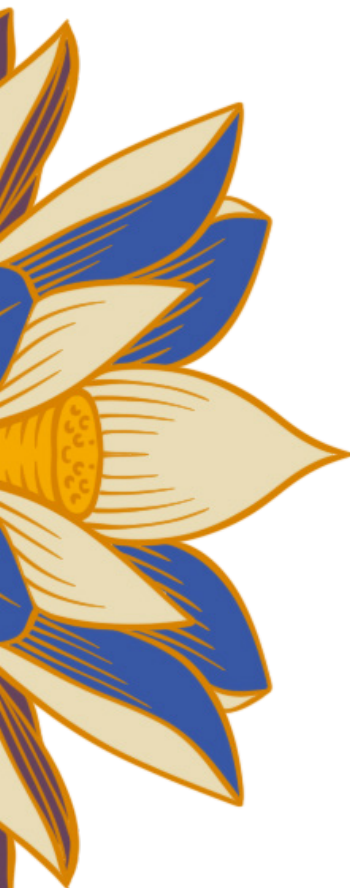
As mentioned earlier, the key inputs for the garment industry (textiles) for the export-oriented garment industry have been primarily imported from neighbouring countries, despite the existence of a relatively large domestic spinning and weaving/knitting capability, as the domestic sector had for a long time lacked international competitiveness in terms of both quality and price.

In Viet Nam, the TPP agreement had been discussed primarily in relation to the textile and garment industry and to the US market. This is because the anticipated benefits of an increase in exports bound for the US as a result of the TPP would be relatively larger for this industry than others. The US was the biggest export destination for Viet Nam in 2016, and garment products (HS61 and 62) were the largest export commodity occupying about 30% of all exports.

The US at the time had been applying the Most Favoured Nation (MFN) treatment under the WTO rules on Viet Nam's garment products. Most Asian exporters, such as India and Indonesia, however, had been granted market access under the more advantageous Generalized System of Preferences (GSP). Furthermore, for least-developed countries like Cambodia, the more progressive GSP-LDC rate had been applied. As such, there were expectations that the ratification of the TPP agreement would lead to a large reduction of US import tariffs on garments from Viet Nam (Shiino, 2013).

However, one of the key issues was in the rules of origin, which at the time was called the 'yarn forward rule (YFR)'. This required

TPP members, including Viet Nam, to undertake at least the three key processes of spinning, weaving, and assembly (CMT) either domestically or within another TPP member country to be eligible for the TPP tariff rates. As noted above, Viet Nam's export-oriented garment sector has been heavily dependent on Chinese fabrics, however as China is not a member of the TPP agreement, this production modality would not qualify for preferential treatment under the TPP agreement.

As the inclusion of rules of origin requirements like the YFR in RTAs such as the TPP agreement has direct implications on the export competitiveness of Viet Nam's garments to its member countries, particularly the US, this led to a drastic increase in demand for domestic textile production capabilities. In 2005, this triggered an influx of foreign direct investment (FDI) in Viet Nam's textile sector from non-TPP members, such as China, Taiwan, Korea, and Hong Kong.

As discussed earlier, the lack of international competitiveness in the upstream textile sector has been seen as a major bottleneck for a long time. However, the possibility of upgrading these sectors through foreign investment provides an interesting opportunity for the future development of Viet Nam's textile industry. Whilst overall, textile exports from Viet Nam are still limited compared to those for garments (Table 12.2), Viet Nam is rapidly building international comparative advantages in textiles (HS58, 59, and 60); its Revealed Comparative Advantage in 2005 was just 0.384, whilst it was 1.719 in 2020. What is striking is its large share of exports to Cambodia; in 2020, 31.6% of all textile exports from Viet Nam were bound for Cambodia, followed by China (13.0%), Indonesia (9.7%), and the US (8.8%).

The recent tensions between the US and China have further induced an influx of FDI into Viet Nam's textile sector, particularly from China. The primary motivation behind this is to avoid the negative effects due to the possible trade restrictions on Chinese textiles to the US market. It is important to note that trade-related institutions and international market dynamics seem to be having significant impacts on shaping the growth trajectory of the textile sector of Viet Nam. As the experience of the garment sector suggests, a relatively free and open business environment compatible with globalisation dynamics may further propel the robust growth of the textile sector in the future.

