MADE IN VIETNAM:

AMERICAN APPAREL AND TEXTILE FIRMS’ OPERATIONS IN VIETNAM

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Marianne Rutledge Semones

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This study examines American apparel and textile firms’ operations in Vietnam, and the future of their operations there. Vietnam has emerged as a newly industrializing economy in Asia in recent years, and its apparel and textile industry has been an important component to the nation’s economic success. Since the signing of the U.S.–Vietnam Bilateral Trade Agreement in 2000, increasing numbers of American firms have been investing in Vietnam. Foreign direct inflows and exports have significantly increased in Vietnam since this time. American apparel and textile firms have found Vietnam to be a favorable site for their overseas operations and are looking forward to further expanding their operations there. While global shifts in the production of apparel and textiles are expected with the recent expiry of the Agreement on Textiles and Clothing, it is expected that the American firms will continue to manufacture their goods in Vietnam.

Approved:

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Chapter 1. Introduction

The Socialist Republic of Vietnam (hereafter Vietnam) has achieved substantial economic growth over the past two decades, especially considering its troubled history. From 1945 to 1975, it was fighting a thirty year war on its land, which destroyed much of the industrial facilities and infrastructure of the country and killed too many of its people. This has left Vietnam with a very young population that has been expanding rapidly in the past few decades. Today Vietnam has a population of 82.6 million, making it the 13th most populous nation in the world, with about two-thirds of the population being under 25 years of age. Its people are well educated and hard working, mainly due to the Confucian value system that is underlying in the Vietnamese society. These factors have benefited Vietnam in attracting foreign investment after it began opening up its economy in the 1980s.

Subsequent to 1975 and the end of the “Vietnam War,” as referred to in the U.S., and the “American War,” as referred to in Vietnam, the United States severed diplomatic and economic ties with Vietnam, and therefore was not initially involved in investing in the country. It was not until 1994 that the U.S. lifted its embargo on Vietnam, allowing for trade between the two nations. This has ultimately led to normalized relations and the signing of the U.S.–Vietnam Bilateral Trade Agreement in 2000. It has been ten years since American companies began investing in Vietnam again. Vietnam has become an attractive site for American investment in recent years as the country has been emerging as a newly industrializing economy in Southeast Asia.
The apparel and textile industry\(^1\) in Vietnam has been an important component to the nation’s economic success over the last fifteen years or so as the country has opened up to the world economy. It is now the country’s second largest industry, following crude oil, and employs about two million workers. Following decades of war, Vietnam’s economy was devastated, but with the advantages of a large population and a location easily accessible by sea, the country sought results in this labor-intensive industry for its early industrialization.

Following the signing of the U.S.–Vietnam Bilateral Trade Agreement (BTA) in 2000, which addressed a wide range of labor-intensive industries, including the apparel and textile industry, this industry experienced particularly impressive growth. On average, the tariffs on apparel and textile goods imported from Vietnam to the U.S. dropped from 40% to 3% percent after the implementation of the BTA, making Vietnam a very attractive place for American apparel and textile companies and their contractors to set up production bases. The BTA has been instrumental in furthering the normalization of U.S.-Vietnam relations. Today 70% of the apparel and textile factories operating in Vietnam export their products to the U.S., and the U.S. accounts for more than 50% of all Vietnamese apparel and textile exports (personal communication, 2004).

In May of 2003, the Vietnam–U.S. Textile Agreement was signed. This agreement set base quota levels for Vietnamese apparel and textile items exported to the U.S., which are to increase each year until Vietnam becomes a member of the World Trade Organization (WTO). The newly implemented import quotas have limited the

\(^1\) In Vietnam, apparel and textiles are considered to be part of a single industry.
amount of apparel and textile exports from Vietnam to the U.S. market. Also, the Agreement on Textiles and Clothing (formally the Multi-Fibre Arrangement) expired at the end of 2004, allowing WTO member countries to trade their goods free from the quota system. Without Vietnam’s accession into the WTO, Vietnam could eventually lose its share of apparel and textile quota. Because of these two factors, it is imperative for Vietnam to join the WTO as soon as possible, in order for its apparel and textile industry to remain competitive.

In the summer of 2004, I conducted field research in Vietnam to examine American firms’ operations in the apparel and textile industry. I interviewed managers of five American companies that had manufacturing operations in export processing zones around Ho Chi Minh City, the largest city of Vietnam. The interviews focused upon four major areas in their operations: investment decision, local operations, exportation, and future prospects in Vietnam. In addition to these personal interviews with the managers, I collected statistical data on the Vietnamese economy and the apparel and textile industry there, government policies to attract foreign investment, and U.S.–Vietnam relations. In my fieldwork, I sought to answer the following research questions:

- How has American apparel and textile investment in Vietnam increased in recent years?
- What are the advantages and disadvantages of the American firms’ operations in Vietnam compared with their other overseas operations?
- Where do the American firms see the future of their operations in Vietnam?
It is an opportune moment to conduct research on American apparel and textile firms’ operations in Vietnam due to the recent implementation of the U.S.–Vietnam Bilateral Trade Agreement and the large influx of American apparel and textile firms into the country. Much of the existing research on the globalization of the apparel and textile industry has focused either on how the Asian newly industrializing countries (NICs), namely Hong Kong, Singapore, South Korea, and Taiwan, promoted the industry in their early stage of industrialization or how China has attracted the bulk of foreign investment based on its cheap labor, while little research has been conducted on Vietnam. The findings of this research contribute to our general understanding of the globalization of the apparel and textile industry, the effects of U.S. trade policies on the development of labor-intensive industries in a newly industrializing country, and, more particularly, American apparel and textile firms’ operations in Vietnam.
Chapter 2. Globalization of the Apparel and Textile Industry

2.1 Global Shifts in the Production of Apparel and Textiles

The apparel and textile industry is one of the oldest industries in the world as well as one of the most global of all industries. Most nations in the world produce apparel and textiles for the international market as well as for their own domestic market. It is conventional wisdom that newly industrializing economies begin with the apparel and textile industry, which does not require much technology or capital but relies heavily on the availability of cheap labor. This industry took on a global dimension as early as the 1950s, and was the first manufacturing industry to do so. Since then, there have been several geographical shifts in the production of the industry.

