ANALYSIS OF THE EFFECT OF THE TRANS-PACIFIC PARTNERSHIP FREE TRADE AGREEMENT ON VIETNAM APPAREL INDUSTRY

BY

MISS DOAN THI THU THUY

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS (ASIA PACIFIC STUDIES)
COLLEGE OF INTERDISCIPLINARY STUDIES
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2016

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THESIS

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ENTITLED

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was approved as partial fulfillment of the requirements for

the degree of Master of Arts (Asia Pacific Studies)

on December 1,2016

Chairman

(Assistant Professor Pittaya Suvakunta, Ph.D)

Member and Advisor

(Assistant Professor Suphat Suphachalasai, Ph.D)

Member

(Parnpree Bahiddha-nukara , Ph.D.)

Dean

(Associate Professor Decha Sungkawan, Ph.D)

Thesis Title	ANALYSIS OF THE EFFECT OF THE TRANS-PACIFIC PARTNERSHIP FREE TRADE AGREEMENT ON VIETNAM APPAREL INDUSTRY
Author	Miss Doan Thi Thu Thuy
Degree	Master (Asia Pacific Studies)
Major Field/Faculty/University	College of Interdisciplinary Studies Thammasat University
Thesis Advisor	Associate Professor Suphat Suphachalasai, Ph.D.
Academic Year	2016

ABSTRACT

The Trans-Pacific Partnership Agreement (TPP) was signed by twelve countries, namely Chile, New Zealand, Brunei, Singapore, the United States, Peru, Malaysia, Canada, Australia, Japan, Mexico and Vietnam. It is the first comprehensive "new generation" free trade agreement of the 21st century, covering various fields such as trade in goods and services, intellectual property rights, technical barriers, government procurement, rules of origin, standards on environment labor and state owned enterprises, etc. Rules of origin is a very complicated issue under the framework of TPP agreement, but one that is integral to the textile and apparel industry. Therefore, this study aims to analyze if the Vietnamese apparel industry can capitalize under the Trans Pacific Partnership (TPP) agreement. In this study, findings were based on published information as well as qualitative interviews with apparel firms in Vietnam. The Vietnamese apparel industry, with great dependence of imported materials (yarns and fabrics) from Republic of Korea and China, faces many potential challenges in complying with the rules of origin in the TPP agreement. Furthermore, if it is narrowed down to the level of firms, state-owned enterprises and foreign-owned companies would be the main beneficiaries from the agreements, whereas small and medium locally owned companies would be unlikely to capitalize on the export opportunities offered. Additionally, most of the products that are in major export categories would not be under free trade from year 10 on.

Keywords: Trans-Pacific Partnership Agreement, TPP agreement, Rule of Origin, Vietnam apparel industry

ACKNOWLEDGEMENTS

I would like to thank you many people who have provided me with generous help and support for the completion of my thesis. First of all, I would like express my deep gratitude to my supervisor, Associate Professor Dr. Suphat Suphachalasai, Ph.D., for his invaluable advice, suggestions, sympathy and patience during my thesis process.

Second, I would also like to show my sincere appreciation to my committees, for their valuable comments as well as constructive suggestions which were of significant value to this research.

I am also thankful to all representatives from Vietnamese and foreign apparel companies and associations, who had spent their valuable time for my interviews.

My sincere thanks to my friends and colleagues to help me collect useful information and documents for this study.

I would like to thank to TICA (Thailand International Cooperation Agency) for giving me this meaningful opportunity to study in Thammasat Institute for Study of International Cooperation, which help me build the knowledge foundation for my thesis

Last, but not least, I am deeply grateful to my parents, my sisters and my brother, who have encouraged and been with me in every moments.

Without all of these support and contribution, I would not have been able to have my thesis completed.

Ms. Thuy Doan

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LIST OF ABBREVIATIONS

Symbols/Abbreviations	Terms
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CMT	Cut- Measure-Trim
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free trade agreements
GDP	Gross Domestic Product
H-O	Heckscher-Ohlin
H-O-S	Heckscher-Ohlin-Samuelson
HTS	Harmonized System of Tariff Classification
ILO	International Labor Organization
IMF	International Monetary Fund
ODM	Original Design Manufacturing
OTEXA	Office of Textiles and Apparel
ROO	Rule of Origin
SOE	State-owned enterprise
TPP	Trans-Pacific Partnership
US	The United States of America
VITAS	Vietnam Textile and Garment Association
WTO	World Trade Organization

CHAPTER 1
INTRODUCTION

1.1 Introduction

The Apparel industry has been one of the key sectors in Vietnam due to its competitiveness in factor endowments and market scale. The industry is growing fast with more than 5,000 enterprises employing over two million workers and bringing in $17.9 billion in 2013 to the Vietnamese economy (Bui 4/2014; International Trade Administration 2016). The Vietnam Apparel industry was ranked second amongst the country's largest export industries and fifth worldwide in apparel and textile exports in 2014.

The industry is a major source of foreign exchange contributing between 10% to 15% of Vietnam's GDP annually (Vu, 2014). According to Vietnam Custom Offices, export turnover of Vietnam's textile and apparel industry was estimated to reach US$ 20.9 billion in 2014, representing about 13.6% of total exports. Vietnam now is one of the fastest growing countries in textile and apparel exports with global market share of 4%-5%. Vietnam is also the second largest apparel exporter to the United States of America, with export share of 48.6%. The European Union, Republic of Korea, and Japan closely follow accounting for 16.4%, 10%, and 12.9% of the country apparel exports, respectively. In addition, the industry also contributes significantly to poverty reduction and social stabilization by generating numerous jobs. With more than 7,000 enterprises, the industry was estimated to provide employment for 1.4 million people, representing 11.5% of the total country labor force in 2013. This number is projected to increase in the future.

The rapid development of Vietnam's textile and apparel industry is a result of its advantage in the low-cost labour intensive market and stable as well as attractive policies. Suffice to say that Vietnamese labour force characteristics are more advantageous than some other countries in terms of low cost, high quality, young population and sustainability. Apart from that, stable policies also play an important role in the development of the Vietnamese apparel industry. The Vietnam government has implemented many policies fostering the export-led strategy which has created an attractive environment for foreign direct investment, including the

abandonment of state monopoly in foreign trade as well as the reduction and exemption of import tariff barriers. It can be said that these distinctions are the driving force for the Vietnamese apparel industry moving forward and further developing.

Furthermore, Vietnam has actively participated in economic integration by joining international economic organizations and forums as well as signing bilateral and multilateral free trade agreements (FTAs). Thirteen out of fifteen FTAs that Vietnam has signed or is negotiating, are with Asia-Pacific Economic Corporation (APEC) economies. One of the FTAs worth mentioning is the free trade agreement named the Trans Pacific Partnership (TPP) which Vietnam recently signed together with eleven other Pacific rim countries. Many studies on the impacts of this free trade agreement to the signatory countries, such as (Brock 2013), believe that Vietnam is going to be the largest beneficiary in comparison to the rest of the TPP countries.

Nevertheless, like other FTAs, the Vietnam Apparel and Textile industry has to meet the Rules of Origin requirements in the TPP agreement, which is known as the "yarn forward" rule. This means that if Vietnam wants to benefit from lower tariffs in the TPP, the inputs for the apparel and textile industry must come from one of the TPP members. Interestingly, Vietnam's textile industry has been greatly dependent on imports for material and fabric sources, accounting for 86 percent of the total demand (VITAS, 2014).

It is therefore essential to have an in-depth investigation of the rules of origin on the apparel and textile industry in the TPP trade agreement in particular, and numbers of free trade agreements Vietnam has signed in general, in order to answer whether the Vietnam apparel and textile industry can benefit from the TPP or not.

1.2 Objectives

The objective of this paper is to evaluate whether the Vietnam Apparel Industry can benefit from the Trans Pacific Partnership (TPP) agreement. In other words, the objective in this study can be divided into two main aims:

(i) To describe the Vietnam Apparel Industry in detail.

(ii) To analyze if the Vietnam Apparel Industry can be capitalized under the Trans Pacific Partnership agreement.

1.3 Methodology

This thesis will use the qualitative methods including analyzing the primary and secondary data combined.

The secondary data will be based on desk-study. Information will be extracted from reports written by the government and private sector, as well as documents available online. The objective of analyzing secondary data is to understand the overview of the apparel industry in Vietnam. For instance, the structure of Vietnam's apparel industry, background of industry development, export volumes of apparel productions as well as the rules of origin about textiles under the Trans-Pacific Partnership agreements, and so on.

For primary data, the information resources will come from interviews with sample firms. Qualitative interviews will be designed to include both formal and informal conversations in order to utilize the empirical data collected. This will involve approximately 15 firms, which belong to both apparel and textile groups. The aim of interviews is to understand the weaknesses and strengths of Vietnam's apparel and textile firms as well as highlighting the real challenges they face. The locations chosen for these interviews are Hanoi and Ho Chi Minh City. Both these cities are main concentration hubs of textile and apparel for the country. Interview questions will be designed into two different sets as follows:

Set 1 for the apparel group will include queries about the performance of the firm's capacity, source of major inputs such as yarns, major exporting markets, what the requirements for subcontractors are, how they deal with input issues for exporting under different free trade agreements particularly the TPP, the firms' opinions about quality of Vietnamese textile production and whether the TPP can bring benefits to the apparel industry in Vietnam.

Set 2 for the textile group will include questions on the performance of the firm's capacity, major exporting markets, Vietnamese textile consumption in the domestic market, the ability to provide materials for apparel firms if the TPP is strictly enforced, the firm's opinion on whether the TPP can bring benefits to the textile and apparel industry in Vietnam.

CHAPTER 2
REVIEW OF LITERATURE

In the effort to seek the answer to the research question outlined above, the comparative advantage in the apparel and textile industry will be used as the theme of this study. The following parts will outline and discuss some approaches to understanding the dynamics of comparative advantage, in order to explain the dynamic textile and apparel industry across the world. Furthermore, there is a brief description of the evolution of the apparel and textile industries and an explanation of the main forces influencing the long-running development of the textile and apparel sector. This part also talks about the theory of economic integration as well as the origins of the 'spaghetti bowl phenomenon' as a weakness of free trade agreements.

2.1 The geometry of comparative advantage

Comparative advantage is one of the most important and lasting concepts in international trade theory (Evans, 1989). It is an economic theory about gaining from trading amongst parties on the condition that each has different relative efficiencies (Maneschi, 1998). Suffice to say that comparative advantage is commonly described as international differences in the opportunity costs of goods, that is, making more quantities of that products by sacrificing other commodity as compared to another state.

Eli Heckscher and Bertil Ohlin, two economists from Sweden, developed the factor proportion model called the Heckscher-Ohlin (H-O) model in the 1920s. After the 1930s, many elaborations of the model were provided by Paul Samuelson, thus the model is sometimes referred to as the Heckscher-Ohlin-Samuelson (H-O-S) model.

The Heckscher-Ohlin (H-O) model is an important theory which explains the reasons of comparative advantage differences between countries based on the factor endowments of production. The theory also contributes to identification of the determinants of comparative advantage. The assumption of the H-O model involves two countries, two goods and two factors of production. Regarding producing two

goods, labor and capital are the most critical factors between two countries. Further, the H-O model also assumes that both nations have identical technologies (production requires similar technology inputs, constant return and homogeneity).

According to the H-O theorem, states will export commodities which have abundant factors and import those goods which have scarce factors. All the factors can move freely amongst the industries. The differences in prices are explained by the endowment of various factors in different nations. The more abundant the factor is, the cheaper the price of the production. A country will have specialization in labor intensive goods if it has relatively abundant low-cost labor and less capital. On the contrary, if a country has abundant capital and less low-cost labor, it will focus on specializing in exporting capital intensive products (Czinkota, Ronkainen, & Moffett, 1999). According to Glenn, only through goods exchanges based on the differences between nations, states can adequately achieve comparative advantage with optimum efficiency (Glenn, 2006). The United States of America with the textile industry and Vietnam with the apparel industry are good examples. Textile is capital intensive because the ratio of capital and labor used in the production of textiles is greater than the ratio of capital and labor for the apparel industry in both nations. Therefore, the United States of America should leverage their textile industry, whereas Vietnam should focus on leveraging their workforce in the apparel industry. It can also be said that developed countries can consolidate and enhance their competitive advantage by conducting global sourcing with developing countries.

According to the factor-price equalization (the H-O-S theorem), in the free trade, the commodity prices as well as the prices of the factors will be equalized between countries. It may be argued that industry specific factors are important and they may lead trade to have an ambiguous effect on the nation's mobile factors. It will benefit the immobile factors that are set only for the country's export products or sectors, and harm the immobile factors that are set only for the country's's import-competing goods or sectors (Salvatore, 2012).

It can be deduced that comparative advantage is a dynamic concept. Since the comparative advantage of one nation in one product can shift over time due to the changes in any forces affecting comparative advantage including technology, resources, demand and the trade-enhancing policies. Any state can gain from trade

even if it is less efficient than or has an absolute disadvantage as regarding the other country in the production of both products. Through international trade, developing countries can convert their consumption products and raw resources into capital commodities as well as gaining the technological know-how from developed nations. The specialization in production helps to foster the development of both the export industry and other related supporting industries. Despite its limitations, comparative advantage is still the best theory in economics (Samuelson, 1969). Any nation which does not consider comparative advantage must pay a heavy price for its living standards and economic growth.

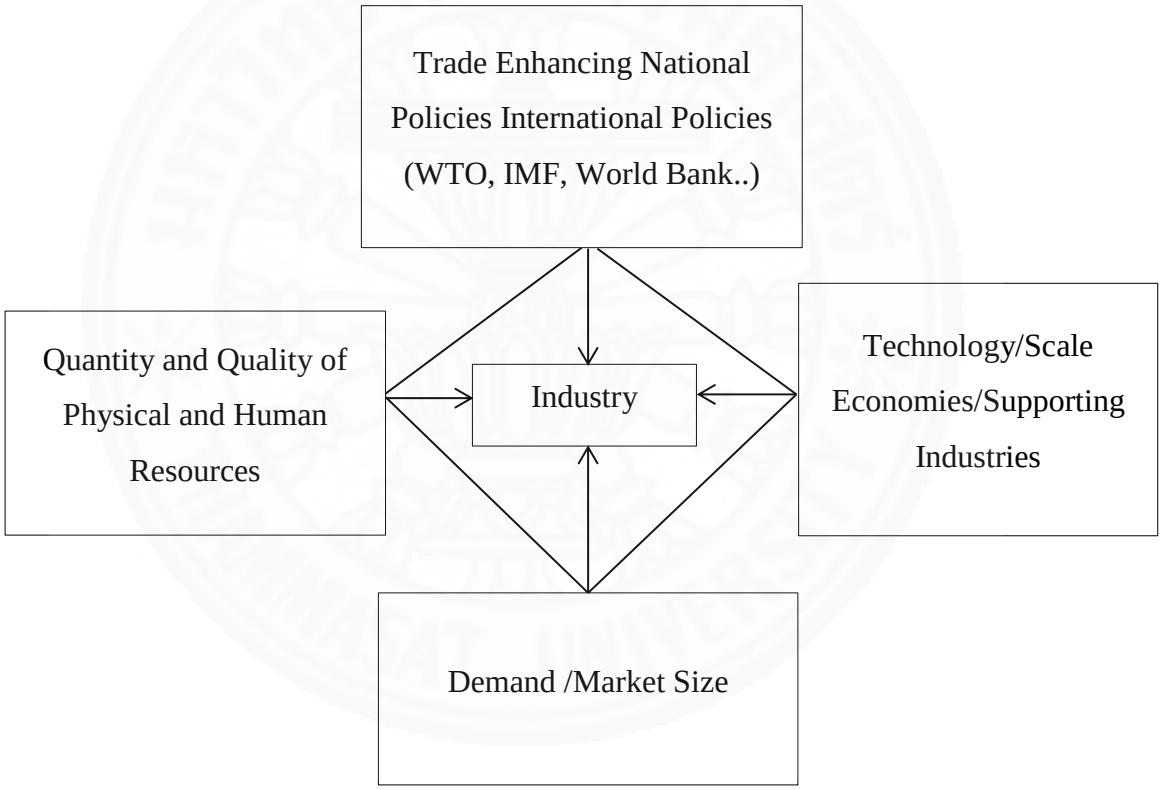

Figure 2.1 A Framework for Comparative Advantage
Source: (Gupta, 2009)

2.2 The evolution of the world apparel sector

The apparel industry was likely the first sector to be set up when industrialization begun (Rostow, 1978). Since this industry is labor intensive, the establishment requires only modest investment and capital. With the rapid expansion of the apparel industry, it will generate other related supporting industries.