8. Sustainability Issues in Global Garment Value Chains and Future Challenges

On 24 April 2013, the Rana Plaza building in Dhaka, Bangladesh, which housed five garment factories, collapsed. It was one of the worst industrial disasters in the world, killing 1,132 and injuring more than 2,500 people. These garment factories had been part of global garment value chains, undertaking CMT processes for major European and US brands. This event was a major wake-up call for the possible and serious working condition deficits to which workers in the garment sector in Bangladesh, and throughout the world, were exposed.

This event was crucial in bringing consumers' attention to the grim realities of some of the garment factories in developing countries, in which working conditions may have been indecent, violating fundamental principles and rights at work, or more broadly, human rights. It was also a crucial moment that induced major responses from governments and businesses around the globe.

Global brands and retailers, or lead firms of global garment value chains, now must actively ensure that employment practices are in full compliance with all the relevant regulations, and also in line with global standards, including those articulated in the OECD Guidelines for Multinational Enterprises, the International Labour Organization's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), and more recently, the United Nations Guiding Principles on Business and Human Rights, which was adopted in 2011.

With the unanimous adoption of Agenda 2030 at the UN General Assembly in 2015, realising sustainable development has become a responsibility

not just for governments but also for businesses. Within this, the Sustainable Development Goals (SDGs), stipulating 17 goals with 169 targets and 232 indicators, have become important guidelines to conduct global businesses. A progressive view that business performance should be measured not just in financial terms but from a much wider set of dimensions, primarily from the environment, social, and governance (ESG) fronts has become much more common. Corporations are now expected to report their performance from such a comprehensive perspective through annual integrated reports. Meanwhile, a specific due diligence guideline specific for the textile and garment (and footwear) industry has been developed and published by the OECD (OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector) in 2017.

Whilst such guidelines are in principle voluntary, more proactive measures have been taken in developed countries. In 2015, the UK passed the Modern Slavery Act, which includes Transparency in Supply Chain Provisions, requiring major businesses to publish annual statements to ensure that slavery and human trafficking are not taking place in their supply chains. The significance is that it explicitly holds those large companies in the UK (who are, in many cases, also lead firms of GVCs) accountable for working conditions throughout their value chains, regardless of ownership or contractual relationships. Similar legislation has been passed in other countries, with broader requirements related to due diligence in working conditions and human rights. For instance, France adopted a law imposing due diligence on multinationals (Duty of Vigilance Act) in 2017 to prevent serious human rights abuses in value chains, and Germany approved similar draft legislation on corporate due diligence in supply chains. In addition, in February 2022, the EU announced a proposal on a Directive for a European Supply Chain Act, which requires companies to implement social and environmental due diligence along the entire value chain, including all direct and indirect business relationships. The aim is to prevent, end, or mitigate their adverse impacts on human rights and the environment throughout the value chains.

These developments have direct implications for the textile and garment industry of Viet Nam, as lead firms will require local companies connected to their GVCs to comply with these standards. These developments are not unique to the textile and garment industry. In fact, the electronics industry has been much more proactive in incorporating sustainability concerns in the value chains, which have already significantly impacted Viet Nam's electronics sector through a series of tripartite dialogues between employers, workers, and the government (Goto and Arai, 2018).

Conclusion

Viet Nam's textile and garment industry is at a crossroads. The garment industry, which has for a long time spearheaded industrialisation in Viet Nam, is facing challenges where competitiveness can no longer be based on low labour costs alone. As a significant amount of process and product upgrading has happened, it now must think of ways to achieve functional upgrading and cater for the higher value-added functions, which are of higher skills and knowledge intensity. For this, the domestic and regional markets will be important. However, the underdevelopment of logistics, infrastructure, and institutions that support smooth business transactions may become a key bottleneck. The textile sector, meanwhile, could further grow, particularly with increased inward FDI from neighbouring economies, including China, Taiwan, and Korea, creating significant domestic backward linkages.

As sustainability has become a prime concern for businesses, particularly lead firms that configure and coordinate value chains, improving on technical efficiencies alone will not be sufficient. Social and environmental concerns have increasingly become amongst the most important sources of competitiveness.

Whilst implementing good social and environmental practices has, in some cases, been considered as costly, negatively affecting competitiveness and economic growth, there has been ample evidence that good social and environmental practices are compatible with dynamic competitiveness. The future growth potential of Viet Nam's textile and garment industry is most likely conditional on how it can lead with such practices, in which connectivity to the global economy will continue to be amongst the most critical factors.

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