The apparel and textile industry played a central role in the development of the industrial revolution in Britain in the 18th and 19th centuries. In the 19th century, the newly industrializing economies of the U.S., Germany, France, and the Netherlands followed Britain’s lead and developed their own apparel and textile industries. This industry thrived and expanded in the U.S. and Western Europe in the 20th century. The international trade in apparel and textiles increased dramatically in the second half of the 20th century, with tremendous growth between 1945 and 1975. Both developed and developing countries were instrumental in this growth. During this time, developed countries were rebuilding their apparel and textile industries following the end of WWII, while developing countries were becoming involved in export-oriented manufacturing (Dickerson, 1991).
In the 1950s and early 1960s, North America and Western Europe moved a significant proportion of their apparel and textile production to Japan. In the 1970s and 1980s, production shifted from Japan to the so-called “Big Three” Asian apparel producers—Hong Kong, South Korea, and Taiwan. Following this, there was a migration from the “Big Three” to less developed countries with cheaper labor, such as China, Southeast Asia, Sri Lanka, and the Caribbean in the 1990s. Most recently there has been another shift due to preferential tariffs within regional blocs such as the European Union (EU) and the North American Free Trade Agreement (NAFTA).

Table 2.1 shows the world’s top 25 apparel and textile exporting countries. While the U.S. still remains one of the major exporters of apparel and textile products, none of the European countries remain among the major exporters. All of the “Big Three” countries are major exporters of apparel and textiles, and the Asian region represents the majority of the exporting countries. However, China stands out among the newly emerging countries. In 2000, China was the world’s leading exporter of apparel and textiles, with USD 39.2 billion in exports. From the Caribbean region, the Dominican Republic and Costa Rica are among the major exporters. Five Southeast Asian countries, namely Indonesia, Thailand, the Philippines, Malaysia, and Vietnam are also included in the top 25 apparel and textile exporting countries.
Table 2.1 Top 25 Apparel and Textile Exporting Countries

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Apparel and textile exports (US$ Billions)</th>
<th>Apparel and textiles as % of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northeast Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1.7</td>
<td>10.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5.3</td>
<td>15.7</td>
</tr>
<tr>
<td>South Korea</td>
<td>3.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.6</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Southeast Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Vietnam</td>
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<td>0.1</td>
</tr>
<tr>
<td><strong>South Asia</strong></td>
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<td></td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Central &amp; Eastern Europe</strong></td>
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<td></td>
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<td>Czech Republic</td>
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</tr>
<tr>
<td>Romania</td>
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</tr>
<tr>
<td>Poland</td>
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<td>0.4</td>
</tr>
<tr>
<td>Hungary</td>
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<td>0.4</td>
</tr>
<tr>
<td>Turkey</td>
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<tr>
<td><strong>Africa</strong></td>
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<td></td>
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<tr>
<td>Morocco</td>
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</tr>
<tr>
<td>Tunisia</td>
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<td>1.1</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Caribbean Basin</strong></td>
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<td></td>
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<td>Dominican Republic</td>
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<tr>
<td>Costa Rica</td>
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<tr>
<td><strong>North America</strong></td>
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<td></td>
</tr>
<tr>
<td>United States</td>
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</tr>
<tr>
<td>Mexico</td>
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</tr>
<tr>
<td><strong>World Totals</strong></td>
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<td>110.6</td>
</tr>
</tbody>
</table>

2.2 Recent Trends in the Apparel and Textile Industry

Two trends have become apparent in the recent globalization of the apparel and textile industry. These trends include the shift of production to faraway locations and the shift towards more extensive contracting in production, in which contractors and subcontractors carry out the labor-intensive work (Tokatli, 2003). Each will be reviewed in turn.

During the past two decades there have been two developments, in terms of geography, that have particularly altered the importation of apparel and textiles into the U.S. Gereffi (1999) identifies these shifts as:

1. a shift within Asia from the “Big Three” to the growing importance of successive waves of exporters: first China, followed by capitalist Southeast Asia, South Asia, and now socialist Southeast Asia (Cambodia, Laos, and Vietnam);
2. a growth in non-Asian sources of apparel supply, especially the importance of Central America, the Caribbean, and Mexico.

A number of factors have driven and supported the expanded globalization of the apparel and textile industry. In general, apparel and textiles can be manufactured using relatively simple technologies and low-skilled labor. The amount of capital investment needed to set up production facilities is low compared to many other manufacturing industries. The machinery needed is minimal, and the end product is easily shippable, especially in comparison to the auto or steel industry. This is one reason that firms are able to operate manufacturing sites in multiple countries simultaneously throughout the world.
Another important factor in the globalization of the apparel and textile industry is wage difference on the international level. The apparel and textile industry is a very labor-intensive industry. As it now employs over 20 million workers worldwide, wages are an important cost component to firms, and firms generally seek low labor costs. There are enormous economic gaps in terms of wages in this industry. For example, the average employee in the United States receives about USD10 per hour, whereas an employee in Vietnam receives about USD 0.22 per hour (Gereffi & Memedovic, 2003). Because the apparel and textile industry is innately labor-intensive, nations with larger labor forces have been successful in the development of their industry. There is limited possibility in this industry of substituting labor with technology, therefore cost differences between developed and developing countries have been the competitive drive in the globalization of apparel and textile production.

The other recent trend in the apparel and textile industry has been the proliferation of contractors and subcontractors. Gereffi (1999) describes the apparel and textile industry as being a buyer-driven commodity chain (BDCC), referring to those industries in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in the developing world. In this type of system, the buyer or core company relies on a network of subcontractors who perform the specialized tasks within the production process (Rabuch & Kim, 1994). Gereffi’s term BDCCs explains that within the global chain of apparel and textiles, power lies with commercial capital (retailers, marketers,
and buyer manufacturers) that play the role of the buyer, and firms at the point of production have little autonomy to develop relatively independent strategies. For example, firms such as Nike and Gap may design a product, but they are rarely involved in the manufacturing of the products they sell, or their operation, product development, or marketing, there are, as described by Gereffi (1999) “manufacturers without factories.”

“Manufacturers without factories” have become especially successful because the shift of production to domestic and international contractors and subcontractors has allowed these major players to concentrate their expertise more on the design of the latest trends, branding, advertising, and consumer financing (Gereffi, 1999). Overseas buying offices representing the “manufacturers without factories” are located throughout the world. These offices provide a direct link between U.S. buyers and their Asian suppliers, connecting the seasonal orders coming from the U.S. with the produced goods from the offshore supply networks (Gereffi, 1999). The BDCCs are characterized as being very competitive and decentralized in the global world. They are typically fairly easy to set up, having low barriers to entry.

