

The Export Competitiveness of Vietnam's Garment and Textile Industry to the European Union

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Abstract <p>Vietnam, a country with an abundant amount of workforce for manufacturing sectors, as well as the complementary physical attributions, selected the Garment and Textile industry (G&T), more specifically, the exportations of garment and textile commodities, as one of the principle pillars for economic growth. The European Union, the region with an incredible market size and the highest GDP per capita in the world, is one of the most important trade partners for the G&T industry of Vietnam. This study aimed to examine the overall Garment and Textile industry of Vietnam and to evaluate the export competitiveness of garment and textile goods from Vietnam to the EU. Porter's Diamond model was chosen as the theoretical framework for this research. The performance of the industry was evaluated based on the four aspects with two external influences of the model.</p> <p>An exploratory study was implemented with the complete usage of secondary data. The data were collected from credible sources such as governmental statistics, previous research, and reports from research institutions and organizations.</p> <p>The research showed that Vietnam is competitive in garment and textile exportation to the EU. However, the country lacked knowledge resources, modern infrastructure and facilities, while the level of the workforce was rather low and Vietnam mostly produced goods with low added value. Moreover, there were growing rivalries against potential countries like Cambodia, Bangladesh, and Pakistan. The Government of Vietnam concentrated efforts to enhance the overall competitiveness of the industry.</p> <p>This study provides relevant insight into the garment and textile industry of Vietnam and its export competitiveness, particularly to the EU. Later studies should stay focused on the data and produce more comparisons with other countries. The limitation of the study was the lack of professional opinions about the subject as the study was conducted entirely with secondary data, with minor discrepancies in reports from different organizations.</p>		
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1 Introduction

1.1 Research Background

Nowadays, there have been incredible shifts in the trend of globalization in the world's economy. These shifts are closely tied with the growth of the economy of a nation and the performance of their industries. At the same time, as the economy is on its robust growths, it is also an incentive to the rise of consumerism thanks to the increases in worldwide' average salary and the improvement of people's living standards. Combining with the widespread implementations of digitalization that enables the introduction of eCommerce, the trend concerning consumerism is more prevalent than ever. The retail and consumer goods sector is the industry that expected to be the most influenced by this trend, with the total sales of 22.97 trillion USD and expected to hit 29.76 trillion USD in 2023 (Lipsman 2019). In the non-food segment in 2019, apparel, the direct result of the Garment & Textile industry, was the biggest commodity group in the segment. The apparel market is further on divided into six sub-categories: Woman & Girl's Apparel, Men's & Boy's Apparel; Sport & Swimwear, Underwear, Hosiery along with Clothing Accessories & Other Clothes. Thanks to the increasing integration of the market globalization, the total spending for apparel and clothing is rising rapidly, faster than the rise from industrialized countries. It was estimated that, as of 2018, a majority of world's spending on Garment & Textile product has been taking place in the developing markets. This trend urges apparel companies to diversify the operations and supplies globally, in order to react timely to the promising needs of the emerging markets. As a way to minimize rising operation costs due to the expansion of business, a shift in production location has been occurring. China is known to be the world's biggest manufacturer of G&T textile products, accounted for 36,7% of total world's clothing exports. However, the average salary of G&T workers is rising as a consequences of the development of China's economy, complemented by the complicated Trade situation between China and the United States, the industry is looking for new places for production, especially in Asia (Statista 2019, 13-14). Some of the newly identified promising locations are Bangladesh, Sri Lanka,

Cambodia, Laos, and the main market of this study-Vietnam (Eurostat 2017, 106-107).

Vietnam is a country located in South East Asia, bordering China to the North, Cambodia and Laos to the West and the South China Sea to the East. Vietnam is regarded to have a “golden population structure” since the majority of the national population is still in the working age. This phenomenon provides Vietnam with an abundant and available work force, especially for the textile and garment production industry of Vietnam. The country is also a member of the World Trade Organization (WTO) as well as important Free Trade Agreement (FTA) to some of the major markets of the world, such as South Korea, Japan, China, European Union, Australia. At the same time, since the abruption of trade tensions between China and the United States, Vietnam has been welcoming an increasing inflow of Foreign Direct Investments (FDI) for the Garment & Textile industry. These conditions create a very strong foundation for the overall development of the Garment and Textile industry of Vietnam. Realizing the potentials for growth, the Government of Vietnam has identified the G&T industry to be one of the main focuses of the country to achieve a sustainable economic growth with the orientation until 2030 (Nguyen and Kieu 2019, 5).

Meanwhile, the European Market is one of the most important trade partners for garment & textile commodity exports of Vietnam. In 2018, the turnover of exported G&T commodity from Vietnam to European Union was 15% of total G&T revenues of Vietnam. European Union was the 2nd biggest, after the USA. Significantly, European Union-Vietnam Free Trade Agreement (EVFTA) has been ratified and is expected to come into full power in July, 2020, allowing the imported products from Vietnam, including products from G&T industry, when fulfil certain requirements from EU, will be objected to no import taxes. At the same time, thanks to the FTA, G&T modern machinery is also one tax-free category from EU to Vietnam, enabling the country to have better exposure to modern technology, enhancing the overall level of productivity for the industry of Vietnam (WTO and Trade Center of Vietnam 2017).

1.2 Research Objectives

The goal of this study is to gain a comprehensive insight into the general situation of Vietnam's Garment and Textile industry as well as the stages of growth of the industry throughout the years. Michael Porter's Diamond Model with four dimensions with government and chance, will be applied as a theoretical framework of the studies, to identify the influencing factors, both externally and internally, to the export competitiveness of the Vietnam's G&T commodities to the European, one of the biggest markets by GDP in the world. At the same time, the author will summarize the results, to propose a number of possible measurements to enhance the level of export competitiveness of G&T products from Vietnam importing to the European Union.

The results, as well as the personal reflections which were combined through the findings of the study from the author, are expected to benefit the parties, including international and domestic firms, as well as countries' officials who expressed interest in the Garment & Textile industry of Vietnam. This paper, at the same time, can be a reliable supporting material for further researches.

The main objectives of the study are:

- i. To achieve a thorough understanding of the Garment & Textile Industry of Vietnam.
- ii. To assess the export competitiveness level of G&T commodity of Vietnam to Europe, especially in the light of the newly approved EVFTA.
- iii. To identify the opportunities as well as the challenges of Vietnamese's G&T exporting to Europe

To accomplish the aforementioned objectives, the study is sought to answer these questions:

- i. What is the situation of the G&T industry in Vietnam?
- ii. What is the export competitiveness of the Garment & Textile commodities from Vietnam to the European Union?

In order to answer the research questions, an exploratory research will be implanted in this study. An exploratory research is very effective when the researcher wants to seek new information from new perspectives, as well as to gain comprehensive understanding of the problem. It also allows the researcher to have more flexibility and adaptability as a response to new insights that are gained during the research process (Saunders et al. 139-140).

