Explaining the fast-growing textile and garment industries (TGI) in Vietnam (2000-2015)

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Abstract

The goal of this research is to explain the fast-growing textile and garment industries (TGI) in Vietnam from 2000 to 2015. This research is important in the context of Indonesia's competition with Vietnam as among top TGI exporters in the world. This research adopted Gereffi's Global Commodity Chains (GCCs) framework which situates TGI under the category of buyer-driven chains. Under this category, actors, both government and industry, interested in industrial upgrading must develop both forward (marketing) and backward (production) linkages and learning process between this continuum. This research found that Vietnam's fast growing textile and garment industries from 2000-2015 has been contributed by the government's successful industrial upgrading through its learning process in developing forward and backward linkages. Following these findings, therefore, Indonesia as competitor must also develop similar attitude and learning process in both linkages.

Key words**:** *textile, garment, Vietnam, global commodity chains, industrial upgrading*

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Introduction

The last two decades have been a remarkable history in Vietnam economy in which the country has grown from one of the least developed countries in Southeast Asia to one of the fastest growing nation in the region. The GDP annual growth peaked in 2007 when it reached $8.5 billion as high as Singapore (ASEAN Secretariat, 2010). And, even though its economic growth was slightly down during the global financial crisis 2008-2010, the trend afterwards has been consistently increasing compared to those of China and its neighboring countries (WTO, n.d.) (Chi, 2016). Overall, Vietnam economy has grown from only US$31 billion in 2000 to US$193 billion in 2015, an increase which is more than 500% in only 15 years (WTO, n.d.).

Its textile and garment industries (TGI) which recently has substituted crude oil and gas as the country's primary export also experienced a tremendous growth with 20% annual growth rate from 2000 (AFTEX, 2010) and increased to 30% since 2005 (WTO, 2011). After the financial crisis, Vietnam's TGI remains the world fastest growing industry with 17% increase from 2010-2015, far exceeding China which, despite maintained as the world largest textile and garment exporter, its annual growth stuck in the level of 6% (WTO, 2016). In terms of access to the world largest markets, Vietnam now ranks the second after China as the textile and garment supplier for the United States (U.S.) and Japan (WITS, n.d.). It is also one of the biggest ten exporters for European Union (EU) market in the last decade with its export volume continues to increase considerably (Vinatex, 2011). With all the above development, textile and garment industries play pivotal role for Vietnam economy, not only contributing to half of its manufacture export but also to 2.5 million employments for local people (Chi, 2016).

This development of Vietnam's TGI has undeniably posed significant challenges to other TGI exporting countries especially Indonesia which is also among 10 largest TGI exporters in the world and the second largest in the region after Vietnam. However, the growth of Indonesia's TGI has been stagnant since 2010 with 0% growth in 2010-2015. Vietnam's TGI growth, in this regards, could be treated as the biggest competitor for Indonesia, but at the same time also an example to learn how to survive in the TGI industry.

Against this backdrop, this research aimed to analyze this major development of Vietnamese textile and garment industries from 2000 to 2015, particularly how the government promote this national growth of its TGI. The year 2000 is chosen because this period marked the beginning of significant growth in Vietnam' TGI, while the cutoff in 2015 is chosen to help making better observation on the object of study which would be otherwise difficult if it is conducted on the ongoing period (2018).

Several works have been made to study the Vietnam's growing textile and garment industries in the previous decade from 1990-2000 (Tran, 1996) (Nguyen & Le, 2005) but the trend of development after 2000 has been very different both in term of size and factors involved. The changing international environment, particularly, has contributed to the major leap for Vietnamese textile and garment industries. Yet still, those studying TGI growth after 2000 focus only on particular aspect of TGI such as coloration (Phong &

Thong, 2008) and particular partners countries such as comparison of Vietnam's export to the U.S., Japan, and the EU (Goto, Natsuda, & Thoburn, 2011). These studies also focus on individual companies rather than focus on the strategy conducted by Vietnamese government to promote the growth of Vietnamese TGI internationally, which is more useful for the purpose of giving feedback to Indonesian government. It is for this reason; this study intends to fill this gap.