Contractors and subcontractors in developing countries participate in the BDCCs in two broadly categorized forms: original equipment manufacturing (OEM) and original brand-name manufacturing (OBM) (Gereffi, 1999). With OEM, locally owned firms or contractors manufacture goods to be sold under another company’s brand name. In this case, the developing country’s manufacturer typically sources the materials and manufactures the products while the overseas retailer distributes the finished product abroad. In this model there is a separation of the manufacturing and the intellectual
property (such as a trademark) under which the ultimate sale will be made. In OBM, the locally owned firms manufacture goods to be sold under their own brand name, linking the intellectual property and the manufacturing process. Gereffi (1999) explains that locally owned firms in developing countries usually begin with OEM, and they most likely operate as a combination of OEM and OBM. Often firms that operate as OEM, have several foreign firm buyers.

This shift took on another dimension as triangle-manufacturing networks were formed in the apparel and textile industry. Triangle-manufacturing networks occur when buyers from a country such as the United States place orders with manufacturers from the Asian newly industrializing countries (NICs) whom they have previously sourced products who in turn, shift some or all of the requested production to affiliated offshore factories in even lower wage countries (Dicken, 2003). The goods are then shipped from the low-wage country to the overseas buyer.

2.3 Governments and the Apparel and Textile Industry

As the globalization of the apparel and textile industry has accelerated, governments in the developed countries of North America and Western Europe have taken measures to protect their respective domestic industries. The most influential government policy has been the Multi-Fibre Arrangement (MFA), which has been a major factor in the globalization of this industry. The MFA, set up in the 1970s, was a worldwide system that managed trade in apparel and textiles. In 1995, the MFA was replaced by the Agreement on Textiles and Clothing (ATC), a ten-year transitional
program for quota removal under the WTO. The ATC continued to regulate quotas until its expiry on December 31, 2004.

The MFA was established by developed countries, such as the U.S. and Western European countries, in order to protect their apparel and textile industries from exposure to competitors from developing nations with lower production cost. Article 1(2) of the Multi-Fibre Arrangement states that its principal aim was:

To achieve the expansion of trade, the reduction of barriers to such a trade and the progressive liberalization of world trade in textiles products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.

While the intent of the MFA was to protect developed country firms from low-cost imports, the consequence of the MFA quota system was that it encouraged the diversification of production sites. With the quota system under the MFA, firms were limited in the quantity of goods that they could buy from any one country. In response, apparel and textile firms chose to locate manufacturing sites in numerous countries in order to receive the quantity of goods they wished to buy within the quota system.

While governments in developed countries have played a critical role in globalization through the MFA, governments in developing countries have also done so through the establishment of export processing zones (EPZs). These zones are set up to attract foreign investment while also protecting domestic industries. An EPZ is a relatively small, geographically separated area within a country, the purpose of which is to attract export-oriented industries by offering them especially favorable investment and trade conditions as compared with the remainder of the host country (UNIDO, 1980).
Foreign firms, encouraged to produce goods within the EPZs, are then required to export all or significant portions of the goods out of the host country. In this way there is minimal if any penetration of the local market by what are for all intents and purposes foreign produced products. The EPZs tend to be located strategically within a country, most often near an airport or seaport where goods can be easily exported. These zones are a positive attraction for foreign firms who are granted tax incentives and are able to produce their goods with low labor costs, as well as host countries since the foreign firms employ their citizens, without threatening their domestic market.

The apparel and textile industry, being highly labor-intensive, largely employs females and less-skilled workers. The international involvement of multi-national corporations in the apparel and textile industry most often occurs in the form of international subcontracting; it is highly labor-intensive in the developed countries, it uses low-skilled or easily trained labor, the process can be fragmented and geographically separated, with design and often cutting being performed in one location (usually a developed country) and sewing and garment assembly in another location (usually a developing country) (Dicken, 2003).

The globalization of the apparel and textile industry has affected many countries on a national level. Being that this industry is labor-intensive, employing large percentages of a nation’s workforce, this form of globalization penetrates into national economies throughout the world. There are strong similarities in how countries move from import-substituting economies to export-oriented economies, and how in this transition they become involved in the exportation of apparel and textile goods.
The expiry of the ATC on December 31, 2004 has impacted the apparel and textile industries of nations throughout the world, both developed and developing. While WTO member countries will benefit from the absence of the quota system, being able to freely trade their goods, they will face further challenges in terms of competition, particularly with large market participants such as China. The elimination of the quota system will be most beneficial for countries with excess capacity, who can produce additional product at low cost and thereby gain market share over higher-cost producers.

It has been predicted that the geography of the apparel and textile industry will change again in the coming years because large firms will no longer need to have multiple manufacturing sites in order to fulfill their orders. On the other hand, companies have learned of the benefit of diversifying their investments, and therefore they are not likely to move toward “putting all of their eggs in one basket.” While competition is on the rise throughout apparel and textile industries of the world in terms of location, the competitive factors of quality and efficiency in the production of goods will continue to be the determining factors of successful industries.

As Vietnam’s economy has been industrializing, its apparel and textile industry has played a critical role in its economic success. The apparel and textile industry in Vietnam emerged in the 1990s and has come to be a significant exporter to the EU, Japan, and more recently, the U.S. market. Vietnam’s apparel and textile industry has been vital to the country’s export growth. Apparel and textiles currently account for over 50% of Vietnam’s manufactured exports (Nadvi & Thoburn, 2003).
Chapter 3. Research Methods

In my research I have focused on the apparel and textile industry in Vietnam since 2000, a period during which an increasing number of American companies have taken advantage of the U.S.–Vietnam Bilateral Trade Agreement and thereby taken advantage of the new investment opportunity. In *Researching Social Life*, Gilbert (1993) explains that there are three major ingredients in social research: the collection of theory, the collection of data, and the design of methods for gathering data. His definition of theory is that it highlights and explains something that one would otherwise not see, or would find puzzling. It is often an answer to a “why” question. In the case of my research, my “why” question in simplistic terms would be “Why Vietnam?” I am interested in why American firms make the decision to locate operations within Vietnam when there exist other opportunities for investment in the region and throughout the world.

My design for researching the apparel and textile industry in Vietnam is composed of triangulation. My research information has been collected from two broad sources, personal interviews and statistical data collection. During the summer of 2004 I spent four weeks in Vietnam conducting field research. I conducted personal interviews in Ho Chi Minh City and Hanoi (see Map 1).
Map 1 Vietnam

Source: www.northfork.net/vietnam/graphics/vietnam.gif
Before arrival in Vietnam, I contacted twenty American company managers by faxing a list of survey questions (see Appendix). While in Vietnam, I interviewed five American apparel and textile company managers with operations in export processing zones (EPZs) around Ho Chi Minh City. Besides the personal interviews with the companies, I collected statistical data on the Vietnamese economy, foreign investment there, and the apparel and textile industry, as well as information on the government’s policies to attract foreign investment. I also conducted personal interviews with officials in the U.S. Embassy in Hanoi and the U.S. Consulate in Ho Chi Minh City, the American Chamber of Commerce in Ho Chi Minh City, the European Chamber of Commerce in Hanoi, the Vietnamese Chamber of Commerce and Industry in Hanoi, the Vietnamese Ministry of Trade in Hanoi, and the Vietnam Textile and Apparel Association in Ho Chi Minh City.