The evolution of the textile and apparel industry has been described by Toyne, as having six stages, namely the embryonic stage, early export of apparel, more advanced production of fabric and apparel, golden age, full maturity and significant decline (Toyne, 1984). In the early stages, most of the outputs are raw textiles, such as cotton, since the state does not have full capacity to produce apparel to meet domestic demand. Then, the country gradually produces more apparel than textile products until it reaches the full maturity stage. When the country moves to become a total textile industrial state, the share of apparel starts to decline, especially at the last stage, as very few country outputs are apparel. Conversely, the share of man-made fibers and textile outputs have increased. Furthermore, the stage of development in the textile industry also implies the economic development of the nation.

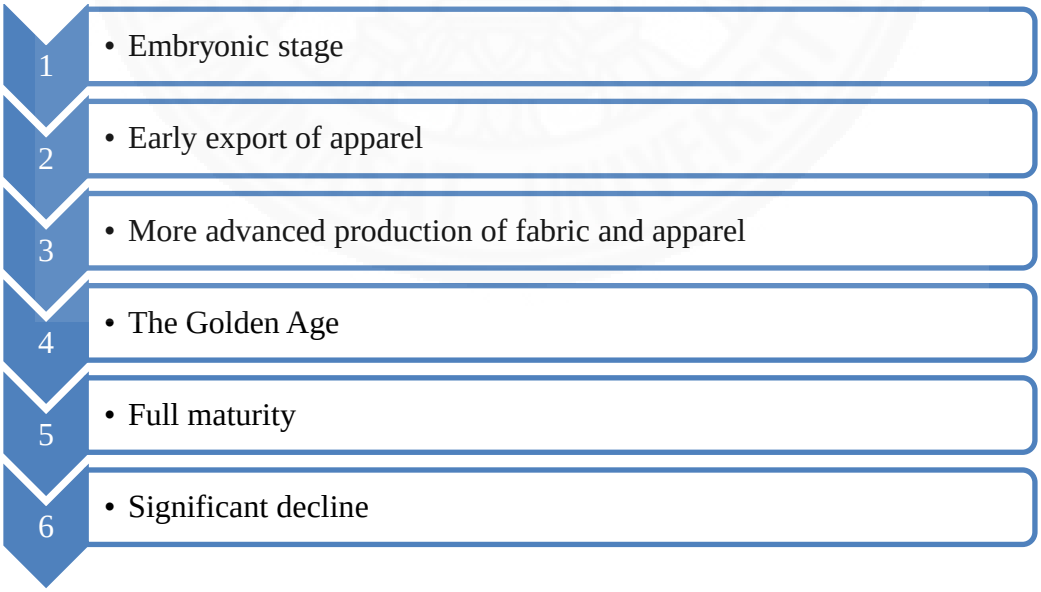

Figure 2.2 Dynamism of Apparel & Textile Industry

Source: (Toyne, 1984), pp.19-21

The below figure elaborates the process of the revolution of textile complex through six stages of development from the embryonic stage to significant decline stage.

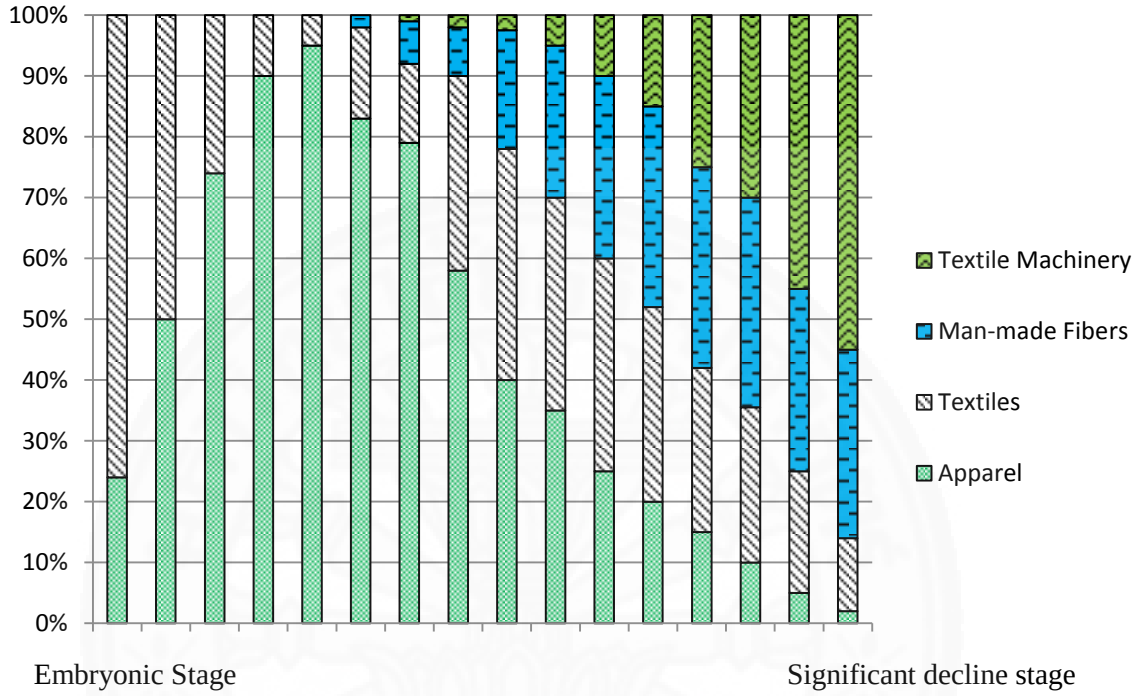

Figure 2.3 Stages of Textile Industry Development
Source: (Toyne 1984; Kilduff & Chi 2006)

It can be said that the stage of textile industry development is paralyzed by the economic development of the nation. For developing countries, the textile industry is only at the embryonic stage or early export of apparel. For advanced countries, the textile industry is at the significant decline stage. As a result, we can see now that some developed countries such as, the European Union, the United States of America or Japan is one of the largest markets in the world. All of these countries used to be apparel-exporting states before becoming net importing countries. In the textile supply chain, these countries are currently involved in the high valued added segments which are marketing, design and distribution. Although they are at the significant decline stage, they all chose the textile industry as initial drivers to develop their economies.

The shift happened due to the nature of the textile and apparel industry. Labor intensive is defined as the key feature for the apparel industry whereas capital intensive is the core element for the textile industry. As a consequence of mechanization and subcontracting, there will be a steady increase in the capital intensity of business and gradual fall in the labor content (Tulder & June, 1988). The difference in the labor-cost among countries explains the growth of market by low cost imports at the cost of apparel producers in advanced nations. There are many studies which show that the labor cost makes up a large percentage in the total costs of apparel production. Therefore, it is understandable when manufacturers continue to search for low labor cost locations. It is obvious the decision-making for the manufacturing location is not only dependent on the labor cost, however, the labor cost is a crucial factor.

This paper can give a brief description of the evolution of the world textile and apparel industry. Looking back to the past, Manchester was the first hub of the textile industry. Britain took the lead in the mechanization of the textile industry. In the eighteenth century, the textile sector started to transform from human muscles into water and steam mechanics (Maneschi, 1998). This revolution happened because of rising demand and the evolution of technical development. As a result, during the 19^{th} century, Britain had cotton textile production as the largest manufacturing industry. The cotton textile was also Britain's largest export commodity. Later on, continental Europe and the United States of America followed a similar path.

Table 2.1 World Consumption of Cotton, 1830-1860

Unit: Million Pounds

	1830	1840	1850	1860
United Kingdom	250	454	588	1,140
France	68	116	140	226
Russia	4	14	48	87
Austria	20	34	58	94
Italy	4	8	16	26
Spain	6	14	34	52
Sweden	1	2	8	6
Holland	2	4	5	6
Belgium	8	16	22	29
Switzerland	9	18	24	30
Europe	388	707	988	1,847
The United States of America	77	135	288	390
Republic of India	N/A	N/A	N/A	26
Various	5	10	10	10
Total	470	852	1,286	2,273
Annual average rate of increase		6.13%	4.20%	5.86%

Source : (Mulhal, 1892), p. 156

Japan and the Republic of India were the next two countries to commence the mechanization of the textile industry. Consequently, these textile industries stepped into the war of technology and strategy due to ongoing competition. Many studies show that with the advantage of low wages and competent laborers as well as good mechanism of management, Japan left Britain behind to become the leading exporter of textiles (Allen 1980; Howe 1996; Sandberg 1974). However, it also was a result of many other factors such as its excellent strategy, its best selection of technology, good quality of cotton mixture and its link between marketing and production (Mass & Lazonick 1991).

Since 1945, mechanized textile production started to spillover to new Asian industrialized countries as the adoption for their development paths. In the twentieth century, Asian countries built their competitive advantage in world textiles.

Due to technology limitations and poor economies, these countries applied the strategy to focus on apparel (labor intensive) at their early stage. Their competitive advantage was viewed as low prices rather than good quality (Sit, 1989). Between the 1950s and mid-1980s, textile and clothing products were the major exports in these countries (United Nations 2007). Later on, newly industrialized countries such as the Republic of Korea and Hong Kong were turning to enhance their products to high quality woolen fabrics (Barry & Dickerson 1987; Park 1994). It not only helped them to increase their labor salaries but also maintained their competitiveness in the world textile industry. Many newly industrialized countries succeeded in becoming increasingly advanced economies in Asia. Consequently, the European Union and the United States of America found it challenging when faced with this Asian competition. Many firms started to decline and planned to quit in the long term. Some firms stopped their producing activities and became importers. However, quitting textiles was certainly an impasse for entrepreneurs (Blackhurst 1992). For instance, Yorkshire firms of Mountleigh successfully switched to property development in the period of the 1970s and 1980s.

Seeing the possibilities of scaling up industrial development towards more capital-intensive and high-tech manufacturing products, other developing countries in Asia started to engage themselves in the textile industry. Bangladesh is a good example, currently world leading exporting country of clothing. As for Cambodia, clothing exports lauched in the late 1990s (United Nations 2007). Lately, Asia has becoming the hub of manufacturing production.

Table 2.2 Development Stage of Textile Industries (Textile Trade Balance)

(1) Developing Economics of Asia									
Total	T	A	1965	1970	1975	1980	1985	1986	1987
Surplus	Surplus	Surplus	India Plakistan China	India Plakistan China Taiwan	India Plakistan China S. Korea Taiwan	India Plakistan China S. Korea Taiwan Thailand	India Plakistan China S. Korea Taiwan Thailand Indonesia	India Plakistan China S. Korea Taiwan Thailand Indonesia	India Plakistan China S Korea Taiwan Thailand Indonesia
	Dificit	Surplus	H. Kong S. Korea Taiwan	H. Kong S. Korea	H. Kong	H. Kong Phillipines	H. Kong Phillipines Malaysia Sri lanka	H. Kong Phillipines Malaysia Sri lanka	H. Kong Phillipines Malaysia Sri lanka
Dificit	Dificit	Surplus		SriLanka	Thailand Singapore Philippines Malaysia Sri Lanka	Indonesia Singapore Malaysia Sri Lanka	Singapore	Singapore	Singapore
	Dificit	Dificit	Thailand Indonesia Philippines Malaysia Sri Lanka	Thailand Indonesia Philippines Malaysia	Indonesia				
(1) Advanced Industrialized Nations									
Total	T	A	1965	1970	1975	1980	1985	1986	1987
Surplus	Surplus	Surplus	Japan	Japan France	Italy	Italy	Italy	Italy	Italy
	Surplus	Dificit	U.S France U.K	W.Germany U.K	Japan	Japan	Japan	Japan	
	Dificit	Surplus			France				
Deficit	Surplus	Deficit			W.Germany U.K	U.S	W.Germany	W.Germany	W.Germany
	Deficit	Deficit	W.Germany	U.S		W.Germany France U.K	U.S France U.K	U.S France	U.S

Source: (JICA, 1989), p. I 230

Vietnam is not an exemption to this global transition. Vietnam started to develop the textile industry since 1958 in the north and 1970 in the south. However, it was not stable until 1975 when the whole country was united. With “Doi Moi” policy 1986, the textile and clothing industry played an important role in the development

path of the country. Before “Doi Moi” the Vietnamese economy was controlled by centralized pricing and state-owned enterprises (SOEs). Vietnam’s textile market was other communist countries. After “Doi Moi” Vietnam transformed based on market determinants. The textile industry also extended to other markets including the United States of America and Western European states, and integrated with the world economy more freely. Up to now, Vietnam has participated in many free trade agreements both bilaterally and multilaterally, including the Trans-Pacific Partnership free trade agreement more recently.

There are many researchers who have contributed in studying about Vietnamese textile exports or analysis of the value chain in Vietnam's garment exports (Huong 2003; Hoi 2012). Bryn has investigated how the international trade regime can drive the Vietnamese textile industry to develop sustainably (Bryn, 2014). In addition, the research of Tuan (2013) analyzed the patterns and dynamics of comparative advantage in the Vietnamese textile industry between 2001 and 2011. The most recent study about the Rule of Origin in Textile and Apparel, pointed out the suggestion of development of the Vietnam textile sector as general if Vietnam wants to make advantage of the TPP agreement in the future (Elliott, 2016). Furthermore, the analysis on the Vietnam Apparel Industry is only based on general information collected from secondary data. Up to now, there is still a lack of study about the effect of the TPP on the Vietnamese Apparel Industry from the firm’s perspective.

2.3 Theory of Economic Integration and Spaghetti bowl

There are a number of definitions about Economic Integration captured by economists. According to Balassa (1961), Economic Integration is explained as the abolition of discrimination within an area. Economic Integration is referred by Robson (1987) as being relevant with efficiency in resource use, particularly spatial aspects. The essential condition for optimal achievement is that goods and factors of production can freely move without discrimination amongst countries. Furthermore, the price mechanism will distribute the location of resources and there is a requirement of measures to make sure that the market provides the right signals and

institutions for market integration. According to Snorrason (2012), international economic integration is a process of abolishing trade cost. From that, it can be a means to make trade costs decrease in order to increase welfare. There are many forms of Economic Integration. However, Economic Integration can be classified in five stages, which evolve from a free trade area, customs union, common market, economic union to political union. Following is the elaboration of each stage[1]:

A free trade area (FTA) is a type of trade bloc established from at least two states. The Tariffs between the member countries are partially or fully eliminated. However, each member still keeps its own tariff barriers to trade with non-members. Each FTA will have the rule of certificate of origin for the products coming from the zone of member countries.

A custom union is a type of trade bloc, which consists of a free trade area and common external tariffs among member countries similar to non-member countries.

A common market is a custom union where labor and capital are allowed to move freely among member countries. Nevertheless, each national market still has its own rules such as product standards..

An economic union is a type of trade bloc where all tariffs are eliminated for trade among member nations and a single market with a common currency is created. In this stage, labor is also allowed to move freely from one member country to another. Monetary and fiscal policies between member countries are harmonized. Economic and Monetary Union of the European Union is one example of an Economic Union.

