
THE ROLE OF INTERNATIONAL TRADE AGREEMENTS ON THE COMPETITIVENESS OF THE VIETNAMESE CLOTHING INDUSTRY

Atina Izza

International Relations Department Faculty of Social and Political Science

Universitas Nasional

atina.izza@civitas.unas.ac.id

Abstract: The clothing industry is a labor-intensive industry and many developing countries like it as a quick way towards industrialization. The clothing industry can absorb large amounts of labor and reduce unemployment as it creates jobs for unskilled labor. Therefore, the clothing industry is seen as ounces of way of reducing a country's poverty and bringing economic growth. The end of the Multi-Fibre Arrangement in 2005 transformed the global framework, marked by the expansion of global value chains and production networks, making competition in the international apparel market more intense. As a result, maintaining international competitiveness is crucial for success in the international clothing industry. Vietnam, as a developing nation, has experienced substantial economic growth and has become a strong competitor for other developing countries in attracting foreign direct investment. This study aims to investigate the impact of international trade agreements on Vietnam's competitiveness in the international economy, providing insights into how the country has been able to maintain its competitiveness in the challenging global apparel market.

Keywords: Trade Agreements, Apparel Industry, Competitiveness, Vietnam

Submission : September, 13rd 2022

Revision : November 24th 2022

Publication : February 28th 2023

INTRODUCTION

The international trade of the apparel sector has been regulated by international trade regimes for over four decades. It was originally governed by the General Agreement on Tariffs and Trade (GATT) and later became the World Trade Organization (WTO). Agreements governing the global apparel industry have undergone numerous transformations during this time, ranging from the Short-Term Agreement (STA) to the Agreement on Textiles and Clothing (ATC). The ATC was established to oversee the ten-year transition process that ended the Multi-Fiber Arrangement (MFA) on January 1, 2005 (Heron, 2012). The elimination of the MFA in 2005 marked the end of quota restrictions in the global apparel trade, leading to significant changes in the structure of world trade, international systems, the spread of production sites, and the type of work (Pickles et al, 2015).

The elimination of the Multi-Fiber Arrangement (MFA) in 2005 had a profound impact on the global apparel industry. The elimination of quotas under the MFA has been widely viewed as a factor favouring Asian countries with low labour costs such as China, Bangladesh, Vietnam, Indonesia, India, Cambodia in their quest for greater world market shares (Bernhardt, 2013; Fredrick & Staritz, 2012; Frederick et al., 2015). According to the International Labour Organizations (ILO), the Asian Pacific region's share of global exports of garments, textiles, and footwear has risen dramatically from 43.8% or 178.3 billion USD in 1995 to 59.5% or 601.1 billion USD in 2014 (Huynh, 2015). The value of global apparel exports has also increased by 45% from 2005 to 2011, reaching a total of 412 billion USD (Huynh, 2015).

The lifting of restrictions on the global apparel trade has had a noteworthy effect on the progress of Vietnam's apparel industry. Like other advanced nations, Vietnam's apparel industry is a crucial driver of industrialization and has been a significant source of employment for thousands of underprivileged and untrained laborers, resulting in substantial contribution to the economy of Vietnam (Robertson, 2012). Before the phase-out of the MFA, Vietnam's clothing industry was relatively small and insignificant. However, following the global shift in textile and apparel trade policy in 2005, Vietnam's apparel industry experienced faster growth compared to other developing countries in this sector (WTO, 2016). In 2000, Vietnam's share of the world's apparel exports was only 0.9%. However, after the MFA phase-out, the apparel industry in Vietnam rapidly expanded, and by 2015 it had captured a 4.8% market share of global exports (WTO, 2016).

Porter (1990) contends that a country's prosperity is not something that can be inherited from previous generations or created automatically. Rather, a country's competitiveness must be actively developed by its industries through constant improvement and innovation. To maintain a competitive advantage, companies must continually innovate and improve their products, as competitors can quickly overtake those that become complacent (Porter, 1990). To achieve sustained success, companies must embrace a global approach and actively work to create more sustainable advantages. Upgrading is crucial to maintaining a competitive edge, as the ever-changing landscape of global competition continually increases pressure new challenges (Porter, 1990).

Ernst, Ferrer, and Zult (2005) argue that international competitiveness in the apparel industry is influenced by a range of factors, including labour costs, skilled workforce availability and quality, production processes, transportation, foreign direct investment (FDI), macroeconomic environments, and other production costs. While labour costs are important, they are not the only determinant of competitiveness at the international level. For example, China has low labour costs but has managed to improve its economy despite not having the lowest labour costs in the world. Instead, a combination of factors such as small production and distribution costs, diverse production system and markets,

and a strong macroeconomic environment can lead to success on the international market (Ernst et al., 2005). Given the many factors that influence competitiveness in the apparel industry, this research will explore the importance of state involvement in international trade agreements and global value chains (GVCs) in determining competitiveness. Therefore, the objective of this research is to see how international trade agreements and global value chains can affect the competitiveness of the apparel industry.

LITERATURE REVIEW

Industrial Competitiveness

Vu and Pham (2016) define international competitiveness as an industry's capacity to contend in global markets. For an industry to be competitive on an international level, it must be establishing its own competitiveness, as it cannot be inherited (Porter, 1990). The intense competition in the global market has created a competitive environment within the apparel industry, which has placed significant strain on exporting countries. The industry cannot rely solely on low prices to survive in this cutthroat market. Competitiveness is determined by multiple factors such as quality, flexibility, delivery speed, reliability, production capacity, transportation time, and cost (Gereffi & Memedovic, 2003; Schaumburg-Müller, 2009).