The personal interviews with the American company managers followed a mixture of structured and semi-structured formats. The interviews I conducted were semi-structured in that I asked the questions presented on the survey, but then asked subsequent questions relative to the responses of the interviewees. I asked a set of open-ended questions that allowed the respondent to give whatever answer they chose, rather than yes/no answers. The interviews with other individuals were presented in a similar manner, except without the set of survey questions. These interviews provided more general data on the apparel and textile industry in Vietnam as well as the business environment for American firms.
Chapter 4. The Vietnamese Economy in Transition

In the decade following the end of the Vietnam War, the Vietnamese economy deteriorated significantly. Vietnam was experiencing rapid population growth, but was not growing enough rice to sustain its people. In the early and mid 1980s the country experienced a shortage of food and Vietnam had to resort to importing large amounts of rice. In response to this, in 1986, the Vietnamese government implemented Doi Moi, a market socialism restructuring program. Within ten years following the implementation of Doi Moi, Vietnam was able to recover from being an importer of rice to becoming one of the world’s leading rice exporters. As Vietnam worked towards becoming a more market-oriented economy, it experienced great economic growth in both the agricultural and industrial sectors. After the initial transition shock of Doi Moi, the Vietnamese economy experienced substantial growth between 1993 and 1997, from USD 13.1 billion to USD 26.8 billion (see Figure 4.1).

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Doi Moi, literally change and newness, is the Vietnamese Communist Party’s term for reform and renovation in the economy. This term was coined in 1986 for a transition from the centrally planned Stalinist command economy to a “market economy with socialist direction,” what is often referred to as market socialism. In contrast to Eastern European reforms Doi Moi favors gradualism and political stability over radical change, with economic restructuring to come before privatization (Watkins, 2003).
Figure 4.1 Gross Domestic Product of Vietnam, 1989-2003


Under *Doi Moi*, foreign direct investment (FDI) was given a high priority. On December 29, 1987, the Seventh National Assembly in Vietnam passed the Law on Foreign Direct Investment, which proved to be important in making the Vietnamese economy accessible to foreign investors and allowing the Vietnamese economy to benefit from foreign investment. The Law on Foreign Investment allowed for three forms of business ownership for foreign investors: business cooperation contracts, 100% foreign owned companies, and joint-venture companies. The Vietnamese government favored joint ventures over the others. The major goal of Vietnam’s foreign direct investment policy is to attract capital, advanced technology, and management skills in order to
effectively develop the country’s potential, increase savings, improve people’s living standard, and realize the cause of modernization and industrialization (Vietnam Ministry of Foreign Affairs, 2004). The FDI sector now accounts for about 35% of industrial output and has contributed to the growth of industrial production.

The government has set up more than 70 Export Processing Zones (EPZs) and Industrial Estates (IZs) (see Map 2) in order to attract foreign investment, and offers incentives, including reduced corporate tax rates, tax-free periods, land-rent reductions, and import-duty exemptions for foreign investors. Because it is Vietnam’s major manufacturing region and because of its proximity to the country’s largest city, Ho Chi Minh City, the southern region has been the largest recipient of foreign investment.
Map 2 Vietnam’s Industrial Zones and Export Processing Zones

Vietnam experienced dramatic growth in FDI inflows in the early 1990s. Some factors that brought investment into the country were Vietnam’s strong work ethics, high education levels, plentiful resources, and low labor rates. FDI flowed into Vietnam as it was opening up its economy, and to Vietnam’s benefit, it was opening during a time when increasing investment generally was flowing into Southeast Asia. In 1990, Southeast Asia received 36% of all FDI to developing countries. There was also growing investment flowing into the transitional economies of the former socialist bloc during this time. Lastly, as some Southeast Asian countries were moving higher on the global economic scale, Vietnam attracted FDI from within the region.

The FDI that has flowed into Vietnam is fairly widely distributed into different sectors of the economy. These include oil and gas, construction, tourism, and apparel and textiles. The largest share of FDI into the country goes to Ho Chi Minh City, followed by Binh Duong, Dong Nai, Hanoi, Vinh Phuc, Ba Ria Vung Tau, and Hai Phong.

While Vietnam’s FDI inflows grew greatly in the early to mid-1990s, they have experienced highs and lows since 1996 (see Figure 4.2). Many American firms were eager to enter Vietnam’s market after the lifting of the embargo in 1994, but as firms faced challenges due to a weak banking sector, bureaucratic red tape, corruption, and lack of transparency they hesitated to make further investments. Furthermore, the Eighth Party Congress halted the further expansion of FDI policies in 1996. The decline in FDI inflows continued in 1997 as much of Asia was hit hard by the Asian Financial Crisis. Vietnam did not directly suffer from the crisis as it was still in a transitional state, but it was indirectly affected by being part of the region. As Vietnam received a great deal of
FDI from countries in Asia, it in turn was affected by those countries downturn. Also, as other countries became hesitant to invest in the region following the Asian Financial Crisis, and therefore Vietnam was negatively impacted by its geographic location. Vietnam attracted increased FDI inflows again in 2000, with the anticipation of the U.S.–Vietnam Bilateral Trade Agreement (BTA). Since the BTA has been implemented, Vietnam has continued to attract FDI inflows.

**Figure 4.2 Vietnam Foreign Direct Investment Inflows, 1988-2004**

Table 4.1 lists the top ten countries for FDI into Vietnam. Over the years, Japan and the Asian NICs (Hong Kong, Singapore, South Korea, Taiwan) have been the major investors. Other Southeast Asian nations, including Malaysia, the Philippines, and
Thailand have also been major investors. While the United States and France are among the top ten foreign investors, their level of investment is lower than that coming from the Asian region.

Table 4.1 Foreign Direct Investment Inflows to Vietnam by Country

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On February 3, 1994, President Clinton lifted the U.S. trade embargo on Vietnam, allowing Vietnam access to the world’s largest market and allowing the U.S. to access opportunities in Vietnam. Vietnam went on to join the Association of Southeast Asian Nations (ASEAN) in 1995 and the Asia-Pacific Economic Cooperation (APEC) in 1998 in an effort to further open up its economy and integrate itself into the global community.