Secondary data obtained from various reliable sources will be used carefully to achieve the goals of the study. The data were collected through official articles, previous researches, books, governmental magazines and various Vietnamese governmental websites. Thus, Michael Porter's Diamond Model will be used as a tool to evaluate the export competitiveness of Vietnam's G&T exports to the European Union

1.3 Structure of the Thesis

There are in total six chapters in this thesis: Introduction, Literature Review, Overview of Vietnam's Garment and Textile Exports to the European Union, Methodology, followed by Results and Discussion. The first chapter illustrates the research background, the objectives the author wished to achieve through the study as well as the research questions with the structure of the research. Next, the literature review chapter clarified a few definitions that closely related to the study such as competition, competitiveness, export competitiveness along with the theoretical framework which were chosen to help navigating the study: Porter's Model of Competitiveness. Overview of Vietnam's Garment and Textile Exports to the European Union is the third chapter with the aim to provide readers with foundation information of the overall trade performance of Vietnam and particularly in the Garment and Textile sector of the country. This chapter will provide readers with a general view of the European Union's Garment & Textile market as well as the situation of Vietnam's Garment and Textile Exports to EU. The fourth chapter of the study, Methodology, clarifies the purpose of the research, research design and approach, the obtainment of

relevant data and its analysis. Then, the Results chapter presents the findings of the author from the collected data using the Diamond Model as the theoretical framework. In the next chapter, the results will be discussed, with possible recommendation for future research with the limitation that happened during the study.

2 Literature Review

2.1 Competition

Competition is a very commonly used word. According to Demsetz (1981), the classical usage of the word is believed to be the analysis of economic, legal and political dimensions (Listra 2015, 4). In academia, various attempts have been made to clarify the term. Stigler (1988, 531 - 536) stated that competitions usually are rival relationships between different parties (individuals, groups or nations), to achieve the benefits which are not mutual for all participants. The benefits from these rivalries, according to Karl Marx, would be the favorable conditions in the processes of production, trading and consumption of goods, in turn boost the benefits to its maximum capacity (Vietnamese Ministry of Education and Training 2004, 48). Competition is also about gaining influence through having the increasing market share, in order to maximize the profit (Porter 1998, 197).

Listra (2015) believed that the most important and defining characteristics of the objectives of competitions are: (1) the factors which are essential to competition (price, quantity, quality etc.); (2) the predefined degree of achievement; and (3) the objectives-driven competitive process.

Analysis of competition and competitiveness can be conducted using an unified framework which consists of six dimensions: “defining criteria of focal units of competition, the objectives of competition, internal and external determinants of competitiveness, configuration of relationships influencing the competitive process,

combination of static and dynamic elements in the field of competition, and the purpose of modeling.” (ibid.)

2.2 Competitiveness

The term “competitiveness” is one of the most generally used concepts in the field of economics but until now, there is no exact description of the term (Siudek & Zawajska 2014, 91). In Economic terms, there have long been debates between scholars and professionals about the correct and precise definition about the term “Competitiveness”. Different people have their own approach to conduct researches, that leads to the variations in explanation of the term. Competitiveness can be viewed as the ability of a country to stay up to date with in global competition, while simultaneously enhancing its national economics and creating an attractive business atmosphere for local firms through: high saving and lower interest rates for investments, a well-established framework of property rights and governance, a workforce driven by technology and stable inflation (Vietor 2007, 1). It can be perceived as a relatively vast topic as different authors, researchers and readers have their own interpretations about the term. At the same time, each field have different criteria for elevating its attractiveness and competitiveness so coming up with a standard and suitable definition for “competitiveness” is considered to be a complication.

Perhaps the most well-known and largely-used implications of competitiveness in Economics context is “the set of institutions, policies and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity the country can earn” (World Economic Forum 2015). Michael Porter (1990, 76) reassured the definition by stating “the only meaningful concept of competitiveness at the national level is productivity”. According to Raczkowski & Schneider (2013, 272), Flejterski (2013) described competitiveness as “the capacity of the sector, industry or branch to design and sell its goods at prices, quality and other features that are more attractive than the parallel characteristics of the good offered by the competitors”. Competitiveness was proven to be a simple reference to the capacity of a country (or firms, company...) in production of certain kinds of goods or services that well-

served and attractive to the needs of the markets with reasonable prices and generate a good amount of revenues through the act of selling through trades or exports (Altomonte et al. 2012). The goods must be redundant in the country or the productions are considered to be cheaper than other regions to be seen as competitiveness. The share of the markets for the products is also a major determinant in the measurement of competitiveness (Porter et al. 2008).

According to Yap (2004, 1), there has been a precise definition of competitiveness at the firm level. Buckley et al. (1988) explained firm-level competitiveness as its ability to deliver goods and services with high quality and relatively cheaper costs than its domestic and international competitors. Competitiveness is also correlated with the profitability of a firm and its ability to give monetary returns to its employees and owners. The competitiveness of firms is at the same time, more concrete, when firms have good share in the global trade marketplace where goods, both tangible and intangible, can move freely regardless of geographical boundaries (Wang and Hsu 2010, 571).

Despite the vagueness and amorphousness when it comes to explain national-level competitiveness, following the agile pace of globalization, former President Bill Clinton stated that each nation is "like a big corporation competing in the global marketplace". This can be understood as countries are in competition for shares and positions in the global market to gain sustained economic growth. (Yap 2004, 2).

Competitiveness has been mentioned frequently when measuring the prosperity and the position of the country in the global market despite of its ambiguous and unclear definition. The country is more respectable in the world market when it has free and fair market conditions, producing goods that serve the needs of the global market and resulted in good flows of revenue, while sustaining and elevating the average living standards and income for its citizen in a certain period of time (Barker & Kohler 1998). The European Commission (2001) shared the same idea about national competitiveness, emphasizing the importance of living standards in the assessment of national competitiveness. It can also express through the sustainable growth in GDP per capita shown in statistics (World Economic Forum 2012). The high and

strong position of the country in the marketplace is also one of the elements concerning competitiveness (Ambastha & Momaya 2004, 56-57). This comes in compliance with Porter's point of view: "The most intuitive definition of competitiveness is the country's share of the world markets for its products. This makes competitiveness a zero-sum game, because no country's gain comes at the expense of others" (Porter et al. 2008).

However, economist Paul Krugman (1994, 28-44) did not share the same points of view, publicly criticized the concept as "a dangerous obsession" as there are more element contributing to the growth of a country and overly-obsessed with that can bring about catastrophic consequences for an economy. He saw the concept as:

"If competitiveness has any meaning, it is simply just another way to express productivity. The ability of a country to improve its living standards depends almost entirely on its ability to raise its productivity. Competitiveness is meaningless word when applied to national economies" (Porter 1990, 20).

In overall, despite conflicts arises from different ideas and opinions on the definition of the term "competitiveness", it remains one of the most publicly used concepts when measuring the prosperity of economics of a certain country.

2.3 Export Competitiveness

Exports happen when a certain industry from a country, through the course of development, achieves the production capacity in terms of product quantity and product quality, which in the end result in a production surplus, allows the country to transport their production to be used by external markets when competitiveness conditions are met (Abdmoulah & Laabas 2010, 6).

As defined by The World Bank, export competitiveness is one important metric used by policy makers and business leaders around the world to determine the value of

their exports. International trade in the recent years has been becoming the key factor that contribute to the performance of a country in the global market (Gonul & Yusuf 2016).