International competitiveness has a significant impact on both the trade performance of a country and the well-being of its citizens, as noted by Fagerberg (1996) and Mulatu (2016). Competitiveness is a valuable tool for identifying potential causes of unequal prosperity among nations (Boltho, 1996; Mulatu, 2016), and has thus been incorporated into development strategies for many years to improve industrial policies at the country level (Reinert, 2011; Chang, 2013; Mulatu, 2016). Competitiveness is not solely focused on enhancing firm efficiency and productivity, but also on enhancing a nation's standard of living through participation in high-value sectors that improve overall national economic performance (Mulatu, 2016). In addition to economic factors, the competitiveness of a country cannot be fully determined by its GDP and productivity alone, as firms must also navigate the political, educational, and cultural dimensions of each country, as noted by IMD (2000)

According to Chang (2013), it is difficult to determine whether a country is economically developed or not because a nation must establish its own competitiveness through deliberate decision-making. Similarly, Porter (1990) argues that companies must actively pursue improvements, innovation, and product development to gain advantages in the market. An example of a successful country that has increased its competitiveness is Korea. Korea would not have developed successfully like today, if it had focused only on its comparative advantage in agriculture, as noted by Stiglitz (2011).

Global Value Chains and the Importance of Government's Role

The expiration of the MFA in 2005 had a significant impact on global apparel production, trade, patterns, employment, and the structure of inter-firm relations in various countries and regions. One of the most notable changes following the end of the global apparel trade regime has been the rise and growth of industrial organizations and governance, which are now commonly known as Global Value Chains (GVCs) and Global Production Networks (GPNs) (Pickles et al., 2015). The apparel industry is experiencing changes in its competitive dynamics and sourcing policies, leading to an increase in pressure related to global competition and pricing (Frederick and Gereffi, 2011; Staritz, 2011; Frederick & Staritz, 2012). This is due in part to the expansion of global production and the global division of labour, which is a defining feature of Global Value Chains (Fung 1997 in Rahman & Sayeda, 2016; Pietrobelli & Rabellotti, 2011).

According to Rahman & Sayeda (2016), lead firms or buyers, including large retailers and branded manufacturers, have more options in their sourcing decisions and benefit from the Global Value Chains (GVCs). These firms focus on finding the most competitive companies that can offer cost-effective solutions in terms of price, flexibility, quality, and reliable delivery, which helps to reduce their costs (Humphery & Schmitz, 2002; Gereffi and Frederick, 2010). Nevertheless, integrating into GVCs also provides some benefits to apparel manufacturing firms in low-cost developing countries. In addition to gaining access to new markets for their products, inclusion in GVCs also helps developing countries to acquire more knowledge, which enhances learning and innovation (Pietrobelli & Rabellotti, 2011). By integrating with GVCs, Baldwin and Yan (2014) argue that firms from developing countries can enhance productivity and this improved performance can continue to increase over time. Firms from developing countries can learn how to improve their productivity by upgrading their processes, which can be influenced by global buyers. For firms in developing countries that are new to the global market, this upgrading process has a very significant impact on their success (Schmitz & Knorringa, 2000; Humphery & Schmitz, 2002).

The global economy has undergone a transformation in which GVCs have taken center stage. These GVCs involve a significant transfer of activities that add value to products to developing countries. As a result, there has been a surge in demands for government intervention in industrial policy to improve the competitiveness of manufacturing. The apparel industry is highly dependent on GVCs and Global Production Networks (GPNs), and it is more vulnerable to the impact of government policies on national development strategies, as well as trade patterns and apparel production at various level (Szalavetz, 2015; Pickles *et al.*, 2015). According to Wade (2016), the government has a crucial function in the economy, which is not limited to simply following the market but rather leading it. In this context, leading the market refers to the state directing its resources towards activities that private sector is not likely to undertake without significant government support.

According to Wade (2016), the government has a crucial function in the economy, which is not limited to simply following the market but rather leading it. In this context, leading the market refers to the state directing its resources towards activities that the private sector is not likely to undertake without significant government support.

Foreign Direct Investment

Many countries aim to enhance their industrial competitiveness, and one potential means of achieving this is through foreign direct investment (FDI), which is often viewed as a primary method for developing nations to boost their industrial capabilities. By investing in a foreign country, multinational corporations (MNCs) can introduce new technologies, which necessitates the transfer and development of new skills. This, in turn, fosters knowledge-sharing between the MNCs and the host country, as argued by Grossman and Helpman (1991), Potterie and Lichtenberg (2011), and Zhang (2014). In addition to technology, foreign direct investment (FDI) is also bringing capital to host countries, creating new job opportunities, filling savings gaps, financing budget deficits, and encouraging industrial productivity, which is thought to enhance a country's economic growth and welfare (Suyanto, Bloch, & Salim, 2012; Bonelli, 2015).

According to Sjöholm (2016), multinational corporations (MNCs) contribute more to economic growth than local firms because they can provide a path for developing countries' products to enter the international market, thanks to their larger international networks and their dominance in international trade. However, the rise of MNCs has also had negative consequences, as it has reduced a nation's ability to shape its own economic policies and achieve economic development, as argued by Chang (2006). Under MNCs and transnational corporations (TNCs), a country's control over its private business sector is weakened (Tyler, 1993), and TNCs can even make a nation powerless by controlling its economy (Strange, 1996).

While some countries have been successful in attracting significant foreign direct investment (FDI), others have been less successful even after liberalizing their economies. When host countries participate in global value chains (GVCs) organized by multinational corporations (MNCs) through FDI, they may not gain industrial capabilities and may only become suppliers of labour-intensive products to the leading firms, resulting in industrial downgrading of developing country firms controlled by MNCs in global production networks (Blomstrom & Sjöholm, 1999; Zhang, 2014). The spill over effects of FDI, therefore, depend on the absorptive capacity of the host country, which is determined by the level of local human capital (Girma, 2005; Crespo & Fontoura, 2007; Zhang, 2014). According to Phusavat et al. (2012), human capital is even more important than technology and machinery because intellectual capital can lead to innovation. However, the benefits of FDI in enhancing the economic development of host countries do not automatically arise (Zhang, 2014). Governments play an important role in leading the national development strategy in GVCs and global production networks (GPNs).