The Vietnamese economy has successfully weathered many difficult situations since it has opened up to the world economy, including the Asian Financial Crisis, SARS,
a worldwide economic recession, and the avian bird flu. Through these travails the Vietnamese economy has over the last decade experienced an average of 7% annual economic growth (see Figure 4.3). FDI is critical to Vietnam’s economy, demonstrated by Figures 4.2 and 4.3, which show that Vietnam has had similar trends of FDI inflows and economic growth.

**Figure 4.3** Percentage of Economic Growth in Vietnam, 1990-2003

![Figure 4.3](image)


Vietnam has successfully moved its economy to one that is export-oriented. As Vietnam experienced growth in FDI inflows, it also placed emphasis on light industries, such as apparel and textiles. The production of apparel and textiles has proven successful for the Vietnamese economy, with this industry now being Vietnam’s second largest,
behind crude oil. In so doing Vietnam used the major resource it had, abundant labor, in order to improve its economy.

Vietnam has demonstrated tremendous economic growth in the last two decades. The greatest portion of this growth occurred from 1993 to 1997, when Vietnam achieved annual growth in the range of 8-9% (see Figure 4.3). While it has experienced rapid economic growth, Vietnam is still considered by the World Bank a low-income country. And while the average annual income of its citizens is nearly five times of that in 1990, it reached only USD 480 in 2003 (see Figure 4.4).

**Figure 4.4** Vietnam Average Per Capita Income, 1989-2003

Chapter 5. American Investment in Vietnam

5.1 U.S.–Vietnam Trade Relations

Following the victory of the Communist North Vietnamese in 1975, the U.S. ended virtually all economic and diplomatic relations with unified Vietnam. The U.S. placed a trade embargo on Vietnam, which was not lifted until 1994. Since the embargo was lifted, the U.S. and Vietnam have been striving to further normalize their ties. In August of 1995, a U.S. Embassy was officially opened in Hanoi, and a Vietnamese Embassy opened in Washington, DC. Ambassadors were exchanged between the two countries in 1997.

Following the lifting of the embargo, the U.S. began negotiations on a bilateral trade agreement with Vietnam. Negotiations were slow, and the U.S.–Vietnam Bilateral Trade Agreement (BTA)\(^3\) was finally signed on July 13, 2000. President Clinton spoke of the BTA as “another historic step in the process of normalization, reconciliation, and healing between our two nations” (Mallet, 2000).

Under the BTA, Vietnamese goods are provided temporary normal trade relations (NTR) status in the U.S. market, which significantly reduced tariffs an average of 40% to 3% on most imports from Vietnam. Vietnam was given three years to lower its tariffs on

\(^3\) The Bilateral Trade Agreement restores reciprocal most-favored nation (MFN) treatment between the U.S. and Vietnam. It is comprised of five major sections: equal market access and industrial goods, intellectual property rights protection, market access for services, investment promotion, and transparency by publishing and making available laws and regulations. The preamble to the BTA states that “the U.S. and Vietnamese governments desire to develop mutually beneficial and equitable economic and trade relations on the basis of mutual respect for their respective independence and sovereignty; and that they acknowledge the adoption of international trade norms and standards by which the two parties will aid in the development of mutually beneficial trade relations.”
imports from the U.S. When lowered, the average Vietnamese tariffs will not drop below 20%, a rate much higher than that imposed by the U.S. Vietnam has agreed to undertake many market-liberalization measures under the BTA, including extending NTR treatment to U.S. exports, reducing tariffs on goods, easing barriers to U.S. services (such as banking and telecommunications), committing to protect certain international property rights, and providing additional inducements and protection for inward foreign direct investment (Manyin, 2002).

The signing of the BTA was a major step towards reestablishing economic relations between the U.S. and Vietnam. Both countries have experienced increased trade volumes, and the two-way trade has more than tripled since 2001 (see Figure 5.1). The U.S. is now Vietnam’s number one trading partner.
Figure 5.1 U.S.–Vietnam Trade, 1994-2003

Source: U.S. Department of Commerce

Because it gives Vietnam access to the world’s largest market, the BTA is also an important factor in Vietnam’s goal of moving towards a market-driven economy. The U.S.–Vietnam Trade Council (USVTC) conducted a survey entitled “The U.S.–Vietnam Bilateral Trade Agreement: A Survey of U.S. Companies on Implementation Issues,” published in 2004. The survey found that American companies have acknowledged the positive impact of the BTA on trade relations between the two countries, and with the tremendous increase in trade, the companies are looking forward to further implementation of the BTA. In addition to American companies’ investment in Vietnam,
non-U.S. multinational firms that want to take advantage of lowered tariff rates on Vietnamese exports to the U.S. market have invested there in recent years.

5.2 The Vietnam–U.S. Textile Agreement

In May 2003, the Vietnam–U.S. Textile Agreement was signed, further addressing issues on this labor-intensive industry and its role in strengthening trade relations between the two countries. This agreement has set base quota levels for apparel and textile items, which will grow by 7% a year (2% for woolen products). The quotas put in place are for 38 of the 120 Vietnamese apparel and textile goods that are currently exported to the United States. The terms of the agreement are valued at USD 1.7 billion. The Vietnam–U.S. Textile Agreement officially applied until December 31, 2004, and could be terminated or renegotiated any time after that until Vietnam’s entry into the World Trade Organization (WTO). As Vietnam has not yet entered the WTO, the agreement has currently been extended until December 31, 2005. As of July 2004, Vietnam had already exhausted its quota allotment for the year. In response to this, the U.S. allowed Vietnam to borrow up to 7% of its quota from the 2005 allotment.

The implementation of the Vietnam–U.S. Textile Agreement has not gone about without criticism and corruption. Vietnamese companies and foreign companies operating in Vietnam were disappointed with the rules of the agreement, since their exportation to the U.S. would be limited to a specified amount (personal communication, 2004). While apparel and textile firms have built up the capacity to produce increasing
quantities of products, their output has had to be lessened due to the reduced amount of quotas allocated.

In terms of corruption, the U.S. Customs and Border Protection (CBP) was concerned that there was a possibility that counterfeit Vietnamese certificates of origin were coming in with shipments to the U.S. (International Trade Administration, 2004). In response to this concern, the CBP visited 100 apparel and textile factories in Vietnam during the summer of 2003. They found that most of the factories were actively producing goods and were able to provide the CBP with the requested documentation. But, some factories were closed, refused admission, or could not provide sufficient documentation, and because of this the CBP could not get the needed documentation on one million dozen⁴ garments. The CBP reported this information to the Committee for the Importation of Textile Agreements (CITA) who made the decision to reduce Vietnam’s quota for 2004 by 4.5%, the percentage associated with the one million dozen garments. The Vietnamese government was disappointed by this reduction of quota, but under the terms of the Vietnam–U.S. Textile Agreement, the U.S. is allowed to reduce quota limits if the U.S. can present evidence that imports attributed to Vietnam did not originate in Vietnam (International Trade Administration, 2004).