A political union is the most advanced form of economic integration with a common central government. In this case, the sovereignty of a member country is significantly diminished.

With the above forms of economic integration, there are many studies discussing trade integration gains. Viner with his book "The Customs Union Issue" was the first study to clarify solid criteria to differentiate between the possible

[1] The stage of integration is summarized and consolidated from study of Balassa (1961) and Molle (1997)

benefits and shortcomings of economic integration. He separated the effects of economic integration into two effects, namely trade creation and trade diversion. Trade creation happens when at least two nations have trade agreements with each other, and trade moves from a high-cost provider member state to a low-cost provider member state in the union. In any case, the trade creation will escalate a country's national welfare. Trade diversion may happen at the time when imports are transferred from a low-cost provider within the FTA toward a high-cost provider in the FTA. This may be the situation if common tariffs after the union protect the high-cost provider member state inside the union. In most cases, trade diversion will decrease a country's national welfare. However, the welfare for a country is not only dependent on trade creation and trade diversion (Bhagwati & Panagariya, 1996). The tariff revenue redistribution can make a country lose income, even though trade creation may be larger than trade diversion. This means that trade blocs with high forms of protection will be faced with net welfare loss.

Nevertheless, FTAs can be considered a next best choice since it is impossible to implement free trade and the unconstrained movement of factors in a world without any distortions. It is also reason why since this century, there has been a proliferation of FTAs in the world, particularly among East Asian economies. In East Asia, ASEAN is considered as the hub of FTAs. The spread of FTAs in East Asia has been very fast. In 2000, the FTA activity was limited, with only three concluded FTAs in the area, one more under negotiation and an additional three proposed (Kawai & Wignaraja, 2009). Nevertheless, by July 2010, including FTAs intra and extra region, East Asian economies had 50 FTAs in effect and 75 FTAs were in the pipeline (Zhang & Shen, 2011).

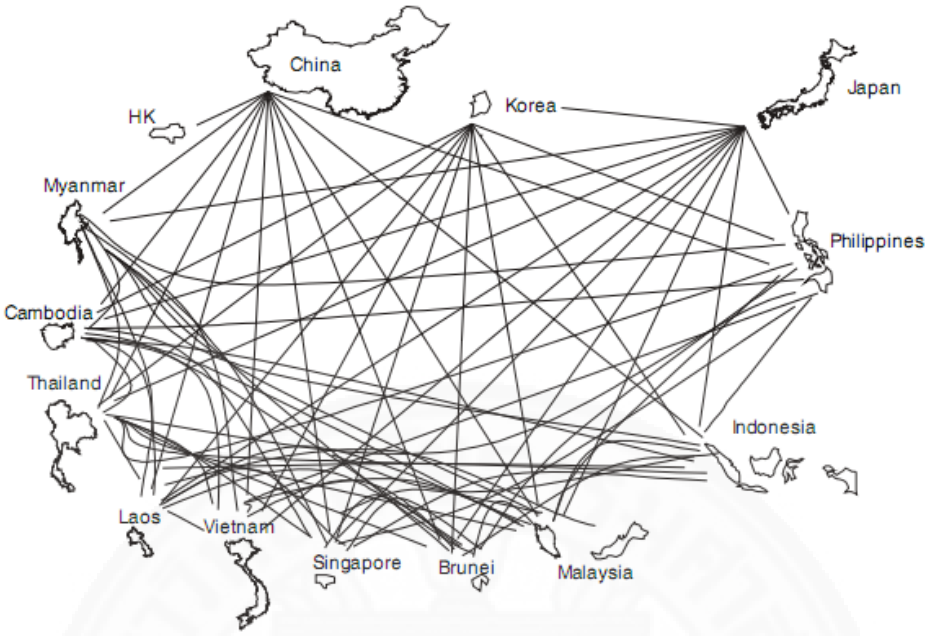

Figure 2.4 The East Asian "Noodle Bowl" Syndrome
Source: (Baldwin, 2008)

Although there are many benefits from regional economic integration, the proliferation of FTAs can raise concern about a “spaghetti bowl” phenomenon as termed by Jadish Bhagwati (Bhagwati J. , 1995). He believed that the overlapping and crisscrossing of FTAs, allows for discriminatory trade liberalization to arise due to the same product being available under different preferential tariffs and diverse Rule of Origins requirements. Therefore, the increased number of FTAs, leads to a more chaotic and fragmented international trade regime. In addition, he also mentioned that compliance and administrative costs can burden enterprises resulting in the consequence of a “spaghetti bowl” effect. This situation was later referred by the ADB president, Haruhiko Kuroda, as the Asian noodle bowl phenomenon, which is more complex than a “spaghetti bowl” (Kawai & Wignaraja, 2009). He also identified that it would be prove challenging for regional and global integration.

Baldwin (2008) also stated that the overlapping and intersecting nature of the noodle bowl is a source because of political pressure for protection from one nation to other nations. For instance, the consequence of a trade dispute between Japan and Malaysia in the automobile sector has the possibility to create problems for Malaysian–Indonesian trade relations, yet the Japan–Malaysia matters would be

solved by a dispute settlement mechanism that is entirely unconnected to the one that would deal with Malaysian–Indonesian matters. While a variety of agreements may willfully harmonize when common conflicts occur, the complication of the system makes this result far from certain.

Since Rules of Origin is an essential part of FTAs, it is the core of many FTA negotiations. The Rules of Origin requirements aim to limit the preferential trading benefits of FTAs to those party members, by rejecting subcontracted services from non-members. Therefore, the role of Rules of Origin in FTA is also a mechanism to avoid trade deflection. However, it can also lead to trade diversion when member countries in FTA might have to import inputs at a higher cost than from non-members in order to meet the rule of origin requirements (WTO, 1995).

Besides, the harmonization rule of origin across FTAs into "change-in-tariffs classification" and "real value-added content" take a positive role in not discouraging enterprises use of multiple FTA schemes (Hayakawa & Laksanapanyakul, 2013).

CHAPTER 3
VIETNAM TEXTILE AND APPAREL INDUSTRY

Vietnam's Textile & Apparel Industry has developed since the late 19th century with the establishment of the Nam Dinh textile complex in 1889 (Institute of Economics, 2001; Hill, 1998). Later on, a number of factories of apparel and textile were set up across three regions of the country. These firms created jobs for thousands of laborers. This industry played an important role in Vietnam's economy, especiallly when the country had just casted off the yoke of colonization with its economic stagnation.

At the beginning, the industry was to produce only for domestic consumption. Because of the outdated equipment imported from socialist countries and poor management skills, productivity was very low. The production could not even meet the domestic demand in both quality and design.

Between the 1970s to 1980s, the Vietnamese economy was centrally planed. The government managed all steps of the economy from planning to distribution of the products. In this period, production was still focussing on domestic consumption. However, exports were being implemented under the aggreement between Vietnam and the former Soviet Union and Eastern European countries. The collapse of the Soviet Union system, however, led to the cancelation of all trade agreements between Vietnam and these socialist countries, including the cooperation on textile and apparel production. Consequently, the Vietnamese economy became stagnant. In order to overcome these economic difficulties, the government quickly carried out a package of policy reforms at both macro and micro levels. These policies called "Doi Moi", shifted the economy from centrally planned into a market oriented economy, liberalising trade and encouraging private sectors, foreign trade and so on. Therefore, the economy in general and the textile & apparel sector in particular, quickly recovered from recession and started a new stage of development.

This charter will look deeply into the textile and garment industry in Vietnam in order to provide descriptive analysis about this industry as well as understand its compettitiveness in the world market. The chaper is organized as

follows. The next section will discuss the role of this industry in the Vietnamese economy. Its structure and import-export situation will be analyzed afterward.

3.1 Role of the textile and apparel sector in Vietnam economy

Since the “Doi Moi” policy and joining the WTO in 2007, the textile and apparel industry has played an important role in Vietnam’s economic development strategy. The export value of textile and apparel products in these recent two decades with an annual growth rate of 15% has become one of the leading export industries of Vietnam. The industry has earned a major source of foreign exchange and contributed to approximately 10-15% of Vietnam‘s GDP annually (Vu, 2014). According to Vietnam Customs Offices, export turnover of the Vietnam textile and apparel industry was estimated to reach US$ 20.9 billion in 2014, representing some 13.6% of total exports. Vietnam now is one of the fastest growing countries in textile and apparel exports with global market share of about 4-5%. Vietnam is also the second largerst apparel exporter to the United States of America, with an export share of 48.6% compared to the turnover export of apparel. Further, the European Union, Republic of Korea, and Japan are also main clothing importers of Vietnam, accounting for 16.4%, 10% and 12.9% of the country apparel, respectively. On the other hand, the industry also contributes significantly to poverty reduction and social stabilization by generating a number of jobs. With more than 7,000 enterprises, the industry was estimated to provide employment for 1.4 million people, representing 11.5% of the total country labor force in 2013. This number is projected to increase in the future.

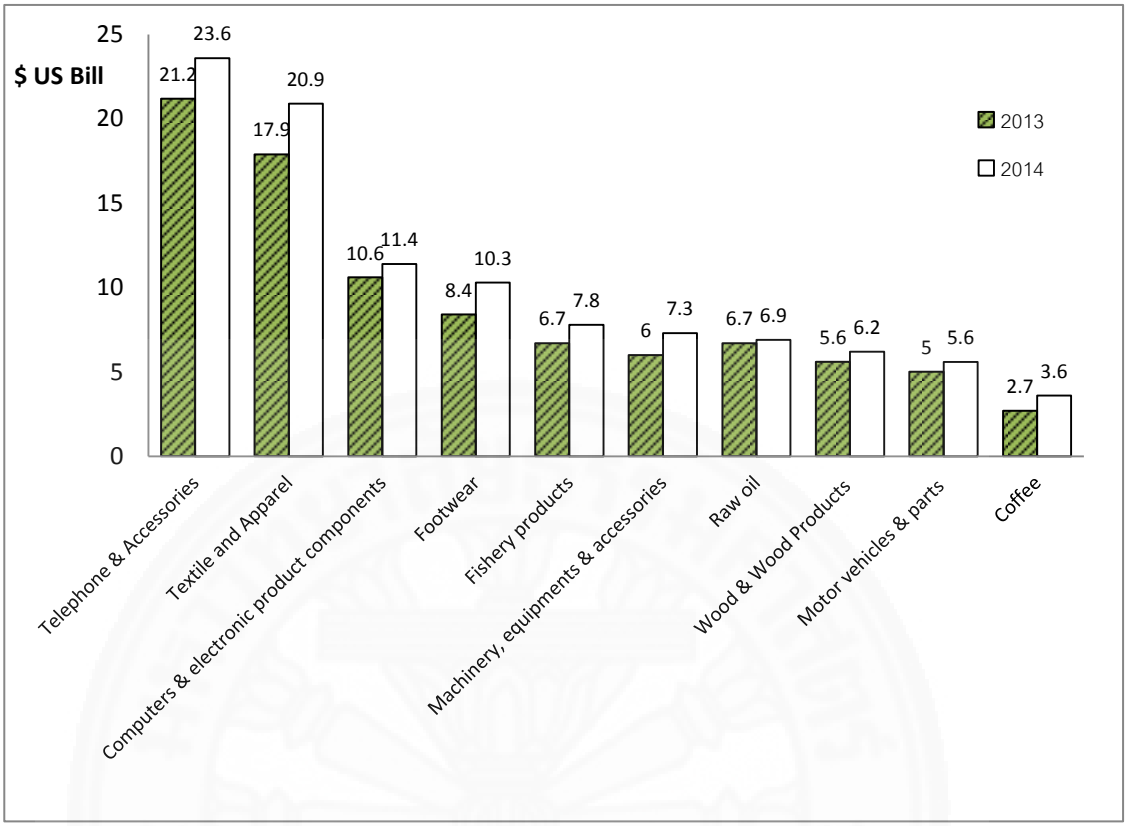

Figure 3.1 Export Turnover of Ten Main Commodities in Vietnam in 2014
Source: Vietnam Custom Office.

3.2 Foreign investment

According to statistics from the Foreign Investment Department of Ministry of Planning and Investment, there were 2,013 new FDI projects with investment certificates with total registered investment of US$ 15.578 billion as of December 2015, equivalent to 99.6 % compared with the same period of 2014. The Republic of Korea is the biggest investor with total registered capital of US$4.5 billion, making up 28.8% of total FDI registered in Vietnam. Meanwhile, investors from Japan and Singapore invested US$3.89 billion and US$3.51 billion, accounting for 24.9% and 22.5% of the country's total FDI, respectively (Foreign Investment Agency, The situation of Foreign Investment in Vietnam 2015, 2015).

Table 3.1 Approved Foreign Investment in Vietnam By Sector in 2015

Sector	**Number of projects**	***Total registered capital* (million USD)**
Manufacturing	10,764	162,772.71
Real estate activities	500	50,896.40
Electricity, gas, stream and air conditioning supply	109	12,567.54
Accommodation and food service activities	445	11,950.27
Construction	1,264	10,893.78
Wholesale and retail trade; Repair of motor vehicles and motorcycles	1,735	4,602.16
Mining and quarrying	97	4,448.29
Communications	1,263	4,223.72
Transportation and storage	505	3,829.31
Agriculture, forestry and fishing	521	3,654.93
Arts, entertainment and recreation	143	3,622.04
Professional, scientific and technical activities	1,926	2,102.96

Source: Foreign Investment Agent, Ministry of Foreign Affair

The manufacturing sector has attracted the most foreign investment with registered capital of US$ 16.27 billion, accounting for approximately 66.9% of total registered capital in the country as at December 2015. According to statistics recorded by VITAS, the textile and apparel industry has reached US$2 billion of the FDI flows by the end of 2015 and it continues to increase. East Asian countries are major approved investors in the textile and apparel sector, such as the Republic of Korea, Hong Kong, Japan, and the Republic of China. Some of their recent projects can be listed as Kyung Bang, a 100% Republic of Korean company specializing in producing fibers with the capacity of 6,000 tons per year in Bau Bang Industrial Park, Ben Cat district, Binh Duong province (Tuong, 2011). Hong Kong‘s Texhong Company has five spinning factories in Nhon Trach Industrial Zone (Dong Nai, Vietnam) with an investment capital of US$ 200 million and a spinning factory with investment capital of US$ 300 million in Quang Ninh province (Duc, 2015). Further, Nam Phuong

Textile is a joint venture company with investment capital of US$ 120 million, between Hong Kong's Haputex Development Limited and Vietnam's Viet Huong Investment Development Joint Stock Company. The factory has a capacity of producing 36 million meters of fabric per annum for the first phase (Le, 2014). Singapore's Maple apparel company with an investment capital of US$ 110 million in Bac Ninh province (Foreign Investment Agency, 2016) and Japanese companies, such as Kuraray Trading, Itochu, Toray Industries and Shikibo have continued their investment in Vietnam for the last few years. All of these FDI movements are the results of the anticipated approved yarn-forward rule of origin in the TPP.

3.3 Scale and characteristics of Vietnam Textile and Apparel industry

3.3.1 The structure of the Vietnam Textile and Apparel Industry

Table 3.2 Size of Vietnam textile and apparel industry

Index	Textiles	Apparel
Number of enterprise (2013)	**2,432**	**5,167**
By capitals		
Under 2.24 million dollars	2,078	4,699
From 2.24 to 8.96 million dollars	231	346
From 8.96 to 22.4 million dollars	69	93
From 22.4 million and over	54	40
By employee		
Under 50	1,831	3,269
From 51 to 299	472	1,114
From 300 to 499	51	233
From 500	78	551
Number of employees (2013)	**202,330**	**1,130,819**

Source: General Statistic Office

The total number of companies in the textile and apparel industry included 7,599 firms in Vietnam in 2013. Most of the firms in the industry were of a small or medium scale. Classified by capital, there are about 89.2% enterprises with

capital under US$2.24 billion dollars, and firms with their capitals over US$2.24 billion dollars account for a low proportion. At the small scale, firms have difficulty in finding large orders and establishing modern machines as well as retaining their employees. It is one reason why Vietnamese enterprises are uncompetitive compared to FDI firms.