Export competitiveness happens when country acquires a substantial amount of market share in the global market and is dependent on the competitive advantage of the domestic firms (Nguyen and Kieu 2019). The competitiveness of a country within a certain industry is partly related to the domestic firm operate within the industry, and in turn, the competitiveness of the firms in the global market is relevant once the country possesses a good level of national competitiveness. Combined with responsive institutions, and positive competitive internal business environment that provide a relative degree of transparency and fairness, the firms will be able to improve their competency, creating better values, to have better chance in competing with other economies in the international market (Christian 2010). The competitiveness can be ensured once the firm can offer quality goods that are responsive to the trend of the market with competitive prices, react quickly to external and internal demands and skills in order to achieve successful product segmentation (Gebrewahid 2015). This process can be done through continuous completion of the innovative capacity and suitable exploitation of the marketing outlets (ibid.) or the development of relevant structure of supply chain, production, financial system, information systems, institutions and business networks (Cheng 2010).

The development of export plays a major role in the country's economy by creating an endless loop of investments, innovation and poverty reduction (UNCTAD 2008, 1). Export competitiveness will create a long-lasting positive effect in the security of the country's viability and sustainability (Whan-Kan 2015).

2.4 Michael Porter's Diamond Model of Competitiveness as a Theoretical Framework.

To access and evaluate the competitiveness and comparative advantages of a country, the Diamond Model by Porter should be the most suitable tool. The diamond is a

foundation for analyzing different characteristics looking at various points of view regarding to the level of microeconomic competitiveness of nations or territories and understanding how they connected to one another (Harvard Business School).

The Diamond Model, created and made public by Michael Porter in 1990 also known as the Porter Diamond Theory of National Advantage, was a tool to furthermore support his theory of competitiveness. The model addressed microeconomic competitiveness in a macroeconomic view (Balcarová 2013, 6). As Smit (2010, 106) explained, the factor “rivalry” is why the model becomes significantly relevant in the world of business nowadays. The aim of the work is to identify the attributes of the national economy, which drive the development of firms, industries or segments (Konsolas 1999, 15).

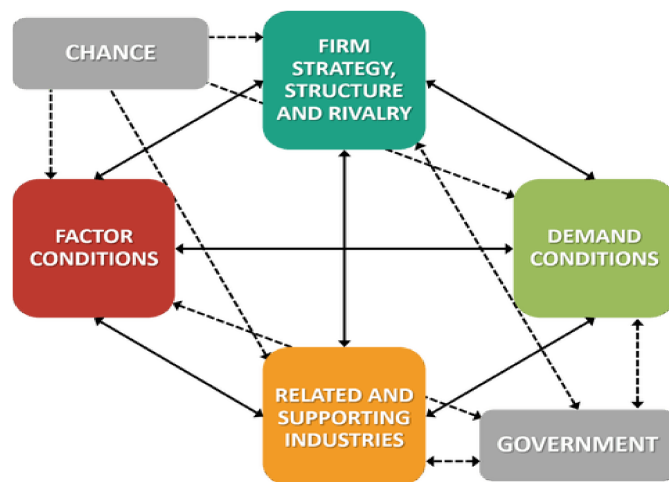


Figure 1. The Diamond Model of Competitiveness (Porter 1998, 127)

As stated by Michael Porter in his book “The Competitive Advantage of Nation”, there are four internal dimensions that lead the competitive advantage of a nation, which are: *factor conditions; demand conditions; firm strategy, structure and rivalry; and related supporting industries*. These dimensions interchangeably affect each other, at the same time, are influenced by two external dimensions: *chance; and government*.

2.4.1 Factor Conditions

According to Porter (1990), each nation, through their means, develops or obtains a set of factors of production (also known as factor conditions). The factors contribute greatly to the success of the firms of a country and represent firms' competencies to compete in the industry (Bakan & Dogan 2012, 3). Although the original theories of trade classify land, labor and capital (human capital is included), Porter (1990) expanded the theories and defined the following categories in the scope of factor conditions: human resources; physical resources; knowledge resources; capital resources; and infrastructure (Smit 2010). Thus, the categories can be split into two smaller subcategories: basic/primary/ factor which consists of unskilled labor, raw materials, climate conditions, and water resources, available minerals that are generally inherited and require little to no investments to be exploited for commercial uses. Moreover, advanced factors that call for further investments and innovative process such as modern technology; well-established infrastructure; and highly skillful workforce for specialization as the factors would be the foundation of a sustainable competitive advantage of the country according to Porter (ibid., Jhamb 2010).

Human resource: is the instantaneous of the labor force (the management layer is included), as well as the cost of labor while upholding the standards of working hours and ethnics. Different subcategories can be broken down regarding the specialization of the workforce such as toolmakers, designers, programmers, etc. (Porter 1998, 74)

Physical resources: is referred to the profusion, quality, approachability and the value of the nation's resources. The resources can be ranging from water supply, land & soil, electricity, etc. to climatic conditions given that some countries can be located in more geographically favorable area than others along with the size of the country (Porter 2011, 81).

Knowledge resources: is the accumulation of a country's knowledge in technology, science, market knowledge that is crucial to goods and services (ibid.). Frequently in

the form of investments to Research & Development (R&D), the knowledge resources benefits will create long-term utilization values, exceeding the expenditures of the investments (Omerzel & Gulev 2011).

Capital resources: deals with the abundance and the cost of financing the industry through the availability of the capital. Capital exists in different forms. Judging from the terms and conditions accompanying each form, capital be secured debt, unsecured debt, bonds, equity and venture capital. As different country has different terms concerning interest rate, rate of savings and the structure of the national capital markets although. However, the national conditions are more balanced thanks to the globalization of financial markets besides the constant flows of large capital between nations (Porter 2011, 82).

Infrastructure: includes transportation system, housing availability, communication systems, postal-related services, methods of payments, cultural sites, etc. The level, cost and the advancement of the infrastructure is strictly relevant to people's well-being, elevating the attractiveness of the destination to reside (ibid.).

The determinants in the factor conditions are believed to be crucial inputs to the production process. Nevertheless, every country has different range of factors, so the competitive advantages are varied across different countries and industries (Nguyen and Kieu 2019).

2.4.2 Demand Conditions

Demand conditions is the second broad determinant of competitive advantage and usually associated with the nature of the home market for the industry products or services (Porter 1990; Jin and Moon 2006). The hypothesis was initially coined by Linder (1961) in the context of intra-industry trade, explaining that the purchasing pattern would be comparable between countries given that the case countries share similar incomes per capita and would eventually create parallel demand structures, boosting intra-industry trade (Smith 2015, 116).

On the other hand, Porter (1990) acknowledged the importance of the sophistication of the home-country buyers, alongside the scale of the home demand. Together, they play an important role in how domestic firms act, understand and response to home buyers' demands (Smit 2015, 116). As a result, to meet the demand from the more matured and complicated consumers, the rate and characteristics of innovation as well as further improvements will be encouraged (Porter 2011, 90). The home demand can be further distributed to three large features: the composition of home demand; the scale of home demand and the sequence of growth; and the process of globalization of the domestic demand.

The composition of home demand, through the variation and features of homebuyers needs, is believed by Porter to be the most influential aspects of home demand to the competitive advantage, as it direct frames outlooks, outlooks, actions of firms to response accordingly to the buyers need. Home demand composition consists of three determinants, which are *Demand's Section Structure, Sophisticated and Demanding Buyers, and the Anticipation of Buyer Needs* (Porter 1998, 90-94).