More recently, in November 2004, Deputy Trade Minister Mai Van Dau and his son Mai Thanh Hai were jailed. They were arrested because it was speculated that they received USD 1 million in bribes for handing out quota allotments for apparel and textile shipments to the U.S. The practice of buying quota in Vietnam is common for foreign

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⁴ The number of garments is calculated in units of twelve.
manufacturers exporting to the U.S. If one factory runs out of their quota allotment, they will seek to buy additional quotas from another company’s allotment (personal communication, 2004). Unfortunately, this creates another level of corruption, as the Vietnamese government does not always distribute all of the quota allocation for the year. This hoarding of quota by officials and subsequent sales to companies is a significant source of corruption.

Another agreement that has had an influence on U.S.–Vietnam trade relations is the Agreement on Textiles and Clothing (ATC), formally known as the Multi-Fibre Arrangement. This agreement expired on December 31, 2004, but will continue to affect the apparel and textile industry in Vietnam and American firms’ operations there. With the expiry of the ATC, all WTO member countries are able to trade free of the quota system, and because of this freedom changes will occur in the flow of apparel and textiles throughout the world. Because Vietnam is not a member of the WTO, it will continue to trade apparel and textiles under the quota system, putting the country at a disadvantage until its accession into the WTO. This is a major concern because foreign buyers and their contractors could choose to move their production sites to WTO member countries. In response to this, Cambodia, the first of the “Indo-China” countries, joined the WTO in October 2004 prior to the expiry of the ATC. About 80% of Cambodia’s exports are apparel and textiles; therefore the Cambodian economy on the whole could have been negatively impacted by the expiry of the ATC without WTO accession (Bradsher, 2004).

The major threat with the expiry of the ATC is China. China currently accounts for about 20% of the world’s apparel and textile exports, and is expected to rise to 50% in
the coming years. Countries that are unable to compete in a China dominated market will experience losses in terms of business failures and consequent job loss. It has been said that the major weakness of the Vietnamese apparel and textile industry is that they import up to 80% of the cloth and secondary material used in production (Thai, 2004). To Vietnam’s benefit, however, American investors have been impressed with the quality of work produced in the apparel and textile industry (personal communication, 2004). As U.S. based investors have realized the benefits of diversifying their investments, they will continue to maintain the investments they have already made in Vietnam and will seek out opportunities for the expansion of their operations.
Chapter 6. American Apparel and Textile Firms’ Operations in Vietnam

Since the implementation of Doi Moi in 1986, the Vietnamese government has been moving away from central bureaucratic management. Prior to the government reform, the apparel and textile industry in Vietnam was under the control of state-owned enterprises that were heavily subsidized by the government. The reform has allowed foreign firms to establish their companies in Vietnam in various forms, including 100% foreign ownership, subcontracting relationships, and most favored by the government, joint ventures with Vietnamese enterprises. Vietnam has experienced an influx of foreign direct investment from Asia, Western Europe, and the United States since the reform. Since the implementation of Doi Moi, the Vietnamese economy has experienced rapid growth, and the apparel and textile industry has benefited the most.

Today the apparel and textile industry employs about two million workers in Vietnam and accounts for 20% of the country’s industrial output. Of Vietnam’s export products, apparel and textiles rank second, after crude oil. Vietnam’s export earnings in apparel and textiles increased from USD 1.1 billion in 1996 to USD 3.6 billion in 2003 (see Figure 6.1). Vietnam exported USD 2.5 billion in apparel and textile goods to the U.S. in 2003 (see Figure 6.2), which did not account for any significant share in the total imports of the U.S., but did account for almost 70% of Vietnam’s total exports.
Figure 6.1 Vietnam’s Total Apparel and Textile Exports, 1996-2003

Source: Vietnam Apparel and Textile Association
Following the lifting of the trade embargo in 1994, certain front-runner American firms began to locate their operations in Vietnam. However, the majority of American firms who have entered the Vietnam market waited until after the U.S.–Vietnam Bilateral Trade Agreement (BTA) was signed in 2000. Table 6.1 lists major American apparel and textile firms that import goods from Vietnam, including such well-known companies as Gap, Macy’s, Target, and Wal-Mart.
Table 6.1 Major American Apparel and Textile Firms’ Importing from Vietnam

| Abercrombie & Fitch | Fleet Street | Mast Industries |
| Aberdeen            | Gap, Inc.    | Mitchellis Formalwear |
| American Eagle Outfitters | Global International | No Fear |
| Ann Taylor          | Gruner Co.   | Nordstrom         |
| Baby Divine         | Hartmarx     | Perry Ellis       |
| Brooks Brothers     | Hugo Boss    | QG Associates     |
| Bromley             | JC Penney    | QM Fashion International |
| The Children’s Place| Jockey       | Salant Howard Posner |
| Columbia Sportswear | K-Mart       | Seattle Pacific Industry |
| Converse            | Kohl's       | Spiegal           |
| Eddie Bauer         | Lands End    | Target            |
| Express             | Li & Fung Co.| Tommy Hilfiger    |
| Fair                | The Limited  | Trend Setters     |
| Fashion Garments    | Lollytags    | Victoria's Secret |
| Fila                | Macy's       | Wal-Mart          |

Source: Compiled from the Vietnam Trade Office in the USA, *Vietnam Economy*, and the American Chamber of Commerce in Vietnam.

Today, there are approximately 1,100 apparel and textile enterprises in Vietnam, and 70% of those factories export goods to the United States (personal communication, 2004). I conducted personal interviews with five managers of American apparel and textile firms operating in Vietnam. In order to protect the anonymity of these companies, I have named them Company A, B, C, D, and E in this paper. Company A is a major sports and fitness apparel company. Company B manufactures children’s apparel and school uniforms. Company C is a major fashion apparel company. Company D is a casual clothing company. Company E is a sportswear apparel company. Of the five American firms operating in the apparel and textile industry in Vietnam that I interviewed, Companies A, B, and D began their operations in 1994, enthusiastic with the opportunity of operating in Vietnam and wanting to gain a foothold in a country with a
large pool of cheap labor. Companies C and E entered Vietnam in 2001, with the decision to enter reliant on the implementation of the BTA. Each of these companies chose to locate operations in Vietnam in an effort to diversify their production base. Company A’s manager expressed that Vietnamese employees are very skillful and competent, and this influenced its company’s decision to locate in Vietnam. Company B’s manager spoke of the attractiveness of Vietnam’s large pool of labor and high literacy rate.