International Trade Agreement

To attract and maximize the benefits of foreign direct investment (FDI), it is important for the government to play an active role in leading the market. One effective way for the government to drive local firms towards the international market is through international trade agreements, which can increase foreign investment flows into member countries (Büthe & Milner, 2008; Pickles *et al.*, 2015). Bilateral agreements, as well as multinational agreements, can be used to attract FDI flows to host countries (MacDermott, 2007; Li & Maani, 2016; Braymen *et al.*, 2016; Reed *et al.*, 2016). By participating in an international agreement, a country can enhance its competitiveness in the eyes of foreign investors, as it demonstrates the government's commitment to liberal economic policies (Kim, 2007; Büthe & Milner, 2008). However, regional trade agreements between countries with wage cost asymmetry may be advantageous for low-wage countries but disadvantageous for high-wage countries, as lead firms are more interested in investing in low-wage countries for cost efficiency.

Participating in a trade agreement can have a positive impact on foreign investment for host countries. The degree of difference in welfare and number of FDIs between countries can be influenced by a state's participation in the trade agreement (Braymen *et al.*, 2016). While not all trade agreements lead to FDI, most agreements have been successful in attracting foreign investment to member countries (Adam *et al.*, 2003). According to a study by Adam, six out of nine Preferential Trade Agreements (PTAs) had an impact on investment creation, one agreement affected investment diversion, and two agreements had no impact on investment at all. A country's previous and future engagement in a free trade agreement (FTA) can also be related to its current FDI.

Li and Maani (2016) suggest that market size is crucial for foreign investors, and a small market may not be attractive enough for them to invest in. As investors seek out new markets, they are more likely to invest in Free Trade Agreements (FTAs) that can open a considerably larger market. In addition to market size, FTAs that are formed with countries in the same production value chains can also be attractive to foreign investors. Such agreements can facilitate the development of production value chains, leading to increased trade in the region, which is often seen as a positive factor by foreign investors.

METHOD

This study has been designed as a qualitative research study, as it aims to explore underlying reasons, motivations, and opinions in depth. Qualitative analysis is more appropriate for handling subjective data that cannot be measured precisely, unlike quantitative analysis (Walliman, 2005). Donley and Grauerholz (2012) support this argument by stating that qualitative methods are more effective in dealing with textual data than quantitative methods. Bryman (1988) also suggests that qualitative research is useful in providing an in-depth view of the phenomenon being observed, allowing the researcher to get as close as possible to the research subject. Qualitative methods are

particularly effective in uncovering trends in opinions and thought and provide a comprehensive understanding of complex themes.

RESULT AND DISCUSSION

The Vietnam Apparel Industry

Numerous people contend that industrialization serves as the primary driver of growth and progress. It is generally seen as the most significant path for developing nations to develop and narrow the gap with developed nations (Szirmai, 2012; Szirmai & Verspagen, 2015). Throughout history, several nations, such as the United States, Great Britain, and Japan, among others, have undergone an apparel phase during their economic development (Robertson, 2012). The apparel industry plays a crucial role in the industrialization process of developing countries, serving as a gateway. Due to its labour-intensive nature, the apparel industry can employ a substantial number of unskilled workers from impoverished communities. As a result, the apparel industry has the potential to make a significant contribution to reducing poverty and promoting economic development in the country (Robertson, 2012; Vixathep & Matsunaga, 2012; Gabagambi, 2013).

Vietnam's initial attempt to enhance its economy was through a transformation of its economy known as the Doi Moi reforms, which began in 1986, and are considered as the country's first step towards integrating its economy into the global economy (Schaumburg-Müller, 2009; Pereira, 2013). Since the implementation of Doi Moi, the apparel industry has played a critical role in the Vietnamese economy, particularly due to the country's export-led growth strategy (Nadvi et al., 2004; Le & Wang, 2017). The industry has experienced substantial growth and has outperformed its regional competitors in the export market (Le & Wang, 2017). It has become the second-largest exporting industry after oil, contributing 11.51% to Vietnam's GDP (Vu & Pham, 2016). Following Vietnam's efforts in trade liberalization, the country has attracted a significant inflow of foreign direct investment (FDI), which has contributed to the industry's competitiveness (Nguyen et al., 2008). Today, Vietnam has become one of the world's leading apparel exporters, as multinational companies establish manufacturing plants in the country (Pereira, 2013). The apparel industry in Vietnam is dominated by transnational corporations (TNCs), which have helped provide market access internationally and export revenue for Vietnam either directly or as contract manufacturers (ASEAN Secretariat, 2013). Major brands and retailers like Nike, Wal-Mart, LL Bean, GAP, and H&M source their products through agents in Vietnam. Vietnam exports apparel to 180 countries worldwide, with the largest importers being the United States, Japan, Korea, and European countries (Le & Wang, 2017). In the United States, Japan, and the European Union, Vietnam is the second-largest exporter after China.

Vietnam's Trade Agreement and Its Effect on FDI

The Doi Moi reforms, which were implemented in 1986, marked Vietnam's initial move towards liberalization. However, during the early stages of Vietnam's transformation, the country's industry struggled to compete in the global market, and foreign direct investment (FDI) remained limited throughout the 1990s (Perkins & Anh, 2010). In 1996, the FDI boom came to an end, according to Athukorala & Tien (2012) and Pereira (2013). The government of Vietnam then recognized the need to make its industry more attractive and increase its participation in the global economy by making export activities a development strategy (Gabagambi, 2013). While companies' choice of strategy is not necessarily determined by government policies, Giroud (2007) suggests that the government can influence comparative advantage and the business environment, which can ultimately affect firms' location choices. Vietnam's decision to join the ASEAN in 1995 and the Asia-Pacific Economic Cooperation (APEC) in 1998 was a strategic move that contributed to a significant increase in FDI in the 2000s (Pereira, 2013).