The scale of home demand and the sequence of growth is expressed through five dimensions, which are *Size of Home Demand, Number of Independent Buyers, Rate of Growth of Home Demand; Early Home Demand and Early Saturation*. The maturity alongside the comprehensiveness of the home buyers it believed to be the main drivers behind the scale of demand and growth pattern of the market, pushing the enhancement of the national advantage of the industry (Porter 2011, 95-98). At the same time, fulfilling the demand of domestic buyers provide the company with an overall picture of the demand from prospective buyers in the future, coercing faster innovation and development to achieve more potential market shares than their competitors (Porter 1990). According to Porter (1990), there has been disagreements among scholars regarding the importance of the size of the home market. There are authors who believe in the economies of scale would give nations with larger market advantageous characteristics, while others argue that the size would be a disadvantage as exports would be more likely to be the main action for the country when the country comes across a sacred in the domestic demands, eventually would bring

about more benefits because export is crucial for the competitive advantage in the global market (Porter 2011, 95).

Globalization of domestic demands refers to the process of internationalizing domestic demands and pulling the products and/or services of the country to the global market. The aspect can be depicted in two ways: Mobile and International Local Buyer happens when the local buyer moves intensively around the world or when the local buyer is at the local subsidiary of an international firm, which eventually would create good opportunities for foreign market entry thanks to consistency in inputs, established means of communication and the reduced level of risks; or Impacts on Foreign Needs when the local approaches and values leave good impressions on the visitors, persuade them to carry the values to their home country, give rise to demand in the foreign market (Porter 1998, 98-99).

2.4.3 Firm Strategy, Structure and Rivalry

According to Porter (1990), the overall context and current national state of affairs largely influence the formation, systemization, management of the companies, and at the same time, dictate the complexity of domestic rivalry of the industries. Under such circumstances, if any industrial sector is showing positive results operating in the domestic market, a small leverage is required for the sector to make it qualified to compete at an international market (Tasevska, 2006). In other words, the level of competitiveness of an industrial sector is largely under the influences of the domestic competitions of the sector (Barragan 2005, 6). Rivalry is so important that Porter (1990) defined it as the most essential aspects of the country's firm. The firms compete in the international market; however, it is the national situation in which the enterprises are operating, the competitiveness of the nation is for the most part, outline how firms perform, affect their strategies and their structures (Nguyen and Kieu 2019).

Companies and individuals in different countries have different goals that are highly reflective of the national capital markets and methods of management within the country. Success of the companies are easier to be noticed in the countries where

there are well-fitted managerial and organizational practices to the origin of competitive advantage in the industry. Take Germany as an example. Germany has long been well-known for their highly precise and functional technical or engineering-oriented industries: automobile, optics, chemicals, where complex demands must meet with accurate manufacturing, a meticulous research & development process, after-care services and most importantly, a management practice that pays high emphasis to discipline and accuracy (Porter 1990).

2.4.4 Related and Supporting Industry

This fourth determinant is concerning with the presence of internationally competitive supplier industry or related industry in the nation (Porter 1998, 100). The introduction of this determinant has been regarded by one of the major endowments of Diamond Model (Teece 1996). It is crucial for an industry to be surrounded with efficient supply chain networks and accessibility to low-cost materials (Barragan 2005, 6) as well as qualified, world class suppliers. Consequently, the industry would receive valuable benefits in term of innovation, advanced technology, consistent stream of information alongside shared knowledge through the formation of alliance, generate value for the downstream industry (Chobanyan and Leigh 2006; Mehrizi and Pakneiat 2008; Uddin and Bose 2013). In that case, best inputs would be received in practical, early, fast, and even in privileged manner (Porter 1990).

As proposed by Porter (1990), the biggest advantage of having home-based related and supporting industry clusters is not the early approach to machinery and components, but rather more significant in the phase of innovation and upgrading, a relationship which is established from a history of close collaboration. Moreover, the company can get access to the external business of their partner clusters, more specifically in terms of high-quality providers, institutions and the results that stem from the domestic rivalry, which is regarded by Porter (2000, 2003) to be the origin of competitive advantage. At the same time, being close in location with localized clusters give the firm the lead in identifying market trends, and consequently, reply more effectively through rapid and punctual innovations (Singh et al. 2009; Stevenson and Fredendall 2013).

The “Japan Auto Cluster Map” (Putra et al. 2016) below show the involvement of specialized and interconnected clusters of the highly appreciated Japanese Auto Industry. The industry is distinguished itself by the utilization of the so-called “keiretsu” relationship between advanced local suppliers and original equipment manufacturers (OEMs), alongside high-quality raw materials and the matured industries of steel, heavy machinery, chemicals, and electronics (Putra et. All 2016, 16).

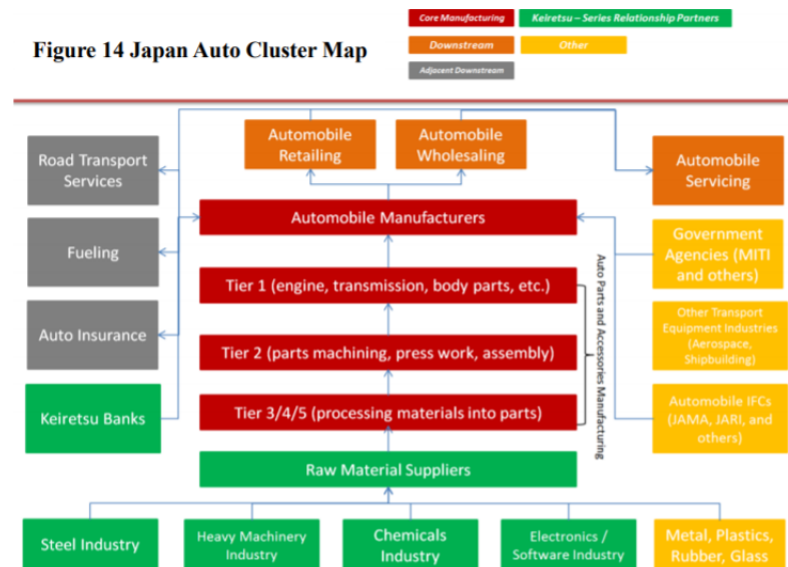


Figure 2. Japan Auto Cluster Map (Putra et. All 2016, 16)

2.4.5 The Role of Government

Government is introduced by Porter (1990) to be one of the determinants of competitiveness. It contributes a great deal to the wholeness of the diamond model (Tuna 2006). Porter (1990) said the dimension acts as a complement to the main four factors, pushing the companies to enhance their competitiveness. Policies and regulations issued by the government can principally impact the context of demand and factor conditions, alongside with related and supporting industry, eventually affect the strategies of the firms, either positively or negatively (Tasevska 2006, 13). Moreover, governmental institutions can help attract inward investments, building collaborations between nations with domestic labor cost (Stevenson and Fredendall, 2013). In turn, the government cause bad impacts by issuing policies to protect the

domestic firms against the foreign firms, which would eventually restrict efficiency and innovation (Barragan 2005, 7).