The past research, however, has introduced basis for theoretical framework to analyze textile and garment industry which could be maintained for this research. Common among the past research was the adoption of Gary Gereffi's Global Commodity Chains (GCCs) (Gereffi, 1999) as a tool of analysis. This framework principally looks at global economy as a commodity chain consisting of designing, producing, and marketing activities (Gereffi, 1999). In GCCs, the chain is divided into producer-driven chain in which the large producers have more power in influencing the chain through its large capital reserve and technological advancement and buyer-driven chain in which buyers, marketers, and retailers have more say within the chain through its value added learning process. The dominance of buyers and marketers have created pressures in reducing production costs which make the main characteristics for the latter category is its labor intensive production such as apparent in the textile and garment industry. Another characteristic of this category is what he termed as "geographical expansion" or "multilayer source network (Gereffi, 1999). This phenomenon occurs when the production in particular countries has arisen which makes buyers, marketers, and retailers shift their production to other countries with cheaper production cost. This phenomenon is what determines the dynamics in buyer driven chain and the one that enables one country to move up the ladder within the chain. This occurs because buyers, marketers, and retailers tend to retain the previous producing countries as their "middle men" in their relations with the new outsourced countries. This is the aspect from Gereffi's framework that most of the past researches have focused on.

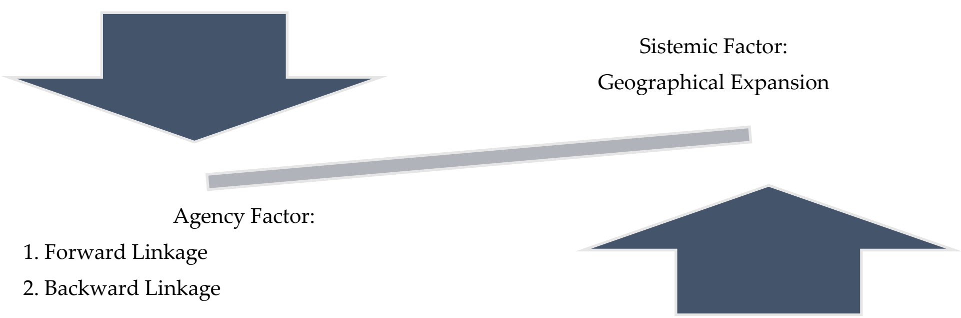
Of course, this systemic cause is not the only way one country could move up the ladder of buyer-driven chain. Gereffi suggests that countries aim to upgrade its industry within the chain must also develop its agency role in influencing the chain by strengthening its forward and backward linkages. The first refers to the strategy of identifying and expanding its consumer and marketing network, while the latter refers to the strategy of strengthening its production system and network. While the main actor in this chain is firms within TGI, but this theory could also be applied in the government, meaning the government could also help developing forward and backward linkages to help its domestic industry moving up the ladder of chain. This is often the case as the character of TGI, as Henrik Schaumburg-Muller noted, "has hardly ever been characterized by free trade arrangements where comparative advantages would alone be the main driver for the location of production and distribution of exports" (Schaumburg-Muller, 2009). The durability of Multi-Fiber Agreement (MFA) which set quota for trade in textile and garment from 1974 to 2005 is a telling evidence on the government intervention tendency in this industry. Even though MFA has been terminated, but various individual government measures are also introduced to protect their market particularly against the competitive pressure from China's TGI and the more open market which makes TGI in the post MFA often subject to government intervention (Schaumburg-Muller, 2009). In addition, the dynamics of this industry is also highly influenced by macro economy of a country particularly in relations to labor wages, therefore, the role of government is significant in TGI development of a country and it is also the reason why discussions on TGI use country as the main reference.

