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Thesis Title:

**Comparative Advantage of Vietnam's Textile and
Clothing Industry**

A Research Proposal Presented to the Faculty of Graduate School

Southern Luzon State University Lucan, Quezon, Philippines

Thai Nguyen University S.R Vietnam

In Partial Fulfillment of The Requirements

for The Degree Doctor in Business and Administration

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THAI NGUYEN, 2013

ACKNOWLEDGEMENTS

Throughout the course of research leading to the completion of this thesis, I have gratitude to many people, who have provided me with tremendous help and support in one way or another, which I think I cannot possibly acknowledge in full measures. First and foremost, I would like to express my sincere thanks to Vice Associate Pro. Dr. Nguyen Khanh Doanh, my advisor, for his invaluable thoughts, insightful suggestions and useful guidance throughout the thesis works. Sincere appreciations were also to the committee members for their propositions, valuable comments, and constructive suggestions which were of substantial value to this study.

I would like to faithfully acknowledge professors of SLSU & TNU at DBA Program at University of Thai Nguyen for their insightful lectures in different subjects that provide me knowledge and technique to develop a good research.

My sincere thanks are extended to my entire friends for their meaningful discussion, hospitality and friendships.

Finally, I am profoundly grateful to my parents, my wife, my sisters and my brothers, who have been always with me in every situation. They have been table source of encouragement and sharing during my work.

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ABSTRACT

This Study is the first to attempt a systematic evaluation of the comparative advantage for Vietnam's Textile and Clothing Industry in the global market.

The study is timely as Vietnam has made an extensive effort to change its international trade for some years and the consequent increase in competitive pressures and technology transfers, is expected to have led to a restructuring of the economy such that the composition of Textile and Clothing exports Volume reflects Vietnam's comparative advantage in the global economy.

The timeliness of the study is also reinforced by the fact that increased trade integration of Vietnam over the past few years is likely to have contributed to a shift in comparative advantage in Textile and Clothing Industry in the world market.

The Study identifies the pattern of comparative advantage using the Balassa (1989) index for export data. The index has been calculated at the sector and commodity level of the Harmonized System of classification. The Dissertation also analyses comparative advantage according to factor intensity. The analysis shows broad in the structure of comparative advantage of Vietnam's Textile and Clothing Industry.

I do hope that this Dissertation will serve as a useful source and provide valuable reference material for researchers and policy makers associated with and interested in export promotion strategy in Vietnam.

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List of Acronyms and Abbreviations

FDI	Foreign direct investment
GDP	Gross Domestic Product
H-O	Heckscher-Ohlin
R&D	Research and development
RCA	Revealed Comparative Advantage
RSCA	Revealed symmetric comparative advantage
RTA	Relative trade advantage
SCA	Sustainable competitive advantage
TBI	Trade Balance Index
WB	The World Bank
WTO	World Trade Organization

Chapter 1

INTRODUCTION

1.1. Problem Statement

The textile and clothing industry has been historically the core industrial sector in Vietnam's economy due to its advantage in terms of factor endowments and market scale. Many reasons explain why this has long been the key industry of Vietnam: it is a sector with requires light investment; the technology is simple; it mostly uses unskilled labor, etc. During the past years, Vietnam's textile industry has made remarkable efforts and become a main component in the textile industry in Southeast Asia and an important member in the global textile market. With around 3,800 companies including state-owned enterprises, joint stock and limited companies, the textile and clothing industry is the leading export sector of Vietnam, making a considerable contribution to the country's prosperity.

Vietnam's textile and clothing industry has developed rapidly in recent years and has become a main component of the country's economy. The export value of textile and clothing products has contributed the second largest share in the country's total export value. This sector has helped significantly to the increase in source of foreign exchange and Vietnam's gross national product (GDP). In 2006, the export value of the textile and clothing products was 5.8 billion US dollars, making this industry the second most important export sector of Vietnam only after crude oil. In 2007, Vietnam became an official member of the World Trade Organization (WTO). This has provided Vietnam great opportunities to develop, especially in terms of international trade as Vietnam receives equal treatment and benefits in trade like other members of WTO, and it was not be subjected to quotas anymore. Moreover, joining the WTO helps Vietnam access to global market, expand export markets and increase value of goods exported. The textile and clothing industry sector has seen an impressive period of development, with the trade volume increasing around 8% after ten years, from 2001 to 2011. Despite the global economic depression during the past years, the export value of this sector has continued to increase, exceeding 11 billion USD in 2010, an increase of 24% compared with 2009, and 14 billion USD in 2011, an increase of 38% compared with 2010. The production and exports of Vietnamese textile and clothing products contribute a considerable share in the world, accounting for 18.6% of the world's total exports in textile industry in 2010. Currently, Vietnam ranks number five in the world in terms of textile and clothing exports, with over 2 million people working in this sector, accounting for nearly 5% of the country's total labor force (VINATEX, 2012). The increase in export value of the sector in recent years results