2.4.6 The Role of Chance

Chance also plays a part in shaping competitive advantage of the country. Chances happen irrespectively of the national circumstances and for the most part, outside the authority of firms to control. At a result, it can create imbalanced effects on different countries, whether supplementing the firms in the nations with favorable conditions to enhance competitive advantage to respond to the changing conditions; or dissolving the previously prevailing competitive advantage of the firms in other nation (Porter 1998, 118-119). As stated by Porter (1998, 118), noticeable examples of the role of chance can be:

- Absolute new inventions.
- Substantial disruptions in technology.
- Disconnectedness in costs of inputs
- Major shifts in capital markets and exchange rates.
- Sudden fluctuations in home-demand.
- External effects from foreign countries.
- Wars

3 Overview of Vietnam's Garment and Textile Exports to European Union

3.1 Overview of Vietnam's Exports Performance

Trade is one of the most major aspect concerning a country's economy. The influence on trade as an engine of economic growth can be traced back to 1947, when the General Agreement on Tariff and Trade (GATT) was published, as well as the creation of various trade liberalization. Eventually, the World Trade Organization (WTO)

was created 1995, as an effort to manage and facilitate the increasing number of bilateral trade agreements around the world. Since then, the world has been seeing an impressive improvement in living standards, average salary alongside the level of productivity in the countries that embraces trade liberalization and adopt a market-orientation economy, such as Japan, South Korea, China, Singapore, some of which were considered to be a war-torn country with limited potentials for industrialization and economic growth in the 1970s-1980s (Gujrati 2015, 453-460).

Realizing the importance of trade to the economy, Vietnam, after multiple efforts, became an official member of WTO in 2007. Vietnam is the northernmost nation located in South East Asia. Bordering China in the North, Laos and Cambodia in the West, and 3260km of coastline next to South China Sea in the East, which is regarded as the second busiest maritime trade route in the world. It was estimated 90% of the total goods of the world are traded through the sea, 45% of which must cross this sea area. Because of this characteristic, Vietnam is believed to have a number of physical advantages to be one of the exports-oriented nations in the world. Indeed, the Government of Vietnam is exploiting the advantage features, creating opportunities for domestic firms, to make Vietnam a strong, distinctive exporter in the world trade's ecosystem.

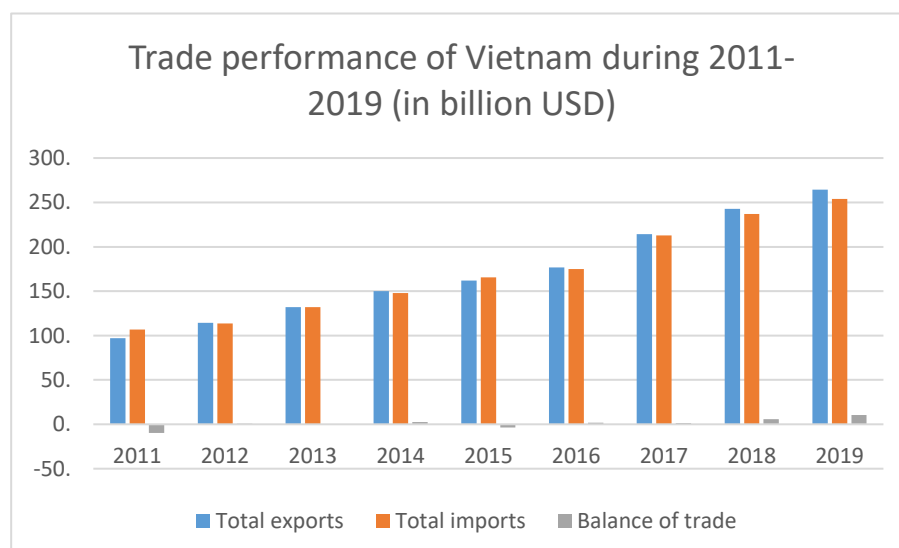


Figure 3. Trade performance of Vietnam during 2011-2019 (in billion US\$) (Vietnam Ministry of Industry and Trade 2019)

Vietnam's trade performance has been showing great improvements over the year. This phenomenon is most reflective during 2011 and 2018. The period between 2011-2018 saw tremendous growth in trade activity of Vietnam, in both imports and exports, which resulted in a trade surplus for four years in a row by the end of 2019. Exports increased by 2.51 times, from US\$96,91 billion to US\$243,48 billion in 2018. The number of exports destination that exceed US\$1 billion in total value upsurge from 24 to 31 in 2018 (in which, 4 markets achieved the export value of US\$ 10 billion and 7 markets of \$5 billion, according to the Ministry of Industry and Trade in 2019. As of 2018, Vietnam was ranked 22nd largest exporters of the world with approximately US\$245 billion in exports turnover, up by 35.7% compared to 2017.

Table 1. Total Exports Value of Vietnam during 2011-2018 in billion USD (Vietnam Ministry of Industry and Trade 2019)

	2011	2012	2013	2014	2015	2016	2017	2018	Average growth (%)
Asia	50,1	61,3	68,3	72,7	78,3	84,1	112,8	130,3	15,39
Europe	19,3	22,7	26,9	31,8	34,2	37,8	40,9	44,8	12,87
America	20,0	23,3	28,6	34,6	40,8	46,3	51,3	56,9	16,47
Pacific	2,8	3,5	3,8	4,3	3,2	3,2	3,7	4,5	-2,36
Africa	3,5	2,5	2,8	3,1	2,39	2,2	2,1	2,3	8,97

Exports is emphasized as one of the most importance aspects in the sustainable economic development plan of the Vietnamese Government. Indeed, Vietnamese firms is non-stop searching for new opportunities, new markets the create trade opportunity. Nowadays, it was estimated by the Vietnam's General Department of Custom that Vietnamese goods is in circulation in 200 countries in the world. Asia, Europe and America remain the biggest trade partners of Vietnam with 51%, 20% and 23% share of the total exports value of Vietnam, respectively.

Table 2. Major markets for Vietnam's exported goods between 2011-2018 (in billion US\$) (Vietnam Ministry of Industry and Trade 2019)

	2011	2012	2013	2014	2015	2016	2017	2018	Average growth (%)
USA	16,93	19,67	23,84	28,64	33,47	38,45	41,59	47,53	16,6
European Union	16,53	20,27	24,31	27,91	39,94	33,86	38,18	41,79	14,3
China	11,12	12,39	13,23	14,93	17,11	21,96	35,40	41,27	21,7
ASEAN	13,60	17,35	18,46	19,11	18,25	17,45	21,72	24,74	10,3
Japan	10,78	13,06	13,63	14,69	14,13	14,67	16,86	18,85	8,6
South Korea	4,72	5,58	6,62	7,14	8,92	11,41	14,82	18,20	21,5

At the moment, Vietnam is energetically looking for new markets, expanding the scope of export operations, alongside with constant activities in the traditional markets (China, South Korea, EU-28, etc.). Thus, the country is exploiting the competitive advantages it gained from the Free Trade Agreements (FTAs) with various economies in the world, as well as negotiating and ratifying more FTA for a sustainable development in the future. Furthermore, the Government of Vietnam is making efforts in simplification of procedures, creating a supportive atmosphere to encourage domestic firms to increase the productivity, pave the way for exports, as well as being an attractive environment for Foreign Direct Investments (FDI). As a result, Vietnam had a trade balance of US\$10,37 billion, the record-breaking high in 2019, approximately 15% increase compared to 2011, to achieve a trade surplus four years in a row.