During the early stages of Vietnam's transformation, the country's industry struggled to compete in the global market, and foreign direct investment (FDI) remained limited throughout the 1990s (Perkins & Anh, 2010). In 1996, the FDI boom came to an end, according to Athukorala & Tien (2012) and Pereira (2013). However, the government of Vietnam recognized the need to make its industry more attractive and increase its participation in the global economy by making export activities a development strategy (Gabagambi, 2013). While companies' choice of strategy is not necessarily determined by government policies, Giroud (2007) suggests that the government can influence comparative advantage and the business environment, which can ultimately affect firms' location choices. Vietnam's decision to join the ASEAN in 1995 and the Asia-Pacific Economic Cooperation (APEC) in 1998 was a strategic move that contributed to a significant increase in FDI in the 2000s (Pereira, 2013).

Vietnam, as a member of ASEAN, participated in the signing of the ASEAN Free Trade Agreement (AFTA) in 1995, which granted the country 97% tariff-free access to other ASEAN member countries. By being part of ASEAN, Vietnam was also able to take advantage of the benefits provided by free trade agreements between ASEAN and other countries, such as China, Korea, India, Japan, Australia, and New Zealand. These agreements allowed Vietnam to have a 90% tariff-free access to China through the ASEAN-China Free Trade Agreement (ACFTA), an 86% tariff-free access to Korea through the ASEAN-Korea Free Trade Agreement (AKFTA), a 90% tariff-free access to Australia and New Zealand through the ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA), a 78% tariff-free access to India through the ASEAN-India Free Trade Agreement (AIFTA), and an 87% tariff-free access to Japan through the ASEAN-Japan Free Trade Agreement (AJFTA) (KPMG, 2016).

Apart from being involved in multilateral agreements, Vietnam is also actively engaging in bilateral trade agreements (BTAs) with various countries. For instance, Vietnam

signed a BTA with Myanmar in 1994, with the USA in 2000, with India in 2010, with Chile in 2015, with Korea in 2015, and with the customs union Russia-Belarus-Kazakhstan in 2015 (Duong, 2016; KPMG, 2016; Nguyen-Huu & Nguyen-Khac, 2017).

Vietnam – US Trade Agreement

Over the last decade, the number of trade agreements has significantly increased, which has had an impact on the overseas operations of multinational corporations (MNCs) and, in turn, has affected the inflow of foreign direct investment (FDI) to Vietnam (Nguyen-Huu & Nguyen-Khac, 2017). One of the effects of Vietnam's policy of actively signing various trade agreements with its trading partners is the inflow of FDI to the country. In 2000, a bilateral trade agreement (BTA) was signed between Vietnam and the United States, which came into force in 2001 (McCaig, 2011). The BTA has allowed Vietnamese goods to enter the US market with low tariffs, as the agreement included a reduction in tariff levels for Vietnam's products from an average of around 40% to 4% (Parker et al., 2005).

The BTA had a significant impact on Vietnam's export of apparel to the USA, with the value of exports increasing from just \$319 million in 1996 to \$822 million by 2000 (Binh & Haughton, 2002). In the three years after the BTA came into force in 2001, Vietnamese exports grew about five times, according to Parker et al. (2005). From 2001 to 2002, Vietnamese exports to the US grew by 128%, and from 2002 to 2003, they rose by 90%. By 2004, Vietnam's exports to the US accounted for 20.2% of the country's total exports, which was around 13% of its GDP (McCaig, 2011). The trade agreement between Vietnam and the US provided access for Vietnam's apparel industry to new markets.

According to Parker et al. (2005), the BTA between Vietnam and the USA paved the way for Vietnam's accession to the World Trade Organization (WTO). The trade agreements that Vietnam has signed have had a more positive impact on the inflow of foreign direct investment (FDI). Since the BTA came into force, FDI in the clothing industry in Vietnam has experienced significant growth, increasing from \$60 million in 1998 to \$42 million in 2004 (Parker et al., 2005). Many foreign investors came to Vietnam with the aim of exporting to the USA, and most of the FDI in the apparel industry originated from other East Asian countries, such as Korea, Hong Kong, Taiwan, and Singapore, accounting for around 90% of the FDI between 2000 and 2004. However, after the BTA, many leading buyers from the USA began sourcing heavily from Vietnam. In 1997, only one firm out of thirty exported to the USA market, but in 2002, this figure had increased to thirteen companies that were selling to the USA market (Nadvi & Thoburn, 2003; Nadvi et al., 2004).

FDI in Vietnam's apparel sector has increased significantly after the BTA with the USA, and several factors have contributed to this growth. Firstly, multinational companies expected to benefit from the elimination of the USA quota after Vietnam's accession to

the WTO. Secondly, the BTA provided an opportunity to expand market access in the USA, which is a major market for Vietnamese apparel. Thirdly, the BTA opened a new market for Vietnamese apparel, particularly after policies limiting imports of apparel products from China to the USA and EU markets. In addition, Vietnam signed an agreement with the European Community on market access in 2005, but it was after Vietnam's entry into the WTO that FDI from the USA and other countries flooded into the Vietnamese apparel industry.