Based on this explanation, it is my contention here that the fast-growing textile and garment industry in Vietnam from 2000 to 2015 cannot be separated from two major factors of Vietnam industrial upgrading strategy. First, the given character of geographical expansion in this buyer-driven chain has benefited Vietnam as the neighboring country when the production cost is rising in China and consumers relocate their production base. Second, in addition to this advantage, Vietnam also plays agency role in establishing forward and backward linkage. All these factors, in the end, contribute to the development of Vietnam textile and garment industry and its industrial upgrading in the global commodity chain.

Methods

In testing this hypothesis, this research was conducted in two stages. The first was literature study on the development of textile and garment industries in Vietnam to establish context within which this study was undertaken, to demonstrate the importance of these industries to Vietnam, and to illustrate the significant growth that the industries have reached in the past decade. The second stage, then, analyzed the factors underlying the rapid development of TGI in Vietnam since 2000 to 2015 particularly from the side of government's strategy in promoting this growth using the framework of global commodity chains (GCCs). The GCC framework itself could be summarized using the following diagram.

Graph 1. Vietnam's TGI in GCC Framework



In collecting data on government strategy to promote TGI growth, this research primarily relied on desk study to collect both primary data provided by relevant Vietnamese government websites and secondary data from scholarly literatures and media. It is the analysis of these data using the framework that will lead to conclusion.

Result and Discussion

In line with the above method, the result of this research would be divided into two parts: findings on the historical development of textile and garment industries in Vietnam and analysis of the fast-growing TGI industries in Vietnam using GCC framework.

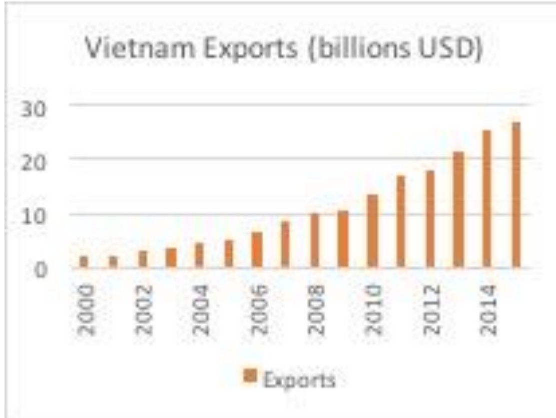
Historical Development of Textile and Garment Industries in Vietnam

Textile and garment are both old commodities in international trade dating back to the early silk route which interlinked traders from Afro-Eurasian to the Eastern part of Asia. Yet, it was not until the industrial revolution in the late 18th century in England that the modern textile and garment industries come into existence (Simones, 2005). The newly industrial countries came afterward in Europe such as United Kingdom, French, and the Netherlands were all expanding their textile industry as the backbone of their economy throughout the world (Simones, 2005). It is within this context that French, during his colonization in Vietnam (1802-1945), built the first textile factory named Nam Dinh in the Red River delta in the northern part of the country (Institute of Economics, 2001).

As explained extensively by A.N. Tran (Tran, 1996), after the reunification of southern and northern Vietnam under the Socialist Republic of Vietnam in 1975, Vietnam textile and garment industries were controlled by the government who exported 90% of the textile production to Soviet Union and Eastern Europe under the agreement of the so-called Council for Mutual Economic Assistance (CMEA) (Tran, 1996). This export which mainly in form of military uniforms were exported to pay for foreign debt and to seek assistance for the country's development fund (Tran, 1996). In the late 1980s, the government announced *doi moi* policy which would be the foundation for the development of the Vietnam's future economy. This policy not only opened the door of its domestic market to private and foreign investment but also redirected the country's economy into export-oriented production. Since then, thousands of private firms and foreign-owned companies were flooding Vietnamese industries in terms of textile and garments (Tran, 1996). Nevertheless, the disintegration of Soviet Union which has been the only market for Vietnam over the past decade has suspended the prospect for growth.