Table 3. Vietnam's Free Trade Agreements (FTA) as of February 2020 (WTO Center, Vietnam Chamber of Commerce, and Industry 2020)

No.	FTA	Status	Partner(s)
1	AFTA	Active since 1993	ASEAN
2	ACFTA	Active since 2003	ASEAN, China
3	AKFTA	Active since 2007	ASEAN, South Korea
4	AJFTA	Active since 2008	ASEAN, Japan
5	VJEPA	Active since 2009	Vietnam, Japan
6	AIFTA	Active since 2010	ASEAN, India
7	AANZFTA	Active since 2010	ASEAN, Australia, New Zealand
8	VCFTA	Active since 2014	Vietnam, Chile
9	VKFTA	Active since 2015	Vietnam, South Korea
10	VN-EAEUFTA	Active since 2016	Vietnam, Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan
11	CPTPP (previously TPP)	Ratified in 2018, active in Vietnam since 2019	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia
12	AHKFTA	Active since 2019	ASEAN, Hongkong
13	EVFTA	Active in 7/2020 (estimation)	Vietnam, EU (28 members)
14	RCEP	Negotiation finished; active date unclear	ASEAN, China, South Korea, Japan, India, Australia, New Zealand
15	VN-EFTA FTA	Under negotiation	Vietnam, EFTA (Switzerland, Norway, Iceland, Liechtenstein)
16	VN-Israel FTA	Under negotiation	Vietnam, Israel

The majority of export products from Vietnam usually fall under three categories: agricultural products, fuel and mining products and manufacturers products. In terms

of turnover values, manufacturer commodities bring about the highest amount of monetary benefits to Vietnam. In 2018, manufacturers products were resulted in US\$202,85 billion in revenue for Vietnam, while agricultural alongside fuel and mining products were both considerably less significant with the respective value at US\$32,03 billion and US\$7,2 billion.

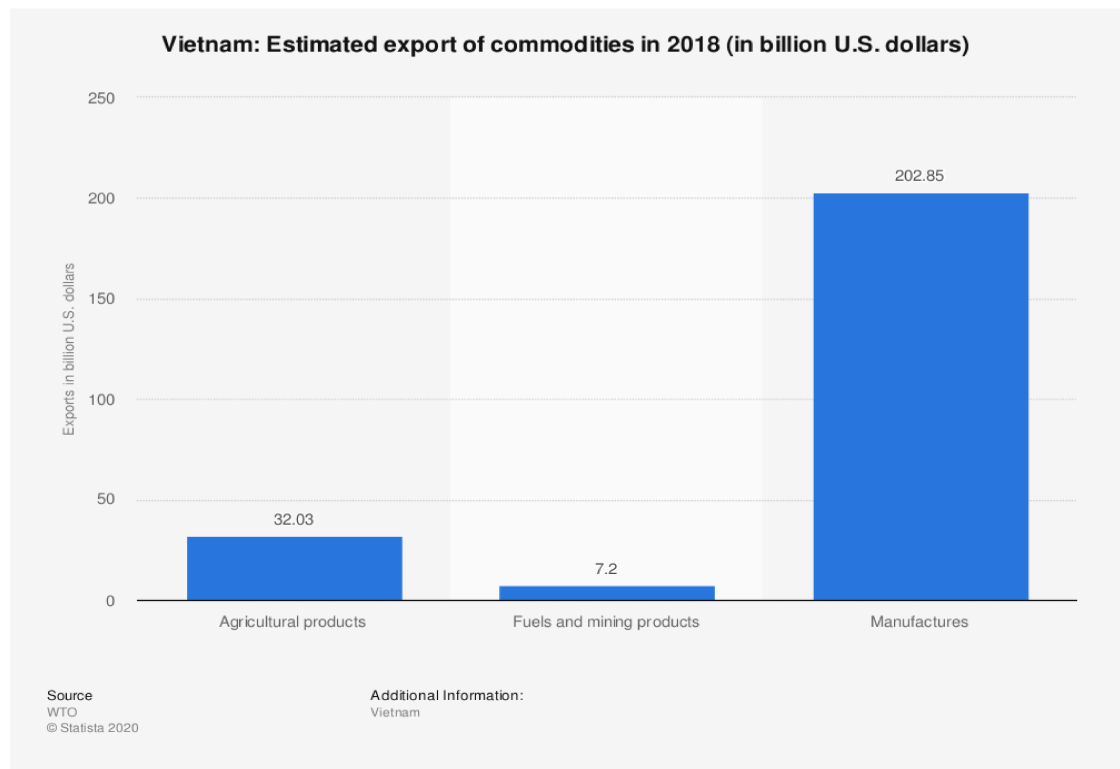


Figure 4. Estimated export of commodities in 2018 of Vietnam (in billion USD) (Statista and WTO, 2020)

The majority of exports from Vietnam in 2018 were manufactured goods with a value of US\$202,85 billion, followed by Agriculture with Fuel and Mining products, at US\$32,03 billion and US\$7,2 billion, respectively. According the Tran Tuan Anh, the Director of Vietnam's Ministry of Finance, exported commodities from Vietnam is becoming more relevant, earning respectable place in the global market nowadays: Garment & Textile, ranked 7th in the world with exported value of US\$ 33 billion; Footwear, ranked 3rd in production and 2nd in export with export value of US\$ 17 billion; Telephone and components with US\$50 billion in turnover rate and rank 2nd in world's export.



Figure 5. Five Commodities with Export Value of Over US\$10 billion of Vietnam in Q1, Q2, Q3/2019 of Vietnam (General Statistics Office 2019)

3.2 Vietnamese Garment & Textile Industry

Garment and Textile industry is one of the focuses that was mentioned in Directive 1137/QĐ-TTg – The Project for Enhancing the Competitiveness of Vietnam’s Exports by 2020 with the Orientation by 2030, which was approved by the Prime Minister of Vietnam and since August 3rd 2017, has officially come into force. Textile and Garment is classified as Manufacturers and is considered to be having great competitive advantage for exports. Initial development and production were as early as 1980s, but the Garment & Textile industry of Vietnam really became flourished only from 1998 as a direct byproduct of the sanction’s removal from the United States in 1994, made Vietnam a strong contender in the ecosystem of the world’s apparel industry, paved the way for the nation to establish bilateral relationships with countries in the

world. Fast forward to 2017, the G&T industry was inseparable to the development in Vietnam's economy, contribute the 2nd highest turnover for Vietnamese exports, create jobs for millions of people. It was estimated that, in 2017, 20% of the labor force in main industrial areas was working in G&T industry, accounted for 5% of Vietnam's total labor force.