Vietnam – European Union Trade Agreement

For many years, the European Union (EU) has been an important trading partner for Vietnam, particularly in the area of apparel exports. The EU is the second-largest importer of Vietnamese apparel, accounting for about 15% of Vietnam's global exports in 2015. In that same year, the EU was Vietnam's second-largest economic partner after the US (Duong, 2016). Vietnam's access to the European market is significantly influenced by trade agreements between the two parties. In 2005, Vietnam and the European Community signed an agreement on market access, and in 2007, after Vietnam's entry into the World Trade Organization, they replaced the 1995 Cooperation Agreement with a new Partnership and Cooperation Agreement (Nguyen-Huu & Nguyen-Khac, 2017). In 2015, after several years of negotiations, the EU and Vietnam reached a trade agreement (Duong, 2016).

Vietnam benefits greatly from the trade agreement with the EU, which aims to eliminate tariff barriers and provide preferential treatment for goods and services between the two countries. While the EU's preferential access to Vietnam has ended, the FTA continues to be advantageous. Duong (2016) notes that the preferential tariff rates obtained by Vietnam under the agreement will make Vietnamese entrepreneurs more competitive in the EU market, particularly against Chinese products which are their biggest competitor. Vietnam not only benefits from preferential access to the EU market, but it also receives significant foreign direct investment (FDI) from European countries, which could help boost the competitiveness of the Vietnamese apparel industry. In 2013, EU foreign investment in Vietnam reached \$656 million, making the EU the 6th largest investor in Vietnam (Duong, 2016). Given Vietnam's strategic position in the global market, particularly in major markets like the EU and the US, many Chinese investors have come to Vietnam to take advantage of the policies resulting from the agreements Vietnam has entered (Liem, 2015). As a result, Vietnam has become a highly attractive destination for many foreign investors.

Vietnam – South Korea Trade Agreement

In addition to its agreements with the EU and the US, Vietnam has also signed a trade agreement with the government of South Korea. Since the normalisation of diplomatic relations with Vietnam in 1992, Korea has been an important trading partner for Vietnam (Phan & Jeong, 2016). In terms of foreign direct investment (FDI), Korean FDI in Vietnam reached \$24.816 million in 2013 (Duong, 2016). According to Blomenhofer (2017), Korean FDI in Vietnam has come in three waves. The first wave saw Korea investing in labor-intensive manufacturing, particularly in the apparel and textile sector, in 1992. The second wave occurred in the early 2000s, and the third wave of investment followed Vietnam's entry into the Trans Pacific Partnership (TPP).

Vietnam and Korea enjoy strong trade ties, with Vietnam considering Korea as its second-largest importer and fourth-largest export market, while Korea regards Vietnam as its fourth-largest export market. Over the years, Vietnam's exports to Korea have seen remarkable growth, rising from 57.3 million USD in 1992 to 7,167 million USD in 2014. To further strengthen their strategic partnership, Vietnam and Korea signed a free-trade agreement on May 5th, 2015, with the goal of boosting the trade volume between the two nations to 70 billion USD by 2020 (Phan & Jeong, 2016).

The free trade agreement between Vietnam and Korea has significant implications for economic development, as such agreements can help to create larger, more attractive, dynamic, and efficient markets for the participating countries. In the case of the Vietnam Korea Free Trade Agreement (VKFTA), the elimination of 88% of the tariff rate on all tariff lines has resulted in an increase in the volume of Vietnam's exports, particularly in the textile sector where some imported fabrics used for garment production come from Korea (Lu, 2016). This has allowed Vietnam to acquire inputs for its apparel production at a more competitive price.

Additionally, the VKFTA has provided Vietnam with greater access to the Korean market, particularly in the manufacturing of textiles and apparel, giving it a competitive edge over other ASEAN countries (Phan & Jeong, 2016). Therefore, the VKFTA can serve as a strategic move for Vietnam to avoid direct competition with other countries in the region. Overall, the VKFTA represents a significant opportunity for Vietnam to enhance its economic growth and development.

Vietnam and Trans-Pacific Partnership

In February 2016, Vietnam was involved in the signing of the Trans-Pacific Partnership (TPP), a high-level free trade agreement (FTA) that linked 12 Pacific Rim economies. This agreement represented about 40% of global GDP and was set to become the largest preferential trade agreement (PTA) worldwide. The TPP is considered a significant FTA and is expected to have a considerable impact on the global economy, society, and politics.

It is the first trade agreement to be referred to as a Mega-FTA, as it aims to promote deep economic integration.

Vietnam's participation in the TPP has attracted the interest of global apparel firms, leading to an influx of foreign investors, particularly from China and Korea, who have established factories in Vietnam in anticipation of the TPP's benefits. The low tariffs offered by the TPP market were expected to be advantageous to these investors (Liem, 2015). However, some experts argue that President Donald Trump's decision to withdraw the United States from the TPP may disappoint foreign investors in Vietnam (Blomenhofer, 2017). Nonetheless, Standard Chartered's press release in 2017 suggests that Vietnam's participation in the TPP has already brought significant benefits in terms of FDI inflows. Although the US withdrawal from the TPP may have a minor impact, it will not be negative since FDI investment has been front-loaded in anticipation of the TPP (Standard Chartered, 2017). Blomenhofer (2017) also argue that the collapse of the TPP after the US's withdrawal may only slow down FDI in Vietnam, as many foreign investors, such as those from Korea, invest for the long term. Foreign investors are interested in Vietnam as a manufacturing hub and expect to reap the benefits of the future version of the TPP.

CONCLUSION

The Vietnamese clothing industry has undergone significant transformation over the past decade, driven by various factors such as the country's favourable investment climate, low labour costs, and strategic location. Vietnam is now one of the world's leading clothing manufacturers and exporters, with its clothing industry accounting for a significant share of the country's exports. However, the industry faces challenges in maintaining its competitiveness in the global market, particularly as it competes with other low-cost clothing producing countries. This paper examines the role of international trade agreements in shaping the competitiveness of the Vietnamese clothing industry, with a focus on the impact of trade agreements on the industry's export performance, access to global markets, and competitiveness.