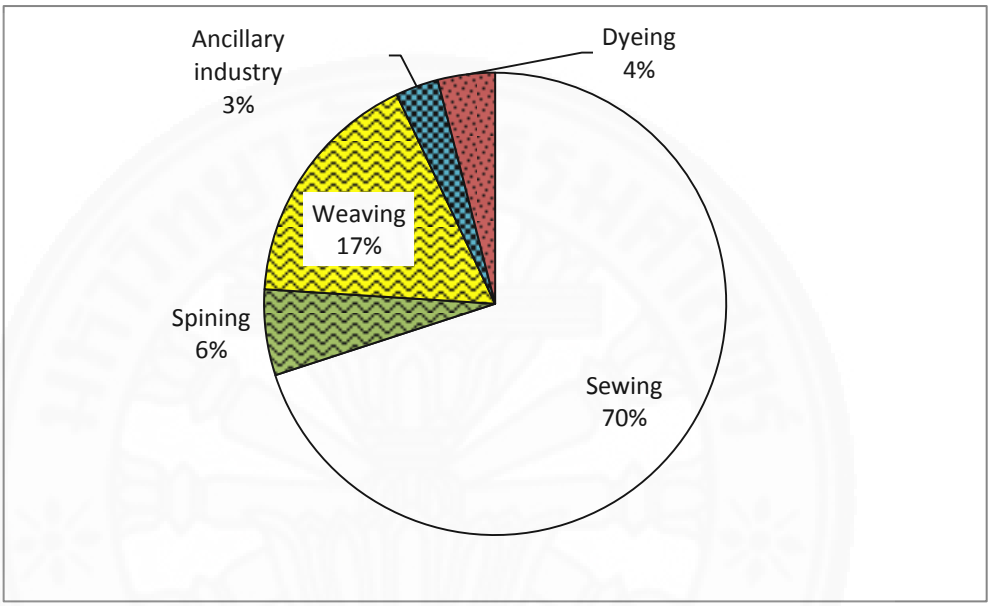

Figure 3.2 The structure of Vietnam Textile and Apparel companies by activities
Source: (Bui, 4/2014)

If classified by categories, garment enterprises account for 70% of the total number of firms in the sector, spinning is only 6%, weaving is 17%, dying is 4% and ancillary industries is 3%.

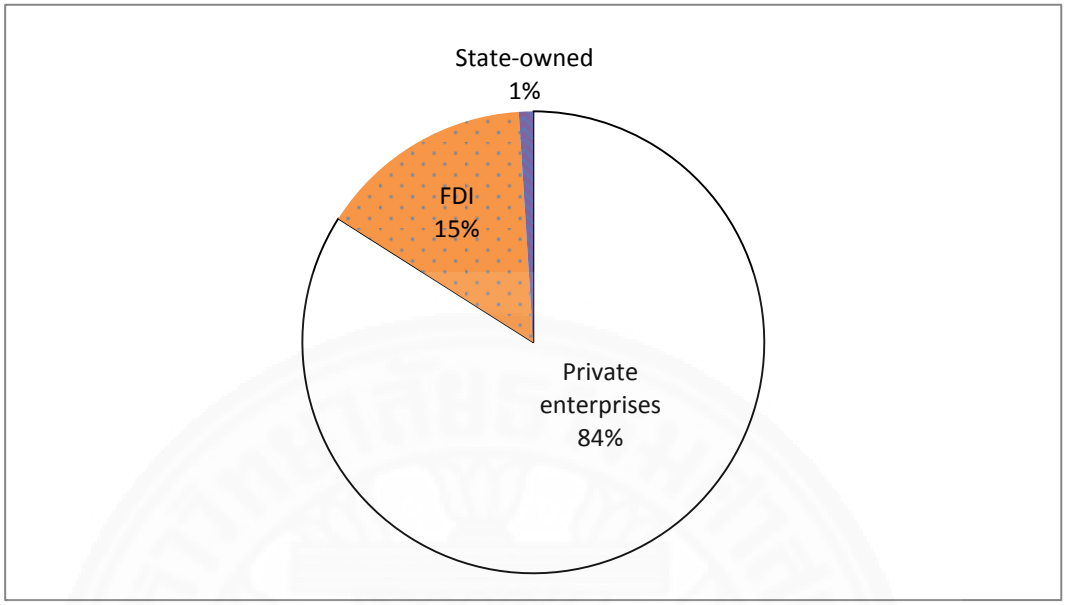

Figure 3.3 The structure of Vietnam Textile and Apparel companies by ownership
Source: (Bui, 4/2014)

The state owned enterprises only made up 1% of the overall number, foreign direct invested firms are 15% and the largest proportion is the private sector with 84%. This company structure has so far contributed to the growth of the industry. With the state-owned enterprises, the decision making processes are often very slow due to their size and many hierarchies. In contrast, the private sector has faster decision making processes a result of their decentralization and less hierarchy. Regarding foreign direct invested (FDI) firms, the numbers of these companies are projected to grow in the coming years because of the proliferation of FTAs. The FDI companies account for 60% of Vietnamese total apparel and textile export(Vietnam Briefing, 2014).

In general, most of the textile and apparel firms are located on the opposite ends of the country, namely the North and the South. The South of Vietnam takes the share of 62% of the output followed by the North (30%) and the Central and plateau regions (10%).

The Ministry of Industry and Trade of Vietnam has ratified the textile and apparel industry development plan for 2020, with a vision for 2030 under Decision

3218 / QD-BCT. According to this plan, the industry's allocation will be divided into 7 major regions, with Hanoi and Ho Chi Minh City playing the most important role as the center of fashion design, production design, providing services, materials, textile technology and advanced product development.

3.3.2 Employment

Since the nature of the industry is labor intensive, it plays an essential role in job creation. The apparel industry has so far attracted the largest number of employees among manufacturing industries. According to the Ministry of Labor, every single US$1 billion of apparel export can make the job creation for 150,000 to 200,000 employees, of which there are 100,000 workers in the apparel sectors. According to the below table 3-3 there are 1,333,149 employees officially registered in the textile and apparel industry. In the period between 2009 and 2013, the total number of employees in the Textile and Apparel Industry was continuously increasing from only 953,793 to 1,333,149 people.

Table 3.3 Number of employees in Textile and Apparel sector

Unit: people

	2009	2010	2011	2012	2013
Country	8,718,967	9,830,896	10,895,600	11,084,899	1,156,5915
Manufacturing	4,091,677	4,441,800	4,871,576	4,990,858	503,3912
Total T&A	953,793	1,043,039	1,153,364	1,197,884	1,333,149
Textiles	177,815	184,343	190,890	184,771	202,330
Apparel	775,978	858,696	962,474	1,013,113	1,130,819

Source: GSO 2014, author calculation

Furthermore, Vietnam still commands a lower labor cost than other countries in the region. As of January 2014, the minimum wage in Vietnam ranged from US$ 90-128 depending on each region. Compared to countries in the Asia-Pacific region, this rate is relatively higher than Cambodia, however, much lower than Indonesia (US$ 74-219), the Kingdom of Thailand (US$237), the People's Republic of China (US$156-266) and Malaysia (US$244-275) (ILO, 2014). Although Vietnam has competitive salaries for workers, the labor productivity is quite low in comparison

to the region. In a study in 2013, the International Labor Organization (ILO) pointed out that the productivity in Vietnam was lower than 15 times, 11 times and 10 times in Singapore, Japan, and the Republic of Korean, respectively. Compared with other medium income ASEAN countries, the rate is only one fifth and two fifths of the rate in Malaysia and the Kingdom of Thailand, respectively. One of the main reasons for low productivity, according to the author's fieldwork, is that the laborers cannot fully meet the jobs' requirements, which also leads to the lack of skilled workers in the field of dying and weaving. Therefore, the labor productivity is considered as the most serious weakness of the Vietnamese textile and apparel sector in particular, and manufacturing industries in general. In the ILO experts' opinion, Vietnam should develop policies to boost its labor productivity. This will help Vietnam enhance its competitiveness based on high productivity rather than on low labor cost.

3.4 Production Structure of Textile and Apparel Industry

Vietnam's textile and apparel production has grown gradually with the expansion of both domestic and export demand. Domestic fibers production has reached double-digit growth in the period 2005-2014. The output of fibers was 1.5 million tons in 2014, an increase of 16.8%, 90.5% and 495.4% compared with 2013, 2010 and 2005, respectively. Between 2005 and 2014, the average growth rate of fibers production was 22.9% per annum. Apparel products increased from 2,156.4 million pieces in 2008 to 3,670.5 million pieces in 2014.

The output of textile and garments is still expected to continue to grow rapidly in Vietnam over the next few years due to the anticipated TPP agreement.

Table 3.4 Vietnam's Clothing and Textile Production, 2008- 2014

	Textile fibres/yarns (Thous. tons)	**Fabrics of all kinds(Mill. m2)**	**Clothes (Mill. pieces)**
2005	259.2	560.8	1,156.40
2006	268.6	570.3	N/A
2007	384.9	700.4	N/A
2008	392.9	1,076.40	2,175.10
2009	538.3	1,187.30	2,776.50
2010	810.2	1,176.90	2,604.50
2011	967.1	1,238.30	2,975.30
2012	1,152.80	1,251.70	3,144.10
2013	1,321.90	1,239.40	3,424
2014*	1,543.40	1,323.70	3,670.50

*Preliminary, N/A: not available

Source: General Statistic Office of Vietnam

On the other hand, Vietnam has imported many types of cotton and yarn products for the past few years in the below table 3-5. Statistics shows that the value of input imports for the textile industry has been increasing from 2010 to 2015.

Table 3.5 Input imports between 2010 and 2015

Unit: million USD

Items	**2010**	**2011**	**2012**	**2013**	**2014**	**2015***
Cotton	674	1,053	875	1,171	1,443	1,623
Yarn	1,176	1,533	1,400	1,520	1,559	1,515
Fabrics	5362	6730	7045	8397	9428	10197
Total	8,911	11,209	11,363	13547s	15,461	16,565

*Estimate

Source: VITAS

3.4.1 Cotton

Cotton is the main material for the textile and apparel industry. According to a report by VITAS, Vietnam needs about 400 thousand tons per year to meet production requirements. However, domestic production for cotton can only provide approximately 5,000 tons per year. The rest of the demand is imported from mainly the United States of America and the Republic of India.

Table 3.6 Import of Cotton by country, 2013-2015

Unit: million ton

Country	Year		
	2013	**2014**	**2015**
The United States of America	**215**	**219**	**432**
Other countries	**219**	**376**	**371**
Republic of India	105	156	137
Brazil	38	80	136
Australia	38	78	48
Ivory Coast	13	24	28
Argentina	2	16	2
Indonesia	2	5	3
Pakistan	21	17	17
Unlisted countries	**156**	**157**	**215**
Total	**582**	**758**	**1,018**

Source: Global Trade Atlas, Vietnam Custom Office

Table 3.7 Growth and Market Share of Cotton Import by Country in 2014 -2015

Unit: %

Country	Growth	Market share	
	2015	2014	2015
The United States of America	**97**	**28.9**	**42.4**
Other countries	**-1**	**49.6**	**36.4**
Republic of India	-12	20.6	13.5
Brazil	70	10.6	13.4
Australia	-38	10.3	4.7
Ivory Coast	17	3.2	2.8
Argentina	-88	2.1	0.2
Indonesia	-40	0.7	0.3
Pakistan	0	2.2	1.7
Unlisted countries	**37**	**20.7**	**21.1**
Total	**34**		

Source: Global Trade Atlas, Vietnam Custom Office

The United States of America has been and remains the leading cotton provider for Vietnam for almost a decade. In 2015, Vietnam imported 432,000 tons of cotton from America, an increased by 97% in volume compared with 2014. The market share of imported cotton from the United States of America rose from 28.9% in 2014 to 42.4% in 2015. This shows that the United States of America is complying with its commitments in increasing its competitiveness compared with other suppliers, for instance the Republic of India, Australia and Brazil. According to data from 2015, there are only three countries, namely the United States of America, Brazil and the Ivory Coast whom have growth in the export of cotton to Vietnam while the cotton imported from other suppliers fell.

3.4.2 Yarn and Fiber

Yarn and Fiber imports turnover in 2013 is estimated at 692 thousand tons, equivalent to US$ 1,520 million, an increase of 7.1% in volume and 7.5% in value compared to 2013. Fiber, in particular, imported in 2013 was projected to 316.3 thousand tons, an increase of 4.5% compared to 2012.

Unit: thousand tons

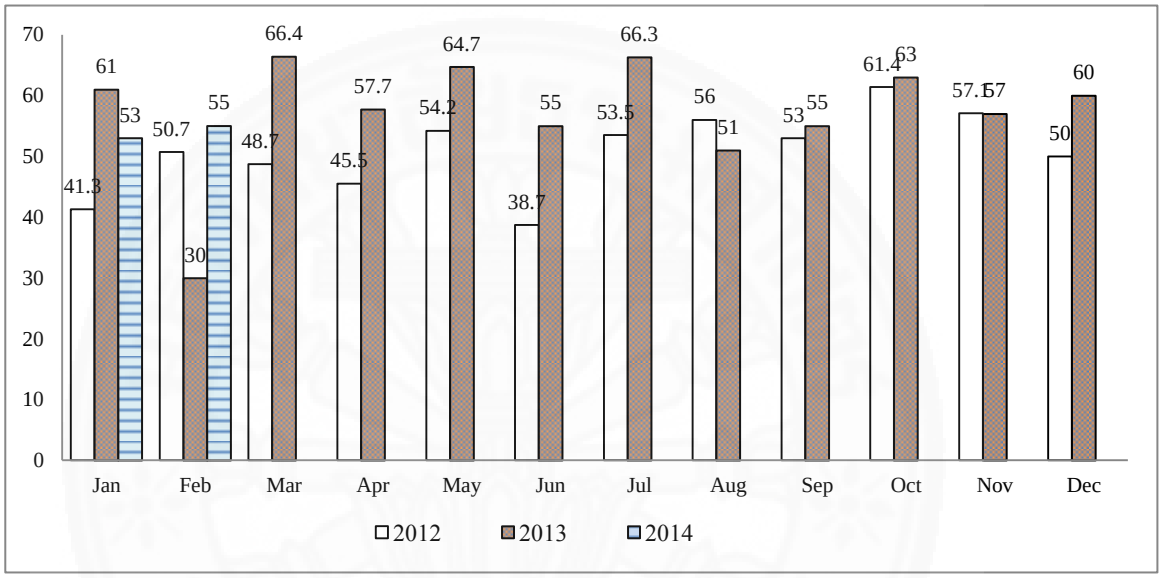

Figure 3.4 Imported yarns and fibers by months

Source: VITAS 2014

The Republic of China and People‘s Republic of China are leading yarn providers for Vietnam. The Kingdom of Thailand and the Republic of Korea closely follow. Besides, FDI textile firms based in Vietnam have also been main providers for the Vietnam textile and apparel industry for the last few years. Examples are Tainan company, Texhong company (Chinese investment) and Kyubang company (Republic of Korean investment).