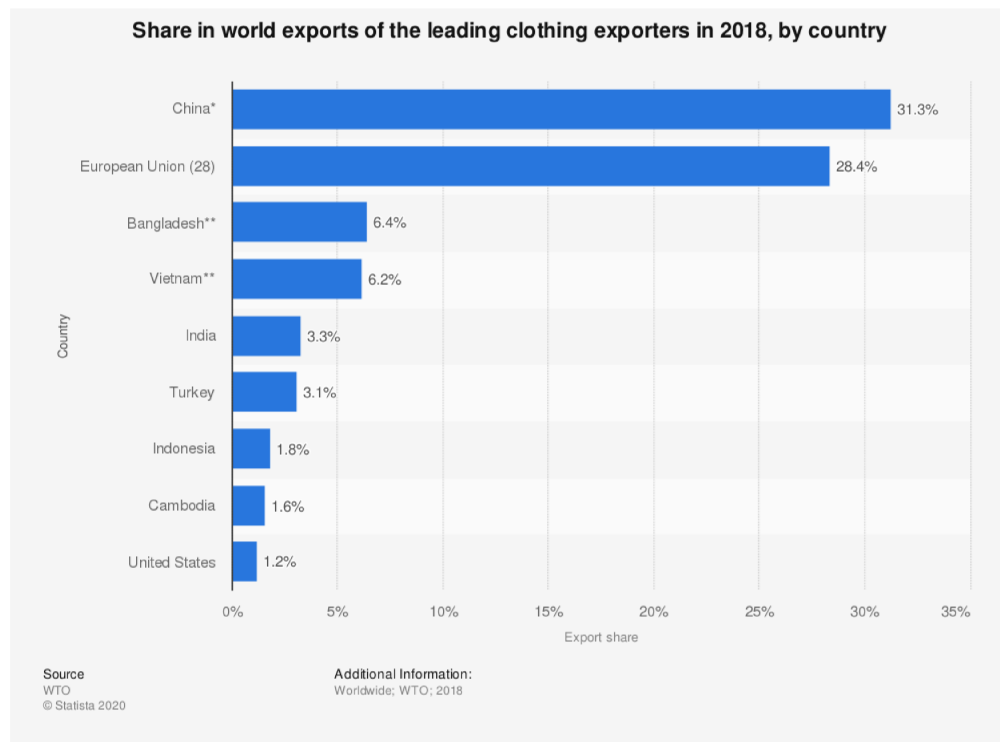


Figure 6. Top Textile & Clothing Exporters by Market Share in 2018 (Statista and WTO 2019, 120)

In 2018, Textile and Garment industry achieved a turnover of US\$36,16 billion, the 3rd highest export commodity of Vietnam. At the same time, approximately 6000 T&A companies employed more than 2.7 million working people across Vietnam, strengthening the significance of the industry on the economy. Thus, the industry was placed at 4th of the leading exporters of clothing with a total market share of 6,2% and end the year 2018 with a market value of US\$2,5 billion (Doan 2020). In the same year, total value for clothing & apparel exports was US\$ 28,78 billion, up 14,45%; non-weave fabric exports was US\$525 million, up 15,45%; exports of G&T accessories was US\$1,23 billion, up 14,59%. At the end of the fiscal year 2018, Vietnam recorded a trade surplus at US\$17,86 billion, a 14,39% increase compared to 2017 (Le and Do 2019)



Figure 7. Vietnam's Textile and Clothing Exports to World (2011-2018) (WTO Time Series n.d)

The total turnover for G&T textile of Vietnam is growing stably over these years. Specifically, in 2018, the value was at US\$36,16 billion, up 16% comparing. The increasing values were also recorded in 2015, 2016 and 2017 with the developing rate at 12,1%, 4,07% and 10,8% respectively for the years.

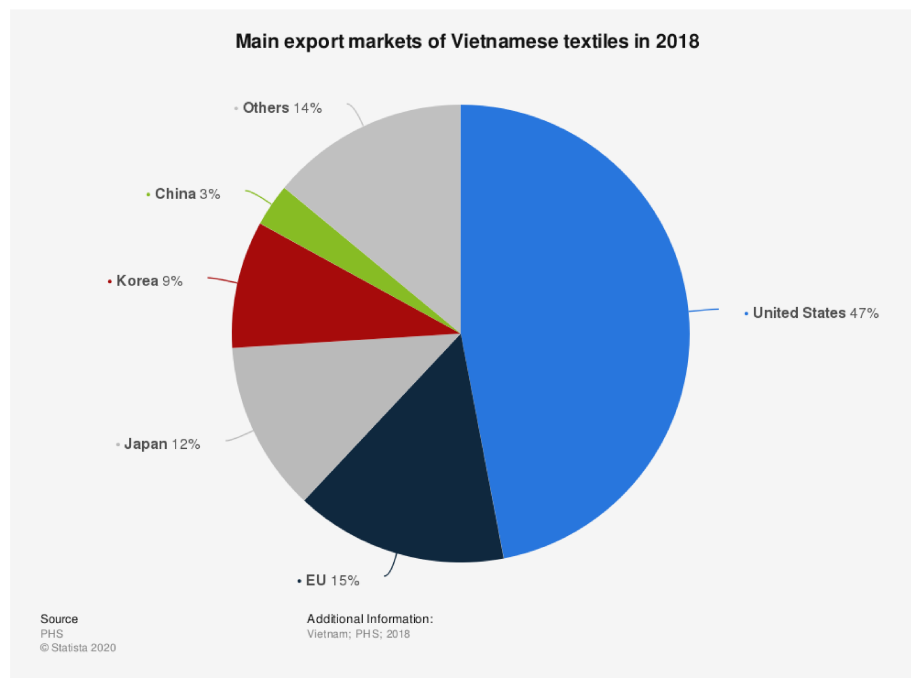


Figure 8. Main Export Market of Vietnamese Textile 2018 (Statista 2019)

In term of exporting markets for Vietnamese G&T commodities, the United States takes the lead with 47% of total G&T goods exported from Vietnam. The countries which are part of CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) are also important trade partners of Vietnam, most noticeably, Japan, the country which imported 12% of the total exported G&T commodity from Vietnam. Thus, European Union is another vital partner of Vietnam with 15% in 2018 (Le and Do 2019).

The majority of exported G&T products from Vietnam are from FDI (Foreign Direct Investment) firms, at 70% of total number of exported G&T goods in 2018. South Korea has 464 projects with a charter capital US\$4,781 billion. As stated by VITAS, other top investors are Taiwan at US\$ 3 billion, 132 projects; Hongkong at US\$2,395 billion, 147 projects; China at US\$2,116 billion, 197 projects and British Virgin Island at US\$1,607 billion with 70 projects. The FDI projects play a major role in enhancing the productivity of Vietnam's G&T industry through the modernization of machinery and technological advancements, expands the scope of operation for Vietnamese G&T industry, helps the industry participate more actively into the world's G&T value chain (Trung 2019).

Despite the appealing benefits FDI has brought about to Vietnam G&T industry, there are a number of threats that the industry in Vietnam as a consequence from the trend. As stated previously, 70% of G&T exports of Vietnam in 2018 were coming from firms with FDI capital. For the local firms, with their limited capital as well as the lack of international partnerships compared with FDI firms, is showing signs of deprivation, especially when there is a significant amount of FDI aimed at CMT (Cut-Make-Trim), the process which local companies in Vietnam is relying on for exportation. At the same time, foreign companies are buying shares of local firms, pushing the activity of merging & acquisitioning, minimizing the market share of local Vietnamese firms. Thus, with a sufficient amount of capital resources, the FDI tends to pay higher in wages than local firms, create intense competition in human resources for the industry in Vietnam (ibid.).