The rest of 1990-2000 is the account of how the country rebuilt its textile and garment industries and its overall economy in general. Tran explained that the signing of trade agreement with the EU in 1992 and the lifting of U.S. embargo have revived the textile and garment industries in Vietnam by opening alternative markets outside the communist countries (Tran, 1996). This trade has significantly increased the textile and garment export from 2404 million dollars in 1990 to 7000 million dollars in 1996 (Tran, 1996). It should be noted, however, that in the trade with the European Union, Vietnam's role was limited in manufacturing because Europe still relied on their East Asian partners whom they thought was more reputable in supplying material, management, and quality control (Tran, 1996). From this trade, Vietnam only earned 4% of the total price which still continue to decrease due to economic crisis hitting Asia since 1997 (Tran, 1996).

Graph 2. Vietnam Export from 2000-2015 (US$ billion)



Source: Adopted from WITS (n.d.)

It is only in 2000 that the export of textile and garment in Vietnam stabilized and consistently growing as shown in Graph 2.

The signing of bilateral free trade agreement with U.S. in 2000 which concurrent with the implementation of ASEAN Free Trade Area have quadrupled Vietnam export from only $1.3 billion in the late 1990s to almost $4 billion in 2004. Vietnam accession to WTO also followed by the dramatic increase both in export and Foreign Direct Investment which culminated in 2008. That year, Vietnam export reached $9.082 billion (AFTEX, 2010) and the FDI scored in $10.6 billion (Tran, 1996). It is only in 2009 that Vietnam export decreased slightly to $9.01 billion due to global financial crisis. Yet in overall, despite China still dominated the textile and garment industry; Vietnam managed to be the fastest growing exporter of both commodities and its growth consistently increases from 2000-2015.

GCC Analysis on Vietnam's Fast Growing TGI

From GCCs point of view, the fast-growing export of Vietnamese textile and garment industries cannot be separated from the nature and activities along the global commodity chain and the government responses to those dynamics which determine the overall performance of export and import as will be explained below.

The Nature and Activities along the Chain

The buyer-driven chain such as textile and garment are highly competitive. Fashion world changes so quickly, and thus buyer always searches for producer who can deliver their product on time with the production cost as low as possible. As this industry is labor intensive, wages are very important element in the calculation of total production cost (Simones, 2005). It is for this reason that producers are very responsive to the rising cost of production. The nature of the production which does not require a great deal of capital and technology makes them easy to move to other places where labors are abundant and cheap.

The period of 2000 to 2015 in global textile and garment chain witnessed the primacy of China as the number one exporter of textile and garment commodity, rising from 10.4% share of the total world export to 39.3% in 2015 pushing aside the EU in the second place (WTO, 2016). The end of the MFA which has previously restricted the quota of textile and garment industries from developed to developing countries, however, had dual impacts for China. In the one hand, it helped China to increase the already high export of TGI to developed markets. China, indeed, enjoy comparative advantage of abundant and cheap labor whose wages account for only 9% of those in the developed countries (Wright, Sahni, & Zamora, 2011). In the other hand, however, it also increased China's competitors from other developing countries who also enjoyed this new policy.

The rising living cost in coastal China whose Consumer Price Index (CPI) increased considerably 15% from 2010 to 2015 (WTO, n.d.), the aging population, and the better educated young generation have contributed to the beginning of scarcity and increasing wages in China's labor up to 20% since 2000 (Wright, Sahni, & Zamora, 2011) and even 80% since 2010 (Lomas, 2017). Despite many foreign companies maintained their operations in China or moving inland where labors are cheaper, there have been many companies relocating their production base to other countries. Chinese firms themselves also began to build their subsidiaries in their neighboring countries whose labor wages were less than those in China.