The apparel industry in Vietnam has experienced rapid growth since the country decided to integrate with the global economy. The Doi Moi reform in 1986 was viewed as Vietnam's initial attempt to integrate its economy through trade liberalization. However, in the early stages of Vietnam's transformation, the influx of foreign direct investment (FDI) into the country was limited, and its apparel industry struggled to compete effectively in the global market. As a result, the Vietnamese government is working to enhance the competitiveness of its apparel industry by pursuing a more active role, such as participating in regional and international trade agreements and positioning the apparel industry as a key driver of the country's export-led growth strategy.

Vietnam has not only been active in participating in the regional organization but has also actively pursued strong bilateral relationships through agreements with Myanmar in 1994, the USA in 2000, India in 2010, Korea in 2015, Chile in 2015, and the customs union of Russia, Belarus, and Kazakhstan in 2015. Vietnam's dedication to liberalization was further reinforced when it became a member of the World Trade Organization (WTO) in 2007. By participating in multilateral and bilateral agreements, Vietnam has been able to attract significant foreign direct investment (FDI) to the country.

Vietnam's apparel industry heavily relies on the USA and EU as its largest markets. The productivity of Vietnam's apparel industry is significantly influenced by the bilateral trade agreements (BTAs) with the USA and the EU. The BTA has provided substantial market access for Vietnamese apparel exports by lowering tariffs on these products in the USA and EU markets. Vietnam's bilateral agreements with the USA and the EU have also attracted many foreign investors from countries such as Korea, Hong Kong, Taiwan, and Singapore to invest in the apparel sector. The elimination of quotas in the USA and the EU has further encouraged FDI in Vietnam's apparel industry. Vietnam's accession to the World Trade Organization (WTO) in 2007 as its 150th member, which awarded it the status of a most favoured nation, has made its apparel industry more attractive to investors. In my understanding, various elements can impact a country's competitiveness, and it is my deduction that the government plays a significant part in enhancing it. This can be achieved by their involvement in international trade agreements.

REFERENCE

- Adams, R., Dee, P., Gali, J. & McGuire, G. (2003). *The Trade and Investment Effects of Preferential Trading Arrangements—Old and New Evidence*. Staff Working Paper. Australia Productivity Commission. Canberra.
- ASEAN Secretariat (2013) *ASEAN investment report 2012: the changing FDI landscape*, Jakarta: ASEAN Secretariat.
- Athukorala, P., & Tien, T. (2012). 'Foreign direct investment in industrial transition: The experience of Vietnam', *Journal of the Asia Pacific Economy*, 17(3), 446-463.
- Baldwin, J. & Yan, B. (2014). 'Global value chains and the productivity of Canadian manufacturing firms', Economic Analysis Research Paper Series, Statistics Canada, 11F0027M No. 090.
- Bernhardt, T. (2013). 'Developing Countries in the Global Apparel Value Chain: A Tale of Upgrading and Downgrading Experiences', *Capture the Gains*, Working Paper 22.
- Blomstrom, M. & Sjöholm, F. (1999). 'Technology transfer and spillovers: Does local participation with multinationals matter?', *European Economic Review*, 43: 915–923.

- Binh, N., & Haughton, J. (2002). 'Trade liberalization and foreign direct investment in Vietnam', *ASEAN Economic Bulletin*, 19(3), 302-318.
- Boltho, A. (1996). 'The assessment: international competitiveness', *Oxford Review of Economic Policy*, 12(3): 1-16.
- Bonelli, R. (2015). 'A Note on Foreign Direct Investment (FDI) and Industrial Competitiveness in Brazil', *IDEAS Working Paper Series from RePEc*, IDEAS Working Paper Series from RePEc, 2015.
- Braymen, C., Chang, Y., & Luo, Z. (2016). 'Tax Policies, Regional Trade Agreements and Foreign Direct Investment: A Welfare Analysis', *Pacific Economic Review*, 21(2): 123-150.
- Bryman, A. (1988). *Quantity and Quality in Social Research*. Aldershot: Avebury
- Büthe, T., & Milner, H. (2008). 'The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?', *American Journal of Political Science*, 52(4): 741-762.
- Chang, H. (2006). 'Policy Space in Historical Perspective with Special Reference to Trade and Industrial Policies', *Economic and Political Weekly*, 41(7): 627-633.
- Crespo, N. & Fontoura, M. P. (2007). 'Determinant Factors of FDI Spillovers – What Do We Really Know?' *World Development*, 35(3): 410-25.
- Donley, A.M. & Grauerholz, L. (2012). *Research Methods*, New York: Infobase Publishing.
- Duong, N. B. (2016). 'Vietnam-EU Free Trade Agreement: Impact and Policy Implications for Vietnam', *World Trade Institute*, Working Paper No. 07/2016.
- Ernst, C., Ferrer A. H., Zult D. (2005). 'The End of the Multi-Fibre Arrangement and Its Implication for Trade and Employment', *International Labour Organization: Employment Strategy Papers*.
- Fagerberg, J. (1996). 'Technology and competitiveness', *Oxford Review of Economic Policy*, 12(3): 39-51.
- Frederick, S., Bair, J., & Gereffi, G. (2015). 'Regional Trade Agreements and Export Competitiveness: the uncertain path of Nicaragua's Apparel Exports Under CAFTA', *Cambridge Journal of Regions*, 8: 403-420.
- Frederick, S. & Gereffi, G. (2011). 'Upgrading and Restructuring in the Global Apparel Value Chain: Why China and Asia Are Outperforming Mexico and Central America', *International Journal of Technological Learning, Innovation, and Development*, 4 (1-2): 67-95.
- Frederick, S. & Staritz, C. (2012). Developments in the Global Apparel Industry after the MFA Phaseout. In: G. Lopez-Acevedo & R. Raymond (eds.) *Sewing Success? Employment, Wages, and Poverty following the End of the Multi-Fibre Arrangement*, Washington, D. C.: The World Bank, pp. 41-83.