Table 3.8 Vietnam imported Yarn by country

Unit: tons

Country	Year			Growth 2015
	2013	2014	2015	
People ‘s Republic of China	215.7	261.0	301.1	15%
Republic of China	217.7	208.6	192.7	-8%
Kingdom of Thailand	86.3	80.0	82.8	4%
Republic of Korea	77.8	76.8	79.6	4%
Indonesia	29.3	46.7	53.4	14%
Other countries	**60.0**	**58.0**	**69.7**	**20%**
Unlisted countries	**8.3**	**8.9**	**12.5**	**41%**
Total	**695.0**	**740.0**	**79.8**	**7%**

Source: Vietnam Custom Office

The average price of yarn imports increased slightly by 0.4% in 2013 compared to the same period of 2012, up to US$ 2.188/ ton. By contrast, the prices for fiber fell 3.1%, decreased to US$ 1.758/ ton.

Table 3.9 Vietnam Main import markets of yarns by country

	11 months/2013			Compared 11 months/2012		
	Quantity (Ton)	Value (USD)	Price (USD/ton)	Quantity (%)	Value (%)	Price (%)
Republic of China	199,494	392,600,047	1,968	-2.8	-4.6	-1.8
People’s Republic China	191,986	415,997,825	2,167	25.5	22.6	-2.3
Kingdom of Thailand	77,484	131,631,462	1,699	-0,4	-0,4	0
Republic of Korea	72,767	182,858,949	2,513	1	-0.6	-1.6
Indonesia	27,222	59,596,091	2,189	21.1	17.1	-3.3
India	23,988	76,743,346	3,199	56.7	52.4	-2.7
Malaysia	16,899	26,328,494	1,558	-26.4	-21.6	6.5

Source: VITAS 2014

Table 3.10 Vietnam main import markets of fiber

	10 months/2013			Compared 10 months/2012		
	Quantity (Ton)	**Value (USD)**	**Price (USD/ton)**	**Quantity (%)**	**Value (%)**	**Price (%)**
Republic of China	256,353	450,583,542	1,758	3	-0.4	-3.4
People's Republic of China	104,099	173,677,192	1,668	1.3	-2.7	-4
Kingdom of Thailand	41,236	71,566,574	1,736	8.7	8.5	-0.2
Republic of Korea	40,002	70,745,916	1,769	24.2	12.5	-11.7

Source: VITAS 2014

Nevertheless, the development of yarn spinning is not proportionate to the development of weaving-dying and finishing. For instance, according to the General Statistic Office of Vietnam, the country produced about 1.5 million tons of yarn in 2014 but exported 858.3 thousand tons which was nearly 60% of the yarn it produced. Meanwhile, Vietnam also imported 739.9 thousand tons which was approximately 86.2% exported. This is the corollary for the following listed reasons. Firstly, the quality of yarn is inconsistent and the development of the weaving-dyeing and finishing industry is incompatible with Vietnam clothing exports. Thus, domestic yarn production is not diverse in types (mainly cotton and polyester), the quality of yarn products are at the low and medium level of the value chain so that it cannot meet the demand of the weaving-dyeing industry which requires the variety of yarns, such as wool, spandex or nylon, etc. Secondly, the capacity of the weaving-dyeing section is weaker than that of the yarn spinning section. The output of yarn is often blocked, forcing enterprises to find a way for exporting it. Thirdly, 80% of garment producers in Vietnam are subcontracting as well as only in the stage of Cut- Measure-Trim (CMT) method. They therefore, cannot be proactive in searching and finding domestic inputs but have to instead follow buyers' orders. This has also put a negative impact on the demand of the domestic weaving-dyeing industry.

3.4.3 Fabrics

Fabrics production, from 2005 to 2014 also made an increase from 560.8 million square meters to 1,323.7 million square meters. The fabric output in 2014 increased by 6.8%, 12.5% and 136% compared with 2013, 2012 and 2005,

respectively. The average growth rate of fabrics production in the period of 2005 to 2014 was 11% per annum the above table 3-4). The growth rates of fabric production are lower than those of yarn and fiber output for the same period. In particular, the capacity of dyeing and finishing in Vietnam can only produce about 0.8 billion square meters of fabric per year. Hence, approximately 40% of coarse fabric produced is exported to countries where they have a good system of dyeing and finishing, for example the Republic of Korea and the People's Republic of China. It is then imported back by Vietnam later. Currently, Vietnam's apparel sector should use about 8 billion square meters of fabric for production, of which only 16.4% can be provided by domestic fabric producers and the rest of the demand has to be imported.

Fabrics import turnover of Vietnam reached US$8,397 million, and rose by 19.3% compared to 2012. In the first two months of 2014 it was estimated at US$ 1,281 million, increasing 26.7% to the same period in 2013.

Unit: million USD

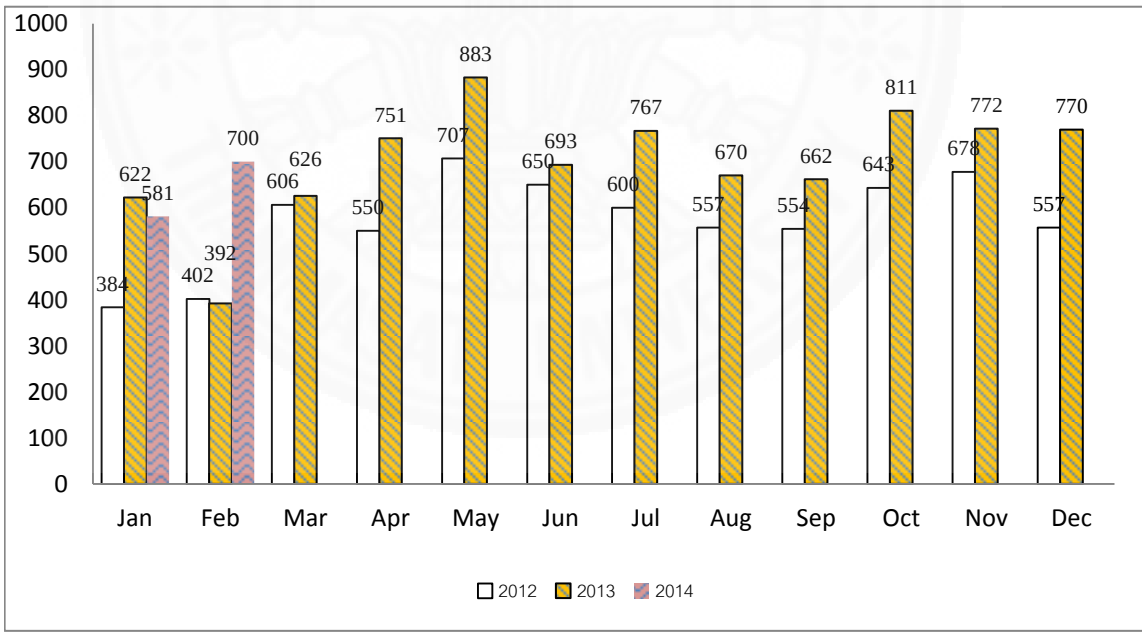

Figure 3.5 Vietnam imported fabrics by months

Source: VITAS

The People‘s Republic of China and the Republic of Korea are the two largest suppliers of textile fabrics in Vietnam, accounting for 46.3% and 20.4% of the market share in 2013 respectively. The Republic of China and Japan closely follow.

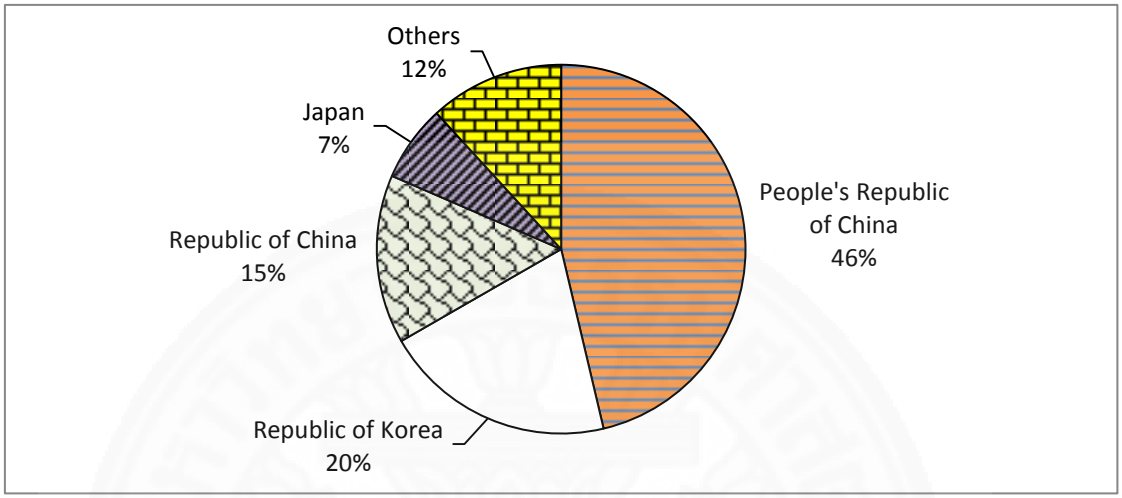

Figure 3.6 Vietnam main markets for fabrics imports 2013
Source: VITAS

In conclusion, the weaving-dyeing and finishing industry in Vietnam has advantages as good suppliers of fiber input and high demand of fabrics output. The development of this area, however, is not commensurate with its potential. Investments in this stage require a big injection of capital, technology, human resources and the strict requirements on environmental impacts but the possibility of capital recovery is very slow. Therefore, only new foreign enterprises can afford to invest. Many provinces, furthermore, also provide restrictions limiting textile and dyeing projects due to fears of environmental pollution, which impacts on the expansion of this industry.

3.4.4 Forms of Producing Exports Products

At present, the garment firms with export products are mainly based on Cut-Make-Trim (CMT) methods (85%). In fact, garment producers have to use imported inputs and machinery. Angie (2012) has conducted interviews with the 16 textile and garments representatives from the Vietnam Textile and Apparel Association (VITAS). She found that most Vietnam producers are mainly

subcontractors and dependent on imported materials distributed by brand holders and suppliers. In addition, the low value-added garment assembly still predominate exports from Vietnam. With this engagement, the garment enterprises can use less skilled workers without large capital requirements for establishment. However, the value added income from assembled products is very low.

There is about 15% of apparel firms with export products based on Free On Board (FOB) method mostly at level 1 and only 2% for Original Design Manufacturing (ODM) method. The FOB firms in Vietnam are just at the beginning stage so that the values added are not much. The reason why export products with FOB or ODM and Original Brand Manufacturing (OBM) are still very low is due to the Vietnam textile and apparel industry not actively searching for sourcing inputs, poor management and low capital.

3.5 Textile and Apparel Exports

Vietnamese textile and apparel export revenue has risen steadily for the last years, and presently positions as the second largest export industry. Vietnamese apparel exports achieved US$17.9 billion in 2013, rising by 18.5% over the same period; and making up for 13.6% of Vietnamese total export values.

The industry has been a major source of foreign exchange and contributed to approximately 10-15% of Vietnam‘s GDP annually (Vu, 2014). According to the Vietnam Customs Offices, export turnover of the Vietnam textile and apparel industry was estimated to reach US$ 20.9 billion in 2014, representing about 13.6% of total exports. Vietnam now is one of the fastest growing countries in textile and apparel exports with global market share of about 4-5%. Vietnam is also the second largest apparel exporter to the United States of America, with export share of 48.6% compared to the turnover export of apparel. Further, the European Union, Republic of Korea, and Japan are also the main clothing importers of Vietnam, accounting for 16.4%, 10%, and 12.9% of the country apparel, respectively. On the other hand, the industry also contributes significantly to poverty reduction and social stabilization by generating a number of jobs. With more than 7,000 enterprises, the industry was

estimated to employ 1.4 million people, representing 11.5% of the total country labor force in 2013. This number is projected to increase in the future.

Exports value of foreign direct investment (FDI) firms has a higher than that of local firms. FDI enterprises' apparel export value in 2005 reached only US$2.14 billion, making up of 44% of the country's total apparel export. FDI firms' apparel products have kept increasing and surpassed export of local firms since 2007. FDI enterprises' apparel export value reached US$10.7 billion in 2013, rising by 18.5% compared with the same period and making up for 59.4% of total apparel export value. Local firms' apparel export value reached US$7.3 billion; US$3.4 billion lower than that of FDI firms.

Table 3.11 Export value between FDI and Domestic firms in Vietnam

Unit: billion USD

	FDI enterprises	**Domestic enterprises**
2005	2.1	2.7
2006	2.8	3.1
2007	4.2	3.6
2008	5.3	3.9
2009	5.4	3.6
2010	6.8	4.4
2011	8.5	5.5
2012	9	6.1
2013	10.7	7.3

Source: GSO

3.5.1 Textile Export

According to the statistics of VISTA, the export value of yarn and fibers and fabric without weaving increased from US$ 2,149 million and US$ 400 million in 2013 to US$ 2,543 million and US$ 456 million in 2014. However, the export value of both these products dropped slightly to US$ 2,524 million and US$ 440 million in 2015, a decrease of 0.75% and 3.51% compared with 2014. The export

value of fabrics and auxiliary materials are US$ 987 million and US$ 1,427 million, increasing by 23.08% and 91.8 % compared with 2014.

The People‘s Republic of China is the largest importer of yarn and fibers from Vietnam, followed by Turkey and the Republic of Korea as the second and third country importing raw inputs from Vietnam.

Table 3.12 Export of Textile Product in Vietnam, 2013-2015

Unit: Million USD

	2013	**2014**	**Compare with 2013 (%)**	**2015***	**Compare with 2014 (%)**
Fabrics	710	800	12.68	987	23.08
Yarn and Fiber	2,149	2,543	18.33	2,524	-0.75
Fabrics without weaving	400	456	14.00	440	-3.51
Auxiliary Textile	596	744	24.83	1,427	91.80

*: Estimate Source: VISTA

3.5.2 Apparel Export

The United States of America, European Union, Japan and the Republic of Korea are the four biggest partners of Vietnam in apparel exports. In 2014, total apparel export value to these four markets achieved US$23.6 billion, making up for 85.5% of total apparel export value. Major exported products include Jackets, T-shirts, Trousers, Skirts, Children Clothes, Dress shirts, etc. In particular, exports to the United States of America’s market have kept increasing for the past years, accounting for 48.6% of Vietnamese total apparel export value in 2014. This is followed by Europe with 16.4%, Japan with 12.9% and the Republic of Korea with 10%.