This is definitely benefiting Vietnam as the neighboring country which has been flooded by 90 companies relocating from China (China Economic Review, 2011). The labor productivity in Vietnam, as reported by Asian Productivity Organization, is below the labor productivity in China (APO, 2012) and other ASEAN countries (Vietnamnet, 2016). Nevertheless, their wages is less than a quarter that of Chinese workers (Wright, Sahni, & Zamora, 2011) (The Economist, 2015). Thus, in the case of significant increase of wages in China which makes the country lost its cost advantage, it is profitable for companies to relocate or build subsidiaries in the lower-cost countries such as Vietnam (Wright, Sahni, & Zamora, 2011). And compared to other Southeast Asian countries, Vietnam is relatively stable country with government policies support the business environment (Department for International Trade, 2018). According to World Bank's Doing Business Report which measures "the ease of doing business" across countries, Vietnam ranks higher than Indonesia, the Philippines, Laos, and the average of East Asia & Pacific (World Bank, 2017). It is located in coastal area and the most important is geographically close to China. The last mentioned is particularly important for those who intend to build subsidiaries and thus minimize the transportation cost and more rapid delivery of product which are important in fashion industry. This comparative advantage as an 'alternative to China' has ultimately attracted many foreign investment coming to Vietnam during the last decade. These FDI-invested enterprises are accounted for 25% of total textile and garment enterprises in Vietnam with their export accounted for 60% of the total Vietnam export on both commodities

(Vietnam Chamber of Commerce & Industry, 2012). The major countries which shared the majority of these FDI-invested enterprises are Korea, Japan, Taiwan, Hong Kong, Malaysia, and the U.S. (Vietnam Chamber of Commerce & Industry, 2012).

In addition to this international dynamic along the commodity chain which contributed to the rising Vietnam textile and garment industry, the government response to those dynamics is also another importance factor affecting the performance of Vietnam export. Since 2000, Vietnamese government has made significant effort to upgrade the position of the country in GCCs both through the forward linkage and the backward linkage which also contribute substantially to the fast-growing export of textile and garment industries.

Forward Linkage

As the buyer driven chain emphasizes the importance of buyers in determining the dynamics within the production chain, forward linkage to better identify and engage the buyers are crucial for producer. In 2000, Vietnam government signed bilateral free trade agreement (BTA) with the U.S. which followed by bilateral agreement on textile in 2003. These two agreements have been a milestone for the subsequent development of Vietnam TGI's since the U.S. is the largest market for both commodities. This BTA decreased the tariff for Vietnam product to the U.S. from 40% to only 3% and thus allowing a significant increase for Vietnam commodities which have long been excluded from U.S. market since the end of the War (Simones, 2005). During this decade, more than 50% of Vietnam textile exports are directed to the U.S. (Simones, 2005) and thus it is not only that the U.S. is the first destination for Vietnam export but Vietnam also ranks the second textile exporter to the U.S. (VITAS, 2011). This substantial rise in the trend of Vietnam-U.S. trade can be seen from zero in 1997 to US$10,000 million in 2007 or in only a decade (Fukase, 2012). Vietnam's export to the U.S. in merchandise alone (where TGI is part of) has increased drastically from zero to almost 35 billion USD in 2015 (Martin, 2016).

While the BTA with the U.S. has been better explaining the fast-growing Vietnam textile export in the first half of 2000s, the second half record was much contributed to the Vietnam accession to WTO in 2007. This membership is important in at least three ways. First, it included Vietnam in the Most Favor Nation rule where its products are no longer subject to discrimination and quota, but instead, abide to the same WTO regulation (CIEM, 2010). Second and still related to the first, this membership opened access to major market such as U.S., China, and European Union. Third, the domestic adjustment made by the government in order to apply for the membership has also indirectly improved the business environment in Vietnam (CIEM, 2010).