Each of these American firms has factories located in export processing zones (EPZs) around Ho Chi Minh City. This area is attractive to firms because of its large manufacturing presence and its proximity to Vietnam’s largest city. Directors of Company A came to Vietnam in the early 1990s to consider it as a potential prospect as a manufacturing site. The directors visited Ho Chi Minh City and then went to look at the Dong Nai area, which is about 35 km east of Ho Chi Minh City. The Dong Nai area was attractive because of its close proximity to the city and because wages were 10% lower than within the city. They found that the authorities were very helpful, positively influencing their decision to settle in Dong Nai.

While Company A has one factory in Vietnam, Company B has many factories in the country. Ninety percent of Company B’s factories are located around Ho Chi Minh City, while the others are located in the Mekong region and around Hanoi. They decided to locate the majority of their factories around Ho Chi Minh City due to the better infrastructure and the openness to foreign investment in the area. Companies D and E also have multiple factories in Vietnam, concentrated in the southern region. Adopting a
different model, Company C has 15 factories in Vietnam, with even distribution from the North to the South.

Company A operates within Vietnam’s apparel and textile industry as a 100% foreign owned company, although this is a rare form of ownership for foreign firms. Company B has many long-term contract partners in Vietnam, including South Korean firms, Taiwanese firms, Singaporean firms, state-owned enterprises (SOEs), and two private Vietnamese companies. Companies C, D, and E also have a range of contract partners, including South Korean and Taiwanese firms.

It is common for apparel and textile firms to diversify their investments in a number of countries. Company A’s factory in Vietnam is one of three factories, the others located in Sri Lanka and Bangladesh. The manager of this company expressed the view that their operations in Vietnam was the most efficient of the three factories, due to the workers being skillful and highly educated. Companies B, D, and E have a large number of factories throughout the world, and Company C buys from 40 countries, with representative offices in 14 of them. These companies were also satisfied with the productivity of the Vietnamese labor force.

The BTA and the Vietnam–U.S. Textile Agreement impacted all of the companies interviewed. Each of the company managers expressed that the BTA greatly improved their operations or their prospects for operations in Vietnam, and was the reason for their success in exporting products to the U.S. market. They also stated that following the implementation of the Vietnam–U.S. Textile Agreement growth subsided due to the quotas put in place. Company A experienced an increased capacity of 30% by 2002, but
the increased capacity was limited in 2003 when the quotas were implemented.

Company B’s manager said that his company’s operations doubled in the first year following the implementation of the BTA. The manager I spoke with from Company C stated that her company had doubled its production since 2001. She said that without the U.S.–Vietnam Textile Agreement hindering its ability to export to the U.S., her company could have tripled its production. In the past three years, each of the companies has exported the majority of their goods to the United States, while Company B also exports a sizeable portion of their products to other nations in Asia. As the companies have operations within EPZs, none of the goods produced there are sold in the domestic market.

The personal interviews took place in July of 2004, and the expiry of the Agreement on Textiles and Clothing (ATC) that was scheduled for the end of the year was a major concern for each of the company managers. While there was reason for concern, the company managers remained optimistic about their operations in Vietnam. Company A’s manager said that his company is planning on staying in Vietnam, and he is anticipating Vietnam’s accession into the WTO so that they may expand further. The manager of Company B likewise expressed that his company plans to continue operating in Vietnam. His company does not consider pulling out of Vietnam; they have long-standing relationships with their contract partners, and are looking forward to expanding with the current partners. The managers of companies D and E expressed concerns about the expiry of the ATC, but had no plans for moving their operations out of Vietnam.
An official of the American Chamber of Commerce in Vietnam (AmCham) discussed some of the difficulties with the business environment in Vietnam and the apparel and textile industry there. He expressed that while many of the American company managers are optimistic about operations in Vietnam, many of the factories are owned by contractors from South Korea and Taiwan, and many of these contractors are very frustrated with doing business with the Vietnamese due to corruption. He stated that they often end up paying 50% of their production costs in “fees,” greatly adding to the expense of conducting business in Vietnam. Also, as noted above, quotas to the U.S. market are often held and then sold in the secondary market for a much higher price. This official of AmCham predicts that many of the contractors will choose to locate their factories in other countries due to corruption in Vietnam. He also predicts that production will shift in 2005, as Vietnam is not a member of the WTO. In order for firms to take advantage of the no-quota system available to facilities based in WTO member countries, they may shift production to those countries and away from Vietnam. Lastly, this individual expressed that AmCham has tried many times to advise the Vietnamese to do business fairly so that they may benefit in the long-run, but with no avail.

On the other hand, an official at the U.S. Consulate said that the Vietnamese were efficient users of quotas, even though there are complaints of transparency. This official spoke of a benefit of the Vietnamese apparel and textile industry compared to that of China. In Vietnam, the apparel and textile factories do not provide housing as they do in China. One reason for this is that Vietnam has such abundant populations near many of the factories. The absence of provided housing reduces production costs and alleviates
some of the negative media associated with living conditions at these apparel and textile factories in China. An official at the U.S. Embassy expressed that the most important factors for good apparel and textile factories are quality, cost, and speed, all factors that the Vietnamese have. This official said that because of these positive factors Vietnam is a good alternative to China, and they have a comparable level of output.

An official in the Vietnam Ministry of Trade spoke about issues concerning the Vietnamese apparel and textile industry and American firms at an AmCham luncheon in Hanoi. He stated that he “wants to deal with the textile issue in a fair manner.” He spoke of the 4.5% quota reduction that the U.S. imposed in 2004 due to the speculation that Vietnam was exporting foreign produced products. He was disappointed with the decision by the U.S. to cut the quotas without the consultation of Vietnam, and felt that this was against the terms of the BTA. But, as stated before, the terms of the U.S.–Vietnam Textile Agreement do allow the U.S. to cut quotas for these types of infractions. This official of Vietnam’s Ministry of Trade expressed concern that there was a need to make up for the loss. He spoke of the importance of further developing relations with the U.S. and hopes to further address issues on apparel and textiles and the lack of transparency in Vietnam.