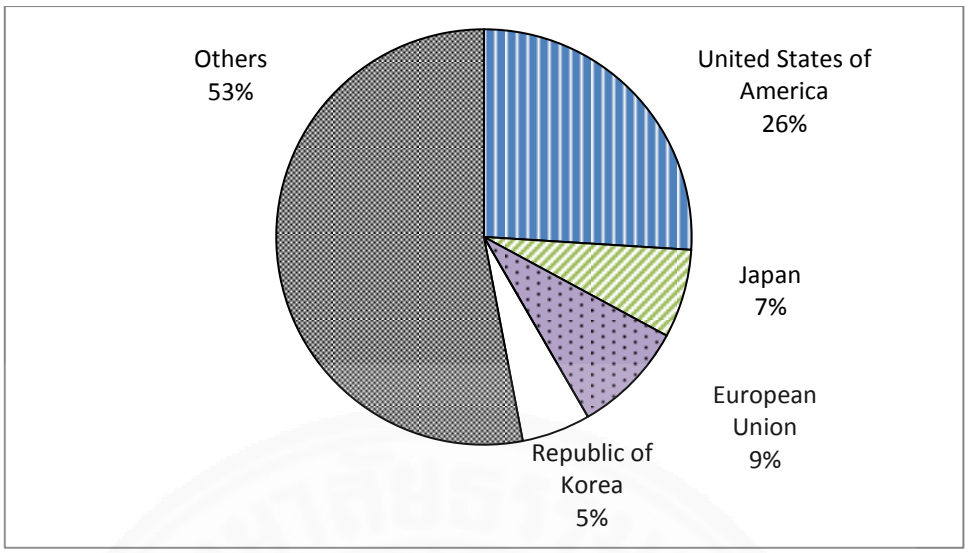

Figure 3.7 Export markets of Vietnam Textile and Apparel Industry in 2014

Source: VITAS 2014

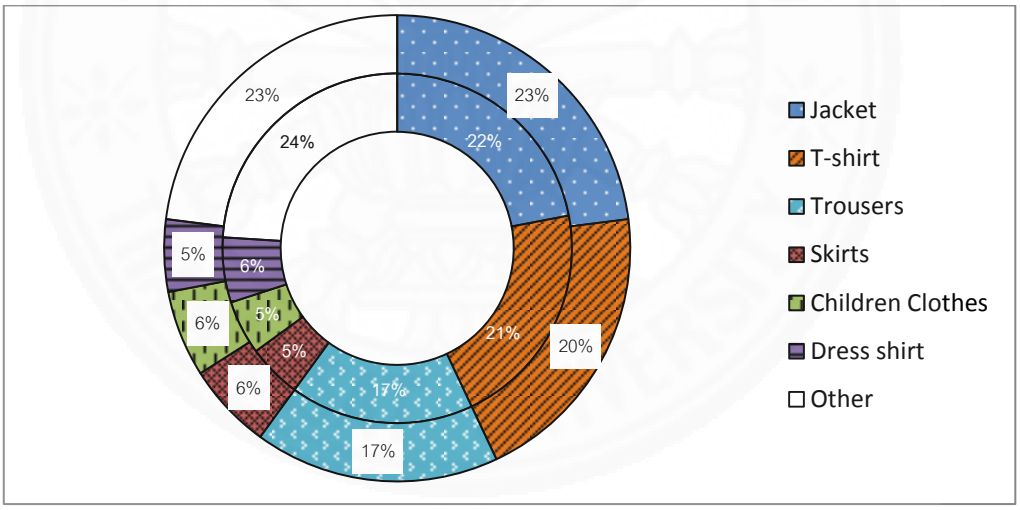

Figure 3.8 Structure of export products in 2013-2014

Source: VITAS 2014

At present, Vietnam is the second largest garment supplier to the United States of America after the People‘s Republic of China, with exports turnover in 2013 accounting for 48% of total export value of the textile and apparel industry. According to statistics from OTEXA, compared to 2012, the imported apparel products to the United States of America from Vietnam in 2013 had a dramatic

increase by 14.59% in value and 13.74% in volume. In particular, Vietnamese export products to the United States of America market reached US$8.77 billion, accounting for 8.38% market share in US. Meanwhile, the growth rate of market share of other suppliers to the US market is much lower than that of Vietnam. Compared to 2012, the market share of Chinese garments in 2013 was 39.79%, increased by 2.69% of the export value. Similarly, Indonesia's garment market share (4.99%), and Cambodia's (2:47%) rose by 0.63% and 0.72% respectively.

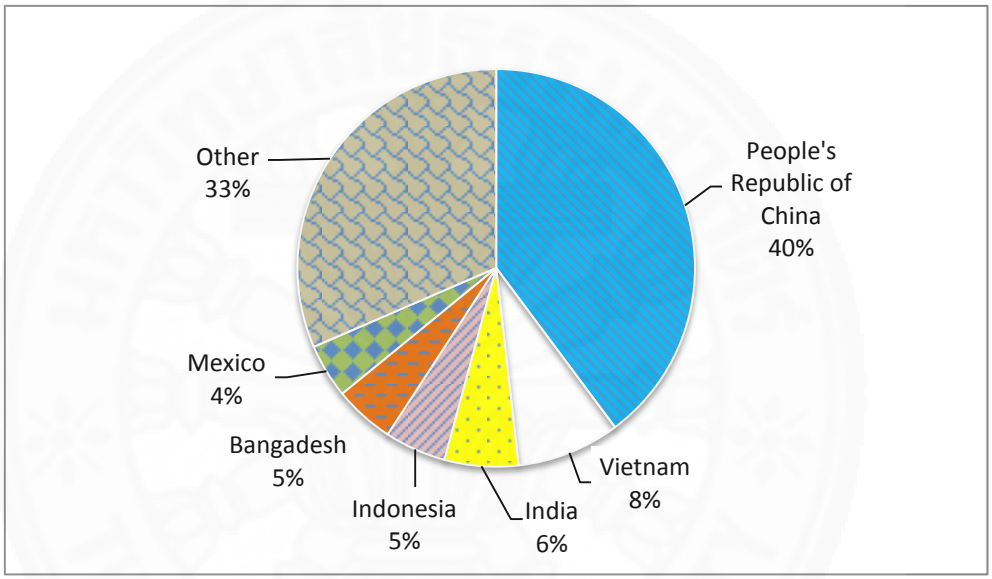

Figure 3.9 Textile and Apparel exports to The United States of America in 2013
Source: (Vu, 2014)

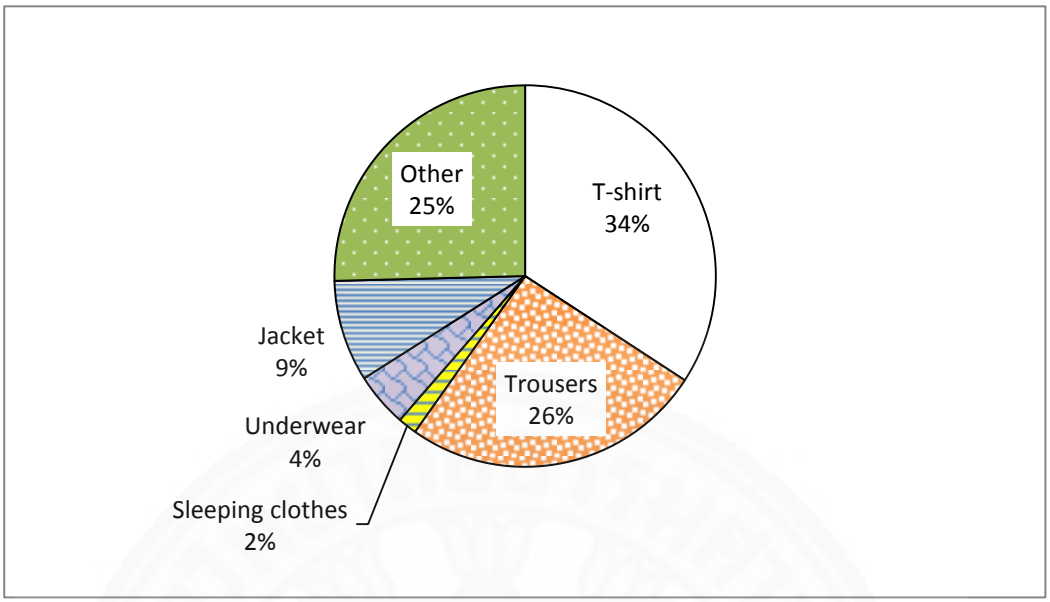

Figure 3.10 Vietnamese Structure of export products to The United States of America in 2013

Source: (Vu, 2014)

The price of the garment products imported from Vietnam to the United States of America is always equivalent or higher than other competitive suppliers such as the People's Republic of China and Bangladesh. However, the growth rate of Vietnamese apparel production in the US market is the highest amongst the 10 largest suppliers in this market in 2013.

Additionally, since the TTP agreement was signed and entered into, the position of Vietnamese apparel production is expected to enhance. The export turnover from Vietnam to the United States of America is also projected to increase significantly. However, Vietnam garment production will also have to face strict requirements on technical barriers, trade-related social responsibility, ecological labeling, and environmental protection and so on.

3.6 Government Policies on Textile and Apparel Industry

The Textile and Apparel industry has played an important role in the national industry structure. The Government has introduced a development plan for 2020, with a vision for 2030 under Decision 3218 / QD-BCT. According to this plan the industry aims to achieve 55 percent localization rates by 2015, increasing to 65 %-70% by 2020 and 2030, respectively. In the 2013-2020 period, the sector set goals of an annual manufacturing production growth rate of 12-13 percent. Exports in the period of 2013 and 2015 are set to increase by 10-11 percent yearly, increasing by 9-10 percent in the 2016-2020 period, and by 6-7 percent in the 2021-2030 period. The growth rate of the local market aims to be 9-10 percent in the 2013-2015 period, and 10-12 percent in the 2016-2020 period.

Besides the general plan, the government also has preferential tax policies for the Textile and Apparel Industry. All the enterprises under the CMT method exporting products to third world countries are privileged to import materials with 0% tax liability. Furthermore, there are the tax import duty deferral policies for exporting products enterprises. The enterprises importing materials for export manufacturing are entitled to a maximum deferred tax payment period of 275 days from the date of customs registration. In cases where the enterprises have not exported all the imported materials after 275 days, they then have to pay taxes to the government. Until they are able to completely export the rest of these materials, enterprises can complete the customs procurement for a tax refund. For enterprise not entitled to the 275 days tax deferral, they must either pay imports tax or have a bank guarantee equivalent to their tax debt. If these materials are for exporting products, enterprises will have to complete the customs procurement for non-tax revenue (in the case of a bank guarantee) or for the tax refund (in the case of an enterprise already paying import tax).

This tax deferral regulation has been implemented to assist exported product enterprises in textile and apparel particularly product orders in FOB, ODM or OBM which will have high value adds in the value chain. However, this tax deferral can also create corruption between enterprises and the customs offices as enterprises may try to search for loop holes or even bribe the customs office for reduced tax liability.

CHAPTER 4
ANALYSIS OF THE EFFECT OF TRANS-PACIFIC PARTNERSHIP FREE TRADE AGREEMENT ON VIETNAM TEXTILE AND APPAREL INDUSTRY

4.1 Overview of Trans Pacific Partnership agreement

The Trans Pacific Strategic Economic Partnership Agreement (TPP) was firstly signed by four countries namely Chile, New Zealand, Brunei and Singapore in 2005. The TPP agreement, nevertheless, was extended in 2008 with the participation of eight more countries, The United States of America, Peru, Malaysia, Canada, Australia, Japan, Mexico and Vietnam. As a result, the total number of countries joining in the TPP negotiations has increased to twelve since then. This agreement will have a market of 790 million consumers, accounting for nearly 40% of global GDP and approximately one third of global trade. The TPP agreement was officially started its negotiations in 2010. After seven years of bilateral and multilateral negotiations, it was finally signed on the 4th of February 2016 in Auckland, New Zealand. It, however, is currently still waiting to be ratified before it can be enforced.

The TPP agreement is the first comprehensive "new generation" free trade agreement of the 21st century, covering various fields such as trade in goods and services, intellectual property rights, technical barriers, government procurement, rule of origin, standards on environment labor and state owned enterprises, etc. In addition, TPP is a regional agreement, in which state members must be unanimous in uniform tariffs as well as general rules of origin. Enterprises, therefore, can easily make the most of this agreement. This regional approach will promote the whole regional trade network, improve competitiveness, and encourage the use of material inputs from TPP member states.

Under the TPP agreement, commercial regulations emerged throughout the establishment of the TPP framework agreement and must be coherent with environmental policies of each country. This agreement helps to increase the state member's competitiveness and create favorable conditions for businesses amongst

themselves as well as committing to solve the difficulties of small and medium enterprises so that they can take full advantage of this free trade agreement.

Furthermore, TPP agreement implements an open mechanism which helps interested countries participate in accession negotiations in the future in order to form a free trade zone in the Pacific region. Openness of the TPP can also help a member country to have other FTAs with many countries at the same time.

4.2 Rules of Origin in TPP agreement

Rule of origin are a complicated issue in the free trade negotiations. In the framework of TPP agreement, negotiations on rule of origin are significant to all member states. The results of these negotiations will determine whether TPP member exports will have the preferential tariffs from TPP or not.

A good is defined as “originating” will entitled to the tariff preferential treatment. Conversely, a good which is produced at non TPP member is not considered as “originating” in TPP. According to Article 3.2 of this agreement, a commodity is considered to be originating if it is:

> *(a) wholly obtained or produced entirely in the territory of one or more of the Parties as established in Article 3.3 (Wholly Obtained or Produced Goods);*
>
> *(b) Produced entirely in the territory of one or more of the Parties, exclusively from originating materials; or*
>
> *(c) Produced entirely in the territory of one or more of the Parties using non- originating materials provided the good satisfies all applicable requirements of Annex 3-D (Product-Specific Rules of Origin), and the good satisfies all other applicable requirements of this Chapter.*
>
> (Chapter 3, Article 3.2, TPP agreement)

According to that, an originating good is considered to be "made in TPP" if it meet one of these requirements. The first is the case of a good produced, grown or harvested entirely in the territory of one or many member states. This good is granted the preferential tariff treatment under the TPP free trade agreement when being

exported to member's markets. This rule is referred as WO- wholly obtained, which is stated specifically under the Article 3.3 of the TPP agreement as follow:

(a) a plant or plant good, grown, cultivated, harvested, picked or gathered there;

(b) a live animal born and raised there;

(c) a good obtained from a live animal there;

(d) an animal obtained by hunting, trapping, fishing, gathering or capturing there;

(e) a good obtained from aquaculture there;

(f) a mineral or other naturally occurring substance, not included in subparagraphs (a) through (e), extracted or taken from there;

(g) fish, shellfish and other marine life taken from the sea, seabed or subsoil outside the territories of the Parties and, in accordance with international law, outside the territorial sea of non-Parties1 by vessels that are registered, listed or recorded with a Party and entitled to fly the flag of that Party;

(h) a good produced from goods referred to in subparagraph (g) on board a factory ship that is registered, listed or recorded with a Party and entitled to fly the flag of that Party;

(i) a good other than fish, shellfish and other marine life taken by a Party or a person of a Party from the seabed or subsoil outside the territories of the Parties, and beyond areas over which non-Parties exercise jurisdiction provided that Party or person of that Party has the right to exploit that seabed or subsoil in accordance with international law;

(j) a good that is:

(1) waste or scrap derived from production there; or

(2) waste or scrap derived from used goods collected there, provided that those goods are fit only for the recovery of raw materials; and Nothing in this Chapter shall prejudice the positions of the Parties with respect to matters relating to the law of the sea.

(Chapter 3, Article 3.3, TPP agreement)

In generally, this “wholly obtained” rule is strictly regulated that there is any unidentified component of product; this good will lose its nature as a “whole obtained” product.

The second is the case of a good produced in one and more member states using the material from non- TPP members, can still be considered as an originating good if it meets either the rule of tariff shifts or the rule of Regional value content, or both of those regulations, or other rules of origin in TPP agreement.

The rule of tariff shift is based on the digits of Harmonized System of Tariff Classification (HTS). The HTS uses from six to ten- digit in order to identify the goods. The tariff shift rule applies to chapters (2-digit HTS) as Change to chapter (CTC or CC for short), headings (4-digit HTS) as Change to heading (CTH for short), of subheadings (6-digit HTS) as Change to subheading (CTSH for short). The tariff rule commonly applies for the four HTS categories. The Change to Chapter is the most restrictive while Change to subheading is the least restrictive. For instance, in Annex 3D- Product- Specific rules of Origin under TPP agreement, one of the tariff shift rule is that “A change to heading 19.02 through 19.05 from any other chapter". With this rule, a product has HS classification from 19.02 to 19.05 is considered as a “originating” product if it is produced from raw materials with HS code outside of Chapter 19. The first assumption is that biscuits exported to U.S are produced in Vietnam with flour from People ‘s Republic of China (HS code of flour is at Chapter 11), the rest of ingredients of those biscuits origin from Vietnam. Thus, when those biscuits are exported to U.S, they will be regarded as “originating” products and granted preferential tariff treatment under the TPP agreement. The reason is that if the tariff shift rule applies to HS 19.05, all the products under HS 19.05 are considered as “originating” and entitled to preferential tariff treatment under the TPP agreement, all non-originating raw materials must be in other HS chapter. The second assumption is that biscuits exported to U.S are produced in Vietnam with mixed dough from People ‘s Republic of China (the HS of mixed dough is 1901.20), the remaining ingredients origin from Vietnam. Therefore, when those biscuits are exported to U.S, they will be considered as “non-originating” products and cannot be granted the preferential tariff treatment under the TPP agreement. The reason is that the raw material as mixed

dough is from People ‘s Republic of China (non TPP member) and its HS is in Chapter 19 as in the same HS chapter with biscuits.’