from the expansion in export market. Beside maintaining the traditional markets such as the US, EU, Japan, the Vietnamese textile and clothing companies has expanded to new export markets such as Korea, Taiwan, the Middle East, and Singapore.

Rapid development of Vietnam's textile and clothing industry derives from many factors, including abundant low-cost labor force and a stable political environment. Among them, the most important advantage is human capital. The Vietnamese labor force has two main characteristics, the first is its low price as well as the higher quality compared with some other countries. Vietnam has a young population with a high percentage of people at working age, an annual source supplementing the country's labor force. Vietnam has gained many economic benefits in the textile industry without a loss of the comparative advantage in labor supply, and such an advantage is a driving force for the textile and clothing industry's further development. The second characteristic is its sustainability. Expansion of urbanization and improvement in education in Vietnam has provided more high quality labor for the textile and clothing industry, guaranteeing the supply of workers for future development.

Besides, trade and economic policies have also contributed to the development of the Vietnamese textile and clothing industry and helping Vietnam reach higher position in global market of textile and clothing products. Textile and clothing industry has been declared as an key industry of the country's economy. Therefore, the Vietnamese government has adopted policies promoting an export-led growth strategy supported by strong foreign direct investment (FDI) inflows. The state monopoly of foreign trade was abandoned. The non tariff barriers were reduced. Maximum import tariff rates were also decreased. These measures have helped to reduce the anti-export bias resulting from the structure of trade protection, which tended to reduce the profitability of exporting compared to producing for the domestic market (Athukorala, 2006 cited in Jean-Rafael and Jean Pierre, 2009). Tariff exemptions were also implemented for imported inputs used in the manufacturing export products as well as tax incentives and Export processing zones have multiplied (Jean-Rafael and Jean Pierre, 2009). Implementation of trade agreements have affected trade liberalization and increased market access. After joining international economic organizations such as ASEAN (in 1997) and WTO (in 2007), and signing bilateral trade agreements (for example, with US in 2000), tariffs on imports and exports were significantly reduced or dropped, bringing various economic gains and especially increased market access.

It is obvious that Vietnam possesses a comparative advantage in textile and clothing manufacturing. Nonetheless, Vietnam's textile industry is facing various difficulties, such as excessive resource reliance, most enterprises are medium and small size, low technology and value added, indisposition in trade structure and highly concentrated export markets. Another difficulty is the workers' low level of skill, partly resulting in the low competitiveness of textile products. Vietnamese textile workers are considered inferior in terms of professional skills compared with other textile export countries. Among over 2 million people working in textile and clothing sector, percentage of skillful workers are relative low.

Furthermore, supporting industries of textile and clothing manufacturing are still undeveloped and cannot meet the demand from this sector. Domestic materials for this industry are seriously deficient and the textile company are unable to rely on domestic suppliers. Despite Vietnam having a natural conditions suitable for growing cotton, the total cotton output is still not enough to provide for the textile industry. In 2007, Vietnamese textile and clothing companies had to import around 90% of cotton material needed, and 70% of other materials for manufacturing such as fiber and fabric. Shortage of local materials in one of main reasons resulting in decrease in business efficiency and in comparative advantage of Vietnamese textile and clothing enterprises.

On the other hand, the textile and clothing industry is labor intensive. Development of the Vietnam's textile and clothing industry is still determined by labor costs. Vietnam's comparative advantage in textile industry mainly result from low labor costs. However, this kind of advantage is tending to decrease as developed countries are persistently investing new technologies into their textile and clothing industries and the advantage of cheap labor in developing countries tends to be weakened along with improvement in productivity in developed countries. The developed countries can maintain higher profit in their textile and clothing industry while at the same time reduce production.

It is therefore urgent for Vietnam have policies and measures to strengthen comparative advantage of textile industry and overcome serious domestic obstacles. This dissertation aims at an in-depth investigation of comparative advantage of Vietnam's textile and clothing industry and brings corresponding suggestions.

1.2. Objectives

1.2.1. General Objective