- Gabagambi, D. M. (2013). 'Post-liberalisation Paradox in Textile Industry: A Comparative Study of Vietnam and Tanzania', *International Journal of Business and Social Science*, 4(8): 191-201.
- Gereffi, G. & Frederick, S. (2010). The Global Apparel Value Chain, Trade and the Crisis: Challenges and Opportunities for Developing Countries. In: O. Cattaneo, G. Gereffi, and C. Staritz. *Global Value Chains in a Postcrisis World: A Development Perspective*, Washington, DC: World Bank, pp: 157-208.
- Gereffi, G. & Memedovic, O. (2003). *The global apparel value chain: what prospects for upgrading by developing countries*, Vienna: United Nations Industrial Development Organisation.
- Girma, S. (2005). 'Absorptive Capacity and Productivity Spillovers from FDI: A Threshold Regression Analysis', *Oxford Bulletin of Economics and Statistics*, 67(3): 281-306.
- Giroud, Axèle. (2007). 'MNEs Vertical Linkages: The Experience of Vietnam after Malaysia', *International Business Review*, 2007; 16(2):159-176.
- Grossman, G., & Helpman, E. (1991). *Innovation and Growth in The Global Economy*. Cambridge MA: MIT Press.
- Heron, Tony. (2012). *The Global Political Economy of Trade Protectionism and Liberalisation: Trade reform and economic adjustment in textiles and clothing*. London: Routledge.
- Humphrey, J. & Schmitz, H. (2002). 'How does insertion in global value chains affect upgrading in industrial clusters?', *Regional Studies*, 36(9): 1017-1027.
- Huynh, P. (2015). *Employment, wages and working conditions in Asia's Garment sector: Finding new drivers of competitiveness*, Bangkok: ILO Asia – Pacific Working Paper.
- IMD (2000). *World Competitiveness Yearbook*, Lausanne: International Institute for Management Development.
- Kim, Y. (2007). 'Impacts of regional economic integration on industrial relocation through FDI in East Asia', *Journal of Policy Modeling*, 29(1): 165-180.
- KPMG (2016). *10 Free Trade Agreements – Necessary Review for Incentive*, KPMG [online] Available at: <https://home.kpmg.com/content/dam/kpmg/pdf/2016/08/tnf-vietnam-aug4-2016.pdf> [Accessed: 1 August 2017].
- Le, Thi-Nham & Wang, Chia-Nan (2017). 'The Integrated Approach for Sustainable Performance Evaluation in Value Chain of Vietnam Textile and Apparel Industry', *Sustainability*, 9(3), 477.
- Li, Q. & Maani, S. (2016). 'Detecting positive effects of the ASEAN-China free trade agreement on foreign direct investment', *International Economics and Economic Policy*, Volume 14. DOI 10.1007/s10368-016-0366-y.
- Liem, N. D. (2015). 'China FDI in Vietnam after Twenty Years', *Vietnam Social Sciences*, 6(170): 20-31.

- Lu, S. (2016). 'Impact of the Trans-Pacific Partnership (TPP) on US textile and apparel manufacturing: A quantitative evaluation', *Journal of International Trade Law and Policy*, 15(2-3), 134-152.
- McCaig, B. (2011). 'Exporting out of poverty: Provincial poverty in Vietnam and U.S. market access', *Journal of International Economics*, 85(1), 102-113.
- MacDermott, R. (2007). 'Regional trade agreement and foreign direct investment', *North American Journal of Economics and Finance*, 18(1): 107-116.
- Mulatu, A. (2016). 'On the concept of 'competitiveness' and its usefulness for policy', *Structural Change and Economic Dynamics*, 36: 50-62.
- Nadvi, K. & Thoburn, J. (2003). *Vietnam in the Global Garment and Textile Value Chain: Implications for Firms and Workers*, [online] Available at: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.499.6426&rep=rep1&type=pdf> [Accessed: 25 April, 2017].
- Nadvi, K., Thoburn, J., Thang, B. T., Ha, N. T. T., Hoa, T. N., & Le, D.H. (2004). 'Challenges to Vietnamese Firms in the World Garment and Textile Value Chain, and the Implication for Alleviating Poverty', *Journal of the Asia Pacific Economy*, 9(2): 249-267.
- Nguyen, Anh, Nguyen, Thang, Pham, Ngoc, & Nguyen, Nhat. (2008). Foreign Direct Investment in Vietnam: Is There Any Evidence of Technological Spillover Effects. *IDEAS Working Paper Series from RePEc*, IDEAS Working Paper Series from RePEc, 2008.
- Nguyen-Huu, Thanh Tam & Nguyen-Khac, Minh (2017). 'Impacts of Export-platform FDI on the production of upstream industries - Do third country size, trade agreements and local content requirement matter? Evidence from the Vietnamese supporting industries', *Economics: The Open-Access, Open-Assessment E-Journal*, 11 (2017-22): 1-31. <http://dx.doi.org/10.5018/economics-ejournal.ja.2017-22>
- Parker, S., Phan, V. Q., & Nguyen, N. A. (2005). 'Has the U.S.-Vietnam bilateral trade agreement led to higher FDI into Vietnam?', *International Journal of Applied Economics*, 2(2), 199-223.
- Pereira, S. (2013). 'An Examination of the Impact of State Governance on Foreign Direct Investment in Vietnam', *Journal of Asian Business Strategy*, 3 (10): 292-n/a.
- Perkins, D. H. & Anh, V. T. T. (2010). *Vietnam's Industrial Policy Designing Policies for Sustainable Development*, Cambridge: Harvard Kennedy School ASH Institute for Democratic Governance and Innovation.
- Phan, T., & Jeong, J. (2016). 'Potential Economic Impacts of the Vietnam-Korea Free Trade Agreement on Vietnam', *Journal of East Asian Economic Integration*, 20(1): 67-90.
- Phusavat, K., Comepa, N., Sitko-Lutek, A. & Ooi, K. B. (2012). 'Intellectual capital: national implications for industrial competitiveness', *Industrial Management & Data Systems*, 112(6): 866-890.