In addition, the TPP agreement also provides the rule of regional value content (RVC for short). An “originating” product produced in one or more Parties can meet the requirement of RCV of this product. This rule is rarely applied in particular but rather combined with tariff shift rule. The calculation of RVC is stated at Article 3.5 under Chapter 3 of TPP agreement. There are two methods to identify the RVC of a product. Build-up method, a direct calculation, is based on value of originating materials. Its formulation is RVC= VOM/AVx100%. Build-down method, an indirect calculation, is based on value of non-originating materials. Its formulation is RVC= (AV-VNM)/AVx100%. In those two formulations, RVC is the regional value content of a commodity, described as a percentage VNM is the value of non-originating inputs, including inputs of uncertain origin, used in the production of the good; AV is the value of good. The RVC of a good in TPP agreement is from 30% to 55% depends on each specific products listed in Annex 3D of this agreement.

Besides the tariff shift rule and the RVC, TPP agreement also provides other rules of origin in order to ensure the origin of a product, such as De minis or manufactured goods as well as the custom procedures of originating product.

4.3 Rule of Origin for Textile and Apparel Sector under TPP agreement

Aside from all the rules of Chapter III and annexes thereto, textile and apparel production has its own regulations as stated in Chapter IV. Typically, according to the WTO rules and other free trade agreements, rules of origin are based on the tariff shift rules. It means that a garment product is considered as an originating good if it was sewed completely or partly in a FTA member country. While the fabrics and auxiliaries can be imported from a non-member country. This rule of origin is called the "cutting and sewing" regulation. The rule of origin under TPP agreement, conversely, is stricter than the current mechanism of WTO. It forces member states have to stiffen the control mechanism on originating issues of imported goods.

The main rule of origin for textile and apparel products under this agreement is the “yarn forward” or “three stages” rule, In other words, all the apparel products granted the preferential tax must use originating yarn and fabrics and be assembled by member states of the agreement. It means the process of yarn spinning, weaving-dyeing and finishing and sewing must be managed in the territory of one or more parties. The textile and apparel product specific rules of origin for textile and apparel products are stipulated at the Annex 4A of TPP agreement. The apparel products in Chapter 61 through chapter 63 of the Harmonized System of Tariffs are originating products if they are produced entirely in one or more TPP member states using material goods of headings as regulated in this Annex.

On the other hand, Chapter IV of the TPP agreement also provides some exceptions to yarn forward rule for textile and apparel products. The first is the “cutting and sewing” rule is applied for three groups of apparel products including luggage, handbags, women's bras and children's clothing baby made from synthetic fibers. The second is the *de minimis* rule for non-originating textile and apparel products in Annex 4-A, classified outside Chapters 61 through 63, will be regarded as originating goods if the total weight of all such materials must less than 10% of the total weight of the goods. In addition, textile and apparel products of Chapter 61 through 63 in Annex 4-A are not originating goods because fibers or yarns used in the production of the component of the products cannot meet the tariff shift rules, can still be regarded as a TPP originating product if the total weight of all such fibers or yarns must less than 10% of the total weight of that component. Third is the short supply list of products classified in the Appendix 1 of Annex 4-A. In this list, there are 194 inputs (yarns, fibers and fabrics) can be imported from non TPP member countries, of which 186 items will be applied permanently and 8 items will temporarily applied for 5 years. Four is the exchange mechanism is imposed to Vietnamese firms exporting bottoms made from cotton fabrics to the United States of America under an Earned Import Allowance Program (EIAP). In this program, Vietnamese exporting firms would receive the duty free treatment immediately for using non-TPP cotton fabrics as the same amount as they purchase US originating cotton fabric in order to assemble bottoms. The exchange ratios under EIAP between US originating fabrics and non US fabrics are 0.75- for-1 for women’s bottoms and 1.3- for-1 for men’s bottoms.

Besides the matter of rules of origin, Chapter IV also stipulates the rules of textile and apparel-specific safeguard mechanisms. According to Article 4.3 to Article 4.9 in Chapter 4 in the TPP agreement, import countries are allowed to apply textile and apparel- specific safeguard mechanisms, through which TPP member state can re-impose the MFN tariffs if increased imports of products under TPP preferential tax cause serious damage or threaten severe loss to the TPP domestic industry. However, if any importing country wants to apply this safeguard mechanism, it must pay compensation for the economic damage which exporters have to suffer when they cannot enjoy preferential tariffs under the TPP agreement. In fact, the possibility of this mechanism for Vietnam is not high because Vietnam and The United States of America have different priorities for export products.

4.4 The impacts the Trans Pacific Partnership agreement on Vietnam textile and apparel industry

The TPP agreement would be able to bring a significant opportunity for Vietnam's textile and apparel exporting products to TPP member markets, especially The United States of America. Vietnam, at present, has been the second largest exporter of apparel to the U.S after the People's Republic of China. Nevertheless, it is questionable whether the country can take advantage of the TPP agreement to foster its economy, particularly for the textile and apparel industry.

According to the TPP agreement, the tariff lines for textile and apparel products will be reduced to nearly 0%, either when this agreement comes into force, or following the tariff elimination schedule. For instance, The United States of America has imposed the tariff schedule on Vietnam for 1,605 tariff lines of textile and apparel products as below:

- A Basket: 1,161 tariff lines (72.3%) in staging category of EIF will be eliminated immediately after the agreement comes into force.
- B Basket: More than 134 tariff lines in the staging category of B5 will be removed after the year 5;
- X basket: 145 tariff lines classified at US6, US8 and US10 will be eliminated from the year 11, plus the rest of 165 tariff lines in the category of US7,

US9 and US11 will be 0% from the year 13, and this time is also an end of the tariff elimination for textile and apparel products to Vietnam.

Details of each staging category is stated in the Annex 2-D of the Tariff Schedule of The United States of America under the TPP agreement. Table 2 describes the quantities of tariff lines in the Tariff Schedule of U.S to Vietnam.

Table 4.1 Detail of the tariff lines in the Tariff schedule of U.S to Vietnam

Staging category	**Tariff elimination schedule**	**Quantity of tariff lines**	**Share of tariff line in total**
EIF	The custom duty will be eliminated entirely on the date of entry into force of TPP agreement.	1,161	72.3%
B5	customs duties shall be eliminated in five annual stages, and will be 0% from January 1 of year 5.	134	8.3%
US6	Tariff shall be reduced by 35 % of the base rate on the date of entry into force of TPP Agreement and shall remain at the resulting rates until December 31 of year 10. These goods shall be duty-free effective January 1 of year 11;	19	1.2%
US7	Tariff shall be reduced by 35 % of the base rate on the date of entry into force of TPP Agreement and shall remain at the resulting rates until December 31 of year 12. It shall be 0% from January 1 of year 13;	11	0.70%
US8	Tariff shall be reduced by 35 per cent of the base rate on the date of entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 5. On January 1 of year 6, these duties shall be reduced by an additional 15 % of the base rate, and they shall remain at the resulting rates until December 31 of year 10. Tariff shall be removed absolutely by January 1 of year 11;	14	0.9%

Table 4.1 Detail of the tariff lines in the Tariff schedule of U.S to Vietnam (cont.)

Staging category	**Tariff elimination schedule**	**Quantity of tariff lines**	**Share of tariff line in total**
US9	customs duties shall be reduced by 35 % of the base rate on the date of entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 6. On January 1 of year 7, these duties shall be reduced by an additional 15 % of the base rate, and they shall remain at the resulting rates until December 31 of year 12. These goods shall be duty-free effective January 1 of year 13;	112	7.00%
US10	customs duties shall be reduced by 50 % of the base rate on the date of entry into force of this Agreement for The United States of America and shall remain at the resulting rates until December 31 of year 10. These goods shall be duty-free effective January 1 of year 11;	140	8.70%
US11	customs duties shall be reduced by 50 % of the base rate on the date of entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 12. These goods shall be duty-free effective January 1 of year 13;		
Total		1,605	100%

Source: Annex 2-D Tariff Commitments (TPP agreement)

Even though more than 70% of tariff lines will be eliminated when TPP comes into force, the total products of this category only account for 40% of the total value of Vietnam's apparel exports to the United States recently (according to USITC). The reason is that Vietnam is still restricted from exporting many products of EIF category to United States, but at the same time Vietnam’s most valuable and

productive textile and apparel products exported to United Stated are classified in "the most sensitive" basket and will not be granted duty-free treatment during ten or twelve years since TPP takes effect. The table 3 presents the most competitive Vietnamese products exported to United States.

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Table 4.2 Top 30 Vietnam apparel export product categories to The United States of America in 2014

Unit: Thousand USD

Description	Value of exports	Share in Vietnam apparel exports to US	Share in Vietnam apparel exports to word
Total value of Vietnam apparel exports to US (*)	9,208,700		
Total value of Vietnam apparel exports to World (**)	19,699,178		
Total value of Top 30 Vietnam apparel exports to US	6,787,579		
Share of Top 30 Vietnam apparel exports to US in the turnover of Vietnam apparel exports to US		73%	
Share of Top 30 Vietnam apparel exports to US in the turnover of Vietnam apparel exports to World			34%
A basket products of Top 30	3,356,373	36.45%	17.04%
B Basket products (no product) of Top 30	0	0	0
X basket of Top 30	3,431,207	37.26%	17%

Source: Author's calculation statistics from United State International Trade Commission (USITC), International Trade Centre (ITC)

(*) (**): Total apparel exports in Chapter 61 and Chapter 62

A Basket : Least sensitive products selected for immediate duty free treatment

B Basket: Moderately sensitive products will be removed after the year 5

X basket: Most sensitive products eliminated from the year 11 (US6, US8 and US10) and US7, US9 and US11 will be 0% from the year 13

The top 30 Vietnam apparel products accounted for 73.71% of total turnover in Vietnam's apparel exports to the United States and 34 % of total value of Vietnam's apparel exports to the world in 2014. Of these top 30 products, 13 tariff lines are listed in the A basket which will be granted duty free treatment when TPP

agreement comes into force. These products in this basket were making up of 36.45% of total US imports from Vietnam and 17.04% of total Vietnam's apparel exports to the world in 2014. There is not any product of top 30 in B basket. Nevertheless, there are 27 tariff lines in X baskets which will have the liberalization of tariff schedule from year 11 and year 13 on ward. These tariff lines, in 2014, were accounting for 37.26% of total Vietnam apparel exports to The United States of America and 17% of total Vietnam apparel exports to the world.

Nevertheless, in order to get tariff granted under TPP agreement, Vietnam apparel products must meet the rules of origin requirements. Appendix 1 of Annex 4-A (Chapter 4, TPP agreement) lists all the 194 short supply list of textile and apparel products. There are 186 items will be applied permanently and 8 items will temporarily applied for 5 years. Nevertheless, each short supply item has its own end use requirement. Even though Vietnam can use temporary short supply lists for 5 years, it is still difficult to take advantage of them for exporting to The United States of America' market. With a reason, the temporary 8 items are mostly woven and polyester fabric products which are restricted to have end use for woven bottoms of heading 6203 and 6204; or men's trousers excluding water resistant products of subheading 6203.43; or men's and women's water resistant clothing of chapter 61; or women's and girls' water resister overcoat of subheading 6202.13 or 6202.93; or clothing and accessories of chapter 61 except baby socks and booties of heading 6111 and legging of heading 6115; or woven swimming suit of subheading 6211.11 and 6211.12. Most of these end use products are not listed in the A basket, while B and X baskets have tariff reduction schedule from year 5 or year 11 on ward. In the permanent short supply list, there is only woven fabric item applied for men's and boys' dress shirts of subheading 6205.20 and women's and girls' blouses of subheading 6206.30, which will be valuable a lot for Vietnam apparel export industry. For instance, HS 6205.20.20-men's or boys' shirts to The United States of America is one of top 30 Vietnam apparel export to The United States of America, which was US$ 251,857.90 thousand dollars in 2014 and listed in the A basket that will be eliminated at the first day of TPP agreement's enforcement.

In terms of the Earned Import Allowance Program be in Appendix E of Annex 2-D (Chapter 2, TPP agreement), Vietnam can exchange one credit of US

cotton fabrics with one credit of non-TPP cotton fabrics for the men's and women's bottom products. However, Vietnamese main imports from United States of America are only cotton products. US fabrics, in general, are expensive. Therefore, Vietnam actually get little benefit from this program since Vietnam still imports more than 70% fabrics from the Republic of Korea and the People's Republic of China (non - TPP members).

In general, the Vietnamese apparel export industry might have difficulty in complying with the rules of origin in the TPP agreement. Even though the US liberalization tariff reduction schedule will immediately help the US imports of apparel product from Vietnam increase more than 36.45%, Vietnam still cannot take advantage of the temporary short list products for its thirty leading apparel export products. The only item in the short supply list Vietnam can make use of is cotton fabrics for men's and boys' dress shirts of subheading 6205.20 and women's and girls' blouses of subheading 6206.30, which also have the tariff line of top 30 products granted immediate duty-free treatment.

4.5 TPP impacts on enterprises in Vietnam

This section of analysis will divided into two categories, namely foreign-owned companies and domestic enterprises. State-owned enterprises only made up of 1% of overall number, foreign direct invested firms are 15% and the largest proportion is the private sector with 84%. It is seen that Vietnam generally has to overcome many challenges in order to meet the requirement of TPP free trade agreement. However, if it is narrow down to firm scales, in author's point of view, the state owned enterprises and the FDI will be the most beneficiaries while small and medium companies might face up with many difficulties after the TPP comes into force. Below will be the explanations.

4.5.1 Foreign direct invested enterprises in Vietnam (FDI firms)

The export turnover of FDI enterprises achieved US$10.7 billion in 2013, an increase of 18.5% compared with the same period of 2012 and making up for approximately 59.4% of total apparel export turnover. Up to 2015, the total capital

of FDI flows into textile and apparel industry has reached US$ 10 billion and it keeps increasing. According to statistics from the Foreign Investment Department of Ministry of Planning and Investment, most of the FDI big projects during the first six month of 2015 are for textile and apparel sector. The Republic of Korea, Japan, and the People‘s Republic of China are the leading countries investing in the Vietnamese textile and apparel industry.

A conclusion can be withdrawn from author’s fieldwork is that FDI firms have an opportunity to utilize the TPP agreement. This is because they are usually large firms with strong capacities of big capital investment and well-management. Additionally, they are vertically integrated firms including both upstream and downstream of the industry. FDI firms’ export products are mainly to The United States of America, European countries, Japan and the People‘s Republic of China. Each FDI firms all it takes to capitalize on the agreement once it comes into enforce. According to fieldwork interview, these companies have been researched about how to capitalize the agreement. By establishing a research unit to study carefully all the provisions of TPP agreement as well as searches the strategic partnerships and coordination among their factory branches for the supply of product inputs.