After its accession to WTO, there are some major changes in Vietnam overall performance. First, there was structural change in Vietnam export commodity from the previously dominated by natural-based commodity or agriculture to manufactured based commodity (CIEM, 2010). It occurred because Vietnam's entry into free trade area or nearly perfect competition market will weaken the competitiveness of any agricultural product. It is only the differentiated or value-added commodities such as manufacture that may benefited from this market. It is proven in case of textile and garment industries which competitiveness increased up to 80.6% after its accession to WTO (CIEM, 2010). Second, there are widening in terms of trading partners and deepening in the terms of cooperation. It implies that there are more countries trading and investing in Vietnam and that the cooperation with these countries has also increased in size. Third, the FDI received by Vietnam increased considerably from only $1.3 billion in 2000 to $11.8 billion in 2015 with the most significant increase in 2006–2008 where the FDI grew from US$2.4 billion to US$9.6 billion (World Bank, 2018). The fact that the highest FDI peaked in 2008 demonstrated investors' confidence on Vietnam economy with its eventual accession to WTO. The FDI growth rate in manufacture which composed mostly by textile and garment industries has also grown from only 1.9% in 2004 to 34.2% in 2007 (CIEM, 2010).

After Vietnam's accession to WTO, Vietnam also actively signed trade agreements under the framework of ASEAN free trade, for example, with India, Australia, New Zealand, South Korea, China, and Japan; bilateral trade agreements in which Vietnam as individual country signed with Chile, Japan, South Korea, and Eurasian Economic Union (Vietnam News, 2017); and also regional trade arrangements such as TPP. While their specific impacts to Vietnam's TGI still need to be examined, these agreements have provided alternatives of markets for Vietnam's TGI which is very important in maintaining its forward linkages in this period.

Backward Linkage

In addition to the forward linkage to expand Vietnam's TGI market, government responds to competition also through backward linkage to enhance its supply chain. Despite Vietnam gained unintended benefit from China's rising cost of production, China remains one of the major competitor for Vietnam in terms of the availability of supply, technology, and production efficiency which are needed in the fashion industry. China so far remains the largest source for Vietnam's imports in its TGI accounting for almost 44% of its total TGI import (WITS, 2018). It is for this reason that Vietnam joined other ASEAN members in the ASEAN Federation of textile Industries which are currently focusing on how to implement regional supply chain which offers full- package supply under the scheme named SAFSA (Source ASEAN Full Service Alliance) (Invest in ASEAN, 2018). With the establishment of ASEAN Community, goods and services are free moving among member countries. As each of them has their own comparative advantage both in terms of material and expertise, specializing in those specific areas and cooperate with others to fulfill the market demand will be better-off for all parties. For Vietnam, this cooperation has increased the export of some of the most popular commodities such as synthetic filament yarn, cotton yarn and synthetic fiber yarn up to tenfold from 2002 to 2009 (AFTEX, 2010). For example, the export volume of the first mentioned commodity rose from $3.6 million in 2002 to $48.7 million in 2009 (AFTEX, 2010). Apart from that, Vietnam also benefited from getting better quality material from ASEAN countries which cannot be provided by domestic producers. The ASEAN supply for synthetic staple fiber for example increases 300-fold over seven year's period (AFTEX, 2010). The supply for synthetic filament yarn also increased almost doubly from $53 million to $90 million in the same period (AFTEX, 2010).

Conclusion

Based on the above findings and discussion, there are at least two conclusions that could be drawn. First, the findings of this research have well supported the hypothesis of this research that Vietnam's fast-growing textile and garment industries reflects its successful industrial upgrading in the global commodity chain. However, in contrast to the dominant readings which look at this upgrading more because of the systemic factor within the GCC that is China's increased labor wage which unavoidably prompted investors to shift their production to Vietnam, this paper demonstrates that Vietnamese government also has agency role in helping its TGI in expanding its forward and backward linkages. The forward linkage has been focused on capitalizing the normalization of U.S.-Vietnam trade under BTA, Vietnam's accession to WTO, and other FTA and regional arrangements such as TPP and its successor. Meanwhile the backward linkage has been focused on building stronger supply chain with other ASEAN countries. This strategy not only helps Vietnam meeting its demand for raw materials, but also helps it reduce its dependence on China and minimize competition with other ASEAN countries. As the ultimate purpose of this paper is to offer insight for Indonesia's government on Vietnam's strategy in relations to its TGI, Indonesia could also adopt similar strategy to develop its currently stagnant TGI growth.

About the Author

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