- Pickles, J., Plank L., Staritz C., Glasmeier A. (2015). 'Trade Policy and Regionalism in Global Clothing Production Networks', *Cambridge Journal of Regions*, 8: 381-402.
- Pietrobelli, C., & Rabellotti, R. (2011). 'Global Value Chains Meet Innovation Systems: Are There Learning Opportunities for Developing Countries?' *World Development*, 39(7): 1261-1269.
- Porter, M. (1990). 'The Competitive Advantage of Nations', *Harvard Business Review*, March-April: 73-93.
- Potterie, B., & Lichtenberg, F. (2001). 'Does foreign direct investment transfer technology across borders?', *The Review of Economics and Statistics*, 83(3): 490-497.
- Prebisch, R. (1964). *Towards a New Trade Policy for Development*, New York: United Nations for UNCTAD.
- Rahman, M., & Sayeda, T. (2016). 'The Effect of Integration with Global Apparel Value Chain', *South Asia Economic Journal*, 17(2): 248-270.
- Reed, R., Lira, C., Byung-Ki, L., & Lee, J. (2016). 'Free Trade Agreements and Foreign Direct Investment: The Role of Endogeneity and Dynamics', *Southern Economic Journal*, 83(1): 176-201.
- Reinert, S. (2011). *Translating Empire, Emulation and the Origins of Political Economy*. Cambridge: Harvard University Press.
- Robertson, R. (2012). Theoretical Foundation and Empirical Approach. In: G. Lopez-Acevedo & R. Raymond (eds.) *Sewing Success? Employment, Wages, and Poverty following the End of the Multi-Fibre Arrangement*, Washington, D. C.: The World Bank. pp. 19-39.
- Schaumburg-Müller, H. (2009). 'Garment Exports from Vietnam: Changes in Supplier Strategies', *Journal of the Asia Pacific Economy*, 14(2): 162-171.
- Schmitz, H., & Knorringa, P. (2000). 'Learning from Global Buyers', *Journal of Development Studies*, 37(2): 177-205.
- Sjöholm, F. (2016). 'Foreign Direct Investment and Value Added in Indonesia', *Research Institute of Industrial Economics*, Working Paper No. 1141.
- Standard Chartered (2017). *Standard Chartered: Vietnam gets back on track after drought, GDP growth forecast at 6.6% this year*, Standard Chartered [online] Available at: <https://www.sc.com/global/av/vn-vietnam-gets-back-on-track-after-drought.pdf> [Accessed: 4 August 2017].
- Staritz, C. (2011). *Making the Cut? Low-Income Countries and the Global Clothing Value Chain in a Post-Quota and Post-Crisis World*. Washington, DC: World Bank.
- Stiglitz, J. (2011). 'Rethinking development economics', *The World Bank Research Observer*, 26(1): 230-236.
- Strange, S. (1996). *The Retreat of the State - The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press.
- Suyanto, Bloch, H. & Salim, R. A. (2012). 'Foreign Direct Investment Spillovers and Productivity Growth in Indonesian Garment and Electronics Manufacturing',

Journal of Development Studies, 1-15.

- Szalavetz, A. (2015). 'Post-crisis approaches to state intervention: New developmentalism or industrial policy as usual?', *Competition & Change*, 19(1): 70-83.
- Szirmai, A. (2012). 'Industrialization as an Engine of Growth in Developing Countries, 1950-2005', *Structural Change and Economic Dynamics*, 23(4): 406-420.
- Szirmai, A. & Verspagen, B. (2015). 'Manufacturing and Economic Growth in Developing Countries, 1950-2005', *Structural Change and Economic Dynamics*, 34: 46-59.
- Tyler, G. (1993). 'The Nation-State vs. the Global Economy', *Challenge*, 36(2): 26-32.
- United Nations Industrial Development Organization (2011). *Industrial Development Report 2011: Industrial Energy Efficiency for Sustainable Wealth Creation*, Vienna: United Nations.
- Vixathep, S., & Matsunaga, N. (2012). 'Firm performance in a transitional economy: A case study of Vietnam's garment industry', *Journal of the Asia Pacific Economy*, 17(1), 74-93.
- Vu, H. T. & Pham, L. C. (2016). 'A dynamic approach to assess international competitiveness of Vietnam's garment and textile industry', *Springer Plus*, 5(1): 1-13.
- Wade, R. (2016). 'The role of the state in escaping the middle-income trap: The case for smart industrial policy', *METU Studies in Development*, 43(1): 21-42.
- Walliman, N. (2005). *Your Research Project: A Step-by-Step Guide for the First-Time Researcher*: London, Sage. [L]
[SEP]
- Blomenhofer, M (2017). *The rise of Korean investment in Vietnam How Korean companies can continue to thrive in an exciting but challenging jurisdiction*, KROLL [online] Available at: <https://www.kroll.com/-/media/kroll/pdfs/publications/the-rise-of-korean-investment-in-vietnam.ashx> [Accesses: 16 February 2023].
- WTO (2016). *World Trade Statistical Review 2016*, World Trade Organisation, [online] Available at: https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf [Accessed: 10 June 2017].
- Zhang, K. (2014). 'How does foreign direct investment affect industrial competitiveness? Evidence from China', *China Economic Review* 30, 530-539.