In short, FDI companies will be one of the beneficiaries of the TPP agreement. First, they are acknowledge of TPP agreement and well-prepared for it. Second, they can control the whole supply chain of textile and apparel industry. Third, their apparel products have high value added and competitive goods due to their developed R&D sections as well as technology secrets. Last, large capital investment and well-management, FDI firms can invest to both upstream and downstream in order to control the whole supply chain of textile and apparel industry. Besides, they can attract enough quantity of labors for their factories and meet the labor standards requirements.

FDI companies often have closed cycle production from step of yarn spinning to the step of assembling as well as the research and marketing department. The example can be drawn from an interview with a foreign company which has the factories in Myanmar, the People‘s Republic of China, and Indonesia and in Vietnam. Since 1993, this company has vertically integrated factories of spinning, weaving and

dyeing and apparel production. It employs about 10,000 works. The R&D center of the company is quite developed with the logical process from identifying buyer needs to design collection. Therefore, company does not need to get the product orders through vendors. Most of the export of the company has been destined to The United States of America and the rest for European Union, Japan and Republic of Korea. Furthermore, the company has strategic division that in charge of developing the plan and strategy for TPP agreement. This division is leaded by the sales planning team who is in charge of analysis all the information about TPP and then preparing plans for it. These are the trade teams for researching and analysis the effect of TPP; buying and planning team for studying all the suppliers in TPP area as well as establishment the strong partnerships with strategic partners; production team for examining the capacities as well as foster the Vietnamese factories' capacities or finding more sub-contractors; sub-sales team for finding the sales trends in TPP.

4.5.2 Domestic firms in Vietnam

Domestic firms, divided into state own enterprises and locally private firms account for 85% of the total number of enterprises in the textile and apparel industry. Furthermore, garment enterprises account for 70% of total number of firms in the sector, spinning is only 6%, weaving is 17%, dying are 4% and ancillary industry is 3%. It implies that Vietnam is still at the early stage of the labor-intensive end for apparel products. For instance, according to the General Statistic Office of Vietnam, the country produced about 1.5 million ton of yarn in 2014 but exported 858.3 thousand tons which was nearly 60% of yarn it produced. Meanwhile, Vietnam also imported 739.9 thousand tons of yarn, while approximately 86.2 thousand tons were exported. In addition, the fabric production increased from 560.8 million square meters to 1,323.7 million square meters between 2005 and 2014. The capacity of dyeing and finishing in Vietnam can only produce about 0.8 billion square meters of fabric per year. Hence, approximately 40% of coarse fabric produced are exported to the Republic of Korea and the People's Republic of China. After dying and finishing, they are imported back by Vietnam.

4.5.2.1 State owned enterprise in Vietnam

Although, state owned enterprises only account for 1% of total number apparel companies, they are large apparel firms. Conversely, the other 84% are private firms at medium and small scales. According to the fieldwork interviews, state owned firms normally have large and vertically integrated enterprises including numbers of textile factories and apparel corporations and companies; however, not all of them are efficient. Although the firms have invested both upstream and downstream of the textile and apparel industry, they still had to import 99.5% of the cotton fabrics mainly from People's Republic of China or Republic of Korea. All the state owned companies has been equitizing. The export turnover of the largest apparel firm contributed approximately about 14.2% total national export value in 2013. Some of big firms have already managed promoted fashion designs with high value added products with foreign buyers. The state owned enterprises are very acknowledged of TPP agreements. With the financial supports from government, they tried to utilize TPP agreement by cooperating with FDI firms. For instance, one state owned company has launched its joint project with a Japanese company with a total capital investment of US$ 714 million dollars with the aim to set up a production based supply chain in order to capitalize on the TPP agreement.

4.5.2.2 Small private enterprise in Vietnam

Small private enterprises which are making up of 84% of total number enterprises in the country are sub-contractors. The major apparel export markets of domestic enterprises are developed countries such as the European Union, the United States of America, Japan, Hong Kong, the Republic of Korea, and Republic of China. Since almost private companies are only sub-contractors, therefore their capacities in general are weak and restricted. Private firms can hardly find their buyers by themselves. They are quite depending on the vendors for the product orders. Input materials are either bought by buyers or vendors. Thus, they are only able to earn little profit from the textile and apparel value chain. An example was drawn from fieldwork interview is that although an apparel product was assumed to sell in the market with the price of US$100; its labor cost was around US$2.

These small enterprises usually import mainly inputs from the People's Republic of China which is not a TPP member, the rest are from the rest are

Japan, Malaysia, the Republic of Korea, Thailand, etc. In addition, most of enterprises are still producing for low end of apparel products. Furthermore, most of firms are not enthusiasm with TPP agreement, even some of them did not either know or unacknowledged about TPP. This is because they are just subcontracting for the CMT method and cannot capitalize for higher added value products in the textile and apparel value chain.

CHAPTER 5
CONCLUSION

Although the TPP agreement was agreed upon by all the twelve participating countries, it is still on the process of ratification by each member. Especially, with the new elected president of the United States of America, TPP even might have been had premature death. If the TPP agreement officially comes into force, it will open many challenges and opportunities to member countries, particularly, for the developing countries as Vietnam. Joining TPP agreement, Vietnam will gain market access to one of its largest export markets for apparel, The United States of America, with the preferential tariff treatments. Nevertheless, the rule of origin as "Yarn forward" in TPP agreement might be an obstacle for Vietnam to foster its apparel products. For instance, Vietnam cannot take advantage of the temporary short list products for its 30 leading apparel export products to the United States of America. Since the industry has heavily dependent on imported raw materials from non TPP members, such the People's Republic of China or Republic of Korea, Vietnam might have might have difficulty in complying with the rules of origin requirements of the TPP agreement. Even though the US liberalization tariff reduction schedule will immediately help to increase the US imports of apparel product from Vietnam, there are only half of Vietnam's top 30 competitive apparel export products to US which would be liberalized tariffs for the first 10 years of the TPP. Thus, even if TPP would not have been ratified by the United States of America, Vietnam apparel industry would not have been lost that much. In this case, RCEP would not be a substitution for TPP. With a reason that, People's Republic of China is just only Vietnamese main input supplier but not one of the leading export markets for Vietnamese apparel products.

However, if it is narrow to the firm scales, only 16 percent of total apparel firms such as state-owned companies and FDI firms are expected to gain benefits from TPP agreement, whereas other 84 percent of locally owned medium and small companies might be left out. Since the state-owned companies and FDI enterprises are large firms with sufficient capacities, therefore, they are ready for the TPP. Nevertheless, there might an opportunity for domestic subcontractors to meet the

requirements of rules of origin in the TPP agreement. International vendors, especially from The United States of America, might seeks the ways of utilizing TPP agreement's advantages and help the domestic subcontractors deal the problems of local or regional containment. These vendors might be able to control the whole supply chain of the apparel industry, for instance the input materials as US fabrics, or making used of the exchange mechanisms between the United States of America and Vietnam. It also would help Vietnam increase its foreign exchange earnings in the apparel export industry.

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APPENDICES

APPENDIX A
QUESTIONNAIRE FOR APPAREL FIRMS

1. Can you just start by briefly describing to me your company activities?
2. What is your company's export and import volume last recent years?
3. Where does your raw materials origin from? Would it typically be from domestic textile firms or foreign supplier who would contract your company's service? If it is imported, where is your major importing destination?
4. For exporting products, is your company's customer typically the manufacturer or the foreign buyer? Where is your company exporting destination?
5. Do you have any difficulty in exporting products to different exporting destination?
6. Do you know about TPP agreement? Do you know about the rule known as "Yarn forward" in the Rules of Origin for Apparel and Textile products in the TPP agreement?
7. Can you tell me how your company would deal with the different requirements of Rules of Origin to each exporting destination? Especially to the country member (US market) in TPP agreement.
8. Do you think domestic textile firms will have capability to produce the raw material for you?
9. If you are sub-contracting with non-member country of TPP agreement, what would be your potential measures to solve the problems to meet TPP requirement?
10. Do you think Vietnam Apparel and Textile Industry would be benefit from TPP agreement if it comes into enforcement?
11. Can you think of any questions that you think I should have asked to help me better understand how the impacts of TPP agreement to the development of Vietnamese Apparel and textile industry?

APPENDIX B
QUESTIONNAIRE FOR TEXTILE FIRMS

1. Can you just start by briefly describing to me your company activities?
2. Can you explain for me the process of producing yarns of your company? Do you have any difficulty in producing yarns (technical, machine, land)?
3. What is your company's export and import volume last recent years?
4. Where is your product distributed? Would it typically be delivered to the domestic market or abroad market? If it is exported, where is your major exporting destination?
5. Do you know about TPP agreement? Do you know about the rule known as "Yarn forward" in the Rules of Origin for Apparel and Textile products in the TPP agreement?
6. Do you think domestic textile firms will be capable to provide products which meet the requirements of both quality and Rule of Origin in the TPP agreement to the apparel firms?
7. Do you think Vietnam Apparel and Textile Industry would be benefit from TPP agreement if it comes into enforcement?
8. Can you think of any questions that you think I should have asked to help me better understand how the impacts of TPP agreement to the development of Vietnamese Apparel and textile industry?

APPENDIX C
QUESTIONNAIRE FOR ASSOCIATION

1. Could you tell me about the policies of your association?

2. Foreign direct investment (FDI) has also played a major role in expanding Vietnamese textile production capacity. Is it because of becoming a member of the WTO and signing onto bilateral and multilateral free trade agreements have increased FDI to the Vietnamese textile branch?

3. What do you think about Vietnam supporting industry?

4. What role does your association play in representing business interests in the policy-making process?

5. Many Vietnamese textile enterprises are small and medium-sized businesses, what are their strategies for attracting clients? Does association play a role in connecting buyers with suppliers? If so, how?

6. Could you also briefly describe how Rules of origin requirements are met through customs procedures?

7. Could you tell me how Vietnam can deal with Yarn forward rule from the Trans-Pacific Partnership Agreement?

8. Do you think Vietnam textile and apparel industry will get benefit from TPP?

APPENDIX D

DETAIL OF EXPORT CATEGORIES OF APPAREL FOR VIETNAM UNDER TPP

Unit: Thousand USD

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US(*)	Share in Vietnam apparel exports to word(**)
A Basket : Least sensitive products selected for immediate duty free treatment				
EIF	HS 6110.20.20-sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	1,106,570	12%	5.62%
EIF	HS 6110.30.30-sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	698,641	7.59%	3.55%
EIF	HS 6205.20.20-men's or boys' shirts, not knitted or crocheted, of cotton, nesoi	251,858	2.73%	1.28%
EIF	HS 6104.43.20-women's or girls' dresses, knitted or crocheted, of synthetic fibers, nesoi	226,310	2.46%	1.15%
EIF	HS 6201.93.30-men's or boys' anoraks, windbreakers and similar articles, not knitted or crocheted, of manmade fibers, nesoi, water resistant	217,368	2.36%	1.10%
EIF	HS 6210.40.50-men's or boys' garm, nesoi, of fab of 5903/5906/5907, of mmf, other than w/outer sur. impreg/coated/etc. w/rub/plast, n k/c	138,060	1.50%	0.70%
EIF	HS 6204.43.40-women's or girls' dresses, not knitted or crocheted, of synthetic fibers, nesoi	133,373	1.45%	0.68%
EIF	HS 6202.93.45-women's/girls' anoraks, windbreakers, etc, nt knit/crochet, mm fibers, cont. 36% or more wool or fine animal hair, nesoi, o/than rec perf outwear	129,044	1.40%	0.66%
EIF	HS 6210.50.50-women's or girls' garm, nesoi, of fab of 5903/5906/5907, of mmf, other than w/outer sur. impreg/etc. w/rub/plast, n k/c	97,582	1.06%	0.50%
EIF	HS 6106.20.20-women's or girls' blouses and shirts, knitted or crocheted, of man-made fibers, nesoi	94,725	1.03%	0.48%
EIF	HS 6104.44.20-women's or girls' dresses, knitted or crocheted, of artificial fibers, nesoi	83,083	0.90%	0.42%
EIF	HS 6108.31.00-women's or girls' nightdresses and pajamas, knitted or crocheted, of cotton	82,559	0.90%	0.42%
EIF	HS 6104.42.00- women's or girls' dresses, knitted or crocheted, of cotton	97,201	1.06%	0.49%
Total A basket products		**3,356,373**	**36.45%**	**17.04%**

Unit: Thousand USD

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US(*)	Share in Vietnam apparel exports to word(**)
B Basket products				
No Products				
X Basket products				
US10	HS 6104.62.20-women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	320,004	3.48%	2%
US10	HS 6106.10.00-women's or girls' blouses and shirts, knitted or crocheted, of cotton	109,530	1.19%	1%
US11	HS 6211.43.00-women's or girls' track suits or other garments nesoi, not knitted or crocheted, of man-made fibers	125,527	1.36%	1%
US11	HS 6206.40.30-women's or girls' blouses and shirts, not knitted or crocheted, of manmade fibers, nesoi	124,099	1.35%	1%
US6	HS 6107.11.00-men's or boys' underpants and briefs, knitted or crocheted, of cotton	278,103	3.02%	1%
US6	HS 6109.10.00-t-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	205,680	2.23%	1%
US6	HS 6103.43.15-men's or boys' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, nesoi	116,525	1.27%	1%
US6	HS 6109.90.10-t-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers	81,558	0.89%	0.41%
US6	HS 6114.20.00-garments nesoi, knitted or crocheted, of cotton	81,549	0.89%	0.41%
US7	HS 6204.62.40-women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	501,221	5.44%	3%
US7	HS 6203.42.40-men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	348,656	3.79%	2%
US7	HS 6203.43.40-men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	204,581	2.22%	1%
US8	HS 6105.20.20-men's or boys' shirts, knitted or crocheted, of manmade fibers, nesoi	226,131	2.46%	1%
US8	HS 6105.10.00-men's or boys' shirts, knitted or crocheted, of cotton	191,973	2.08%	1%
US8	HS 6102.30.20-women's or girls' overcoats, carcoats, capes, windbreakers and similar articles, knitted or crocheted, of manmade fibers, nesoi	97,029	1.05%	0.49%

Unit: Thousand USD

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US(*)	Share in Vietnam apparel exports to word(**)
US9	HS 6204.63.35-women's or girls' trousers, breeches and shorts, not knitted or crocheted, of synthetic fibers, nesoi	185,479	2.01%	1%
US10	HS 6104.63.20- women's or girls' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, neso	233,562	2.54%	1%
	Total export value of X basket	**3,431,207**	**37.26%**	**17%**

Source: Author's calculation statistics from United State International Trade Commission (USITC), International Trade Centre (ITC)
(*) (**): Total apparel exports in Chapter 61 and Chapter 62
A Basket : Least sensitive products selected for immediate duty free treatment
B Basket: Moderately sensitive products will be removed after the year 5
X basket: Most sensitive products eliminated from the year 11 (US6, US8 and US10) and US7, US9 and US11 will be 0% from the year 13

BIOGRAPHY

Name	Miss Thuy Doan
Date of Birth	July 28, 1989
Educational Attainment	Academic Year 2011: Bachelor of Arts, Oriental Studies University of Social Sciences and Humanities Vietnam National University, Hanoi, Vietnam

Publications

Bryn Tucknott, Pham Quang Trung & Doan Thi Thu Thuy. (2012). *Case Studies on Land-use Pressures from Expanding Agribusiness in Vietnam – A Series of Studies on Agri-business Expansion in Vietnam.* Report submitted to OHK, Hanoi.

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Work Experiences	16-17 June 2016: Interpreter at the "Forum CLMVT 2016: Towards a shared prosperity" in Bangkok, Thailand July 2014- August 2015 & September 2012-September 2013: Programme Support Officer, Centre of Sustainable Development Studies September 2013-June 2014: Youth Worker, Europejskiego Foum Młodzieży, Poland September 2011- August 2012: Livelihoods Programme Intern, Oxfam Hong Kong