Two officials of the Vietnam Textile and Apparel Association provided insight on the apparel and textile industry in Vietnam. Due to the large quantity of goods being sent to the U.S., they predict that the factories in Vietnam will face difficulties in 2005, without Vietnam’s accession into the WTO. One of the directors expressed concern that
even with WTO membership, Vietnam will have difficulties in competing with other countries due to three disadvantages (personal communication, 2004):

1. they are CMT, that is they cut, make, and trim the materials, but do not design the products;
2. they export their goods through brokers, rather than exporting directly to the importing country;
3. 70% of all accessories and raw materials used in the industry are imported from elsewhere into Vietnam.

The accessories come from China, South Korea, and Taiwan, and 37% of cotton is imported from the U.S. On the other hand, China has advantages: China has a competitive advantage in geography with its many ports. They make 90% of their raw materials and accessories, compared with Vietnam’s above-mentioned 30%. With the expiry of the ATC, China’s membership in the WTO is a major advantage in comparison with Vietnam. For example, the tariff for blue jeans has been reduced to 50%, and will decrease by another 30% in 2005. Vietnam cannot compete with China in terms of pricing, and China has far more customers. Other competitors to Vietnam’s apparel and textile industry include India, Sri Lanka, and Bangladesh. The coexistence of these two opposing views of the future of the apparel and textile industry in Vietnam reveals a great degree of uncertainty surrounding the expiry of the Agreement on Textiles and Clothing.

While there is uncertainty, the fact remains that Vietnam has been successful in the development of its apparel and textile industry. It has overcome many obstacles and
continues to face many more, but has had continued success since trade relations have been normalized with the U.S.
Chapter 7. Conclusion

The globalization of the apparel and textile industry has shifted production to developing countries in recent years, including Vietnam. The apparel and textile industry in Vietnam has been dynamic and extremely successful over the course of the last fifteen years. As the Vietnamese economy has experienced both great bounds in terms of growth as well as many obstacles along the way, the apparel and textile industry has played an important role in the development of the country’s economy. U.S.–Vietnam trade has increased dramatically since the signing of the Bilateral Trade Agreement in 2000 and the normalization of trade relations between the two countries. The majority of U.S. apparel and textile investment in Vietnam is in the form of contract relationships with East Asian factory owners in Vietnam. About 70% of all apparel and textile goods that are manufactured in Vietnam are now exported to the U.S. market.

Vietnam continues to faces obstacles to the continued growth of its apparel and textile industry and must continue to make itself attractive to foreign buyers. Nadvi and Thoburn (2003) point out four challenges of Vietnam's apparel and textile industry. These include the phase out of the Agreement on Textiles and Clothing (ATC), competition from China, pressures to meet international labor and environmental standards, and the demands from global buyers for cheaper products, higher quality, and shorter lead times.

With the recent expiry of the ATC, the fact that Vietnam is not yet a member of the World Trade Organization (WTO) is a pressing concern of Vietnam producers, foreign subcontractors, and foreign buyers. Without WTO membership, U.S. imports from
Vietnam still face the quota system. The U.S. currently has quota agreements with only two countries, Vietnam and Belarus.

With the expiry of the ATC, China has become even more competitive in the trade of apparel and textiles. While a lot of emphasis has been given Chinese threats to its apparel and textile industry, Vietnam is not trying to compete with China; rather, Vietnam is seeking the No. 2 position in the industry. This effort at strategic positioning recognizes that foreign purchasers are unwilling to have China as their sole producer, and that those seeking to diversify their investments will retain a place for Vietnam. Vietnamese producers are emphasizing quality and timely delivery of goods in order to stay competitive in the market.

Another challenge Vietnam faces is a lack of raw material in the apparel and textile industry. Vietnam imports 80% of its cotton. With the U.S. being a large producer of cotton, Le Quoc An of the Vietnam Textile and Apparel Association provides a suggestion, "We want to attract more U.S. textile manufacturers...that can supply us fabric produced in the U.S. or they can bring facilities to Vietnam to make fabric in Vietnam and re-export clothing to the U.S. market" (Parker, 2005). This solution could be beneficial to both the U.S. and Vietnam. As the textile industry in the U.S. has suffered due to the rise of globalization, this suggestion could secure jobs in the U.S., while also providing jobs in Vietnam.

While Vietnam does face many challenges in the future of its apparel and textile industry, it does also have many advantages. As Vietnam has opened up to the world economy it has been successful in the growth of its apparel and textile industry.
Vietnam’s access to the South China Sea and other advantages of infrastructure and logistics have made and continue to make it an attractive option within Southeast Asia as a production site with the globalization of apparel and textile industries. Its location is also advantageous due to its access to the South China Sea. It is a politically stable country that offers many incentives for foreign investment, including the establishment of over 70 export processing zones and industrial zones throughout the country. Its largest city, Ho Chi Minh City, is known for its good foreign investment climate. Vietnam has a large and young labor force who are well educated and are recognized for a strong work ethic. The country also has low labor rates, which is always attractive for investors. While low labor rates remain an incentive for investment, the quality of work and lead times are even more attractive for foreign buyers.

Through my research, I have found that the American company managers were more optimistic about manufacturing apparel and textile goods in Vietnam than their Vietnamese counterparts. The Vietnamese apparel and textile industry will face some difficulties in 2005 without membership in the WTO, but hopefully its WTO accession will come shortly and the industry will again succeed. In the meantime, the apparel and textile industry should remain intact as companies remain interested in diversifying their production. Even with the large threat of China to the north, Vietnam is still a productive manufacturer of apparel and textiles. Its reputation of a highly productive labor force should help push the industry throughout the following years.
References


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Appendix

Made in Vietnam: American Apparel and Textile Firms’ Operations in Vietnam

Survey Questions

Dear Sir or Madam,

I am a graduate student in the Southeast Asian Studies Program at Ohio University. For my master’s thesis, I am conducting research on American firms’ operations in the apparel and textile industry in Vietnam. As part of my research, I’m conducting a survey of American firms that are operating in Vietnam. Your answers will not be used for anything other than my own academic research. In the written thesis, your company name will remain anonymous. Please consider the following questions as your answers will serve to be an important component to my research.

Thank you,

Marianne Semones

Company Operations in Vietnam:
1. Why did your parent company choose to invest in Vietnam versus other countries?
2. When did your company begin investing in Vietnam?
3. Does your company have a local partner(s) in Vietnam?
5. Where does your company sell the goods produced in Vietnam?
6. What are your company’s long-term plans in terms of its investment in Vietnam?

Global Networks:
7. When did your parent company begin investing overseas?
8. Which countries is your company invested in?
9. How big are your Vietnamese operations compared to other operations?
10. What advantages or disadvantages have your Vietnamese operations had compared to your company’s other overseas operations?
11. What are your company’s long-term plans in terms of investment and marketing?

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