3.3 Vietnam's Garment and Textile Exports to European Union.

European Union (EU) is a political and economic union which consists of 27 (previously 28 before Brexit) member countries in Europe. EU has a combined population of approximately 500 million and contributes 22% to total world's GDP at US\$18292 billion in 2019. Currently, EU is the biggest importing market of garment & textile commodity with an average annual value at US\$250 billion, equivalent to 34% of world's G&T exports, and a yearly growth rate at 3%. Vietnam's market share EU is estimated at 2,7%. Thanks to EVFTA, Vietnam is standing in front of a very promising door to further expand its business in EU, the most significant market for G&T exports from Vietnam in terms of market size (Anh and Han 2020, 14-15).

While being the biggest market in the world for imported G&T articles, European Union is also world's 2nd exporter of G&T articles after China, accounted for a total of 24% of total world's G&T exports. Usually, some of the EU states import the commodity from producing countries like China, Vietnam, Bangladesh, and then, re-distribute the imported products for other EU members. As a result, 40% of total G&T goods mainly circulate internally inside the EU markets, while the remaining 60% coming from non-EU countries, mainly from the developing countries (ibid.).

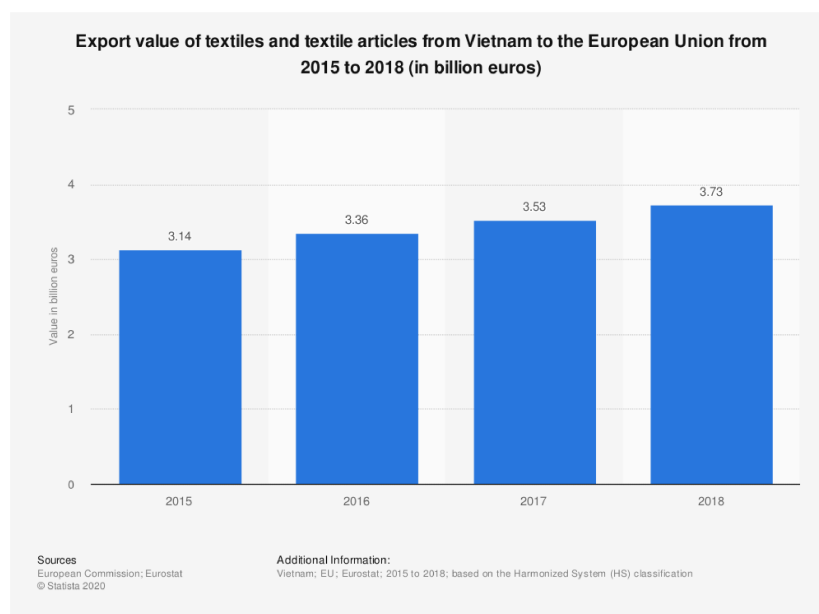


Figure 9. Export Value of Textiles and Textile Articles from Vietnam to the European Union 2015-2018 (European Commission 2019, 7; Statista 2019)

The volume of G&T commodity exports from Vietnam has been recorded an upward trend throughout the years, from €3,14 billion in 2015 to €3,73 billion in 2018, indicating that the articles coming from Vietnam is getting a stronger presence in the EU market. According to the Center for Promotion of Imports (2019), in 2018, Vietnam is the 6th largest non-EU clothing exporter to the EU with the anticipated 5-year growth rate 12,8%, the 3rd highest after Myanmar and Cambodia

Vietnam is facing a strong competition for EU's G&T market share. The biggest rivals of Vietnam include Bangladesh, Cambodia, Pakistan, the countries which are under tax exemption projects with EU. Although Vietnam is also a member of the Generalized Scheme of Preferences (GSP) along with Pakistan, Vietnam is only eligible for "Standard GSP", that means the G&T commodity going EU is required an import tax rate of 9,6% (Anh and Han 2020, 14-15)

The EVFTA (European Union Vietnam Free Trade Agreement) had officially been ratified on February 12, 2020 and expected to come in full power in July 2020. Through this FTA, the G&T industry of Vietnam is expecting to receive a major boost. With FTA, in the maximum period of seven years, G&T articles from Vietnam going to EU will be waved from taxes. According to a report from the Ministry of Industry and Trade of Vietnam, 77,3% total G&T exporting value would be exempted from tax in 5 years, while the remaining 22,7% will be fully removed in 7 years (ibid.)

Beside the positive tax policy, EU also imposes stronger regulations for the eligible articles for imports. Only the products made from raw material with origins in Vietnam, EU or the countries that share a FTA with EU will be improved for usage in the union. This is a great challenge for Vietnam as the country has to import the majority of raw materials for G&T productions. However, at the same time, this is an incentive to push Vietnam into developing its own domestic chain of production, from the obtainment of raw materials to production and finally, exportation. (ibid.)

4 Methodology

4.1 Research Purpose

It is very impractical to pursue a study without having clear distinction of a research purpose. It is the matter of conveying the reasons behind the conduct of the research, the final goal of the research: whether to clarify a hypothesis, forecast an event that might take place in the near future, or to propose solutions to a particular issue. The research purpose later will influence the type of study for implementation (Beckingham 1974).

As discussed by Saunders and partners (2009, 138), there are three principle research purposes: descriptive, exploratory, and explanatory. However, depending on the nature of the study, the research can choose to have multiple purpose, as well as adopting different purposes through the conduct of the study if enquired (Saunders et al. 2009, 139).

For this thesis, exploratory will be applied. In an exploratory research, related literature review, group discussions, or case studies would be examined. It is often used when a researcher wants to gain better insight to the problem and to understand the nature of the problem accurately (Saunders et.al 2009, 139). There are three main ways to conduct an exploratory research: by reviewing past related literature review, through case study or having group discussion, or by gathering responses from professionals (ibid. 140). This fits well to the objective of the study as the research is aimed to provide the author with more perspective into the phenomenon, which is the export competitiveness of Vietnamese's Garment and Textiles products to European Union.

In this study, the author wants to look at a phenomenon more carefully from a qualitative stand points, to judge the situation in the most comprehensive and fluid manner.

4.2 Research Design and Approach

Research design is the general framework that involves various aspects of the study that the researcher selects to implement in the coherent and logical way, to assure the assessment of the research problem effectively. It accounts for every stage in the research process to obtain relevant data: the strategy for data collection, data calculation and data analysis (De Vaus 2001, 8-15). It also dictates the type of data and the source from which relevant type of data is obtained (Saunders et al 2009, 136-137). A well-built research design makes sure the information acquired for the study is applicable the convincingly address the research problems in the most objective and coherent way as possible (Creswell 2014, 133).

For the author, the importance of attaining a research design is undeniable. It would give a chance for the author to study and aggregate more information from past studies, past literature that share similarities with the research problem. Thus, propose a detailed step-by-step guide through the process of data collection, data analysis and data application, as well as possible methods to test the hypotheses in a clear and justifiable way.

In order to construct a suitable research design for the study, the author will use the "Research Onion", proposed by Saunders and colleagues (2009, 18). There are six layers contained within the model, illustrating the six crucial steps that are required to build a logical research design to address the research problem. Starting with the outermost layer of research philosophy, the author then moves closer to the core until the last step, data collection and analysis. During the process of building the research design, suitable research approaches, strategies and techniques for data collection will be decided in the meanwhile, make the study stay consistent without developing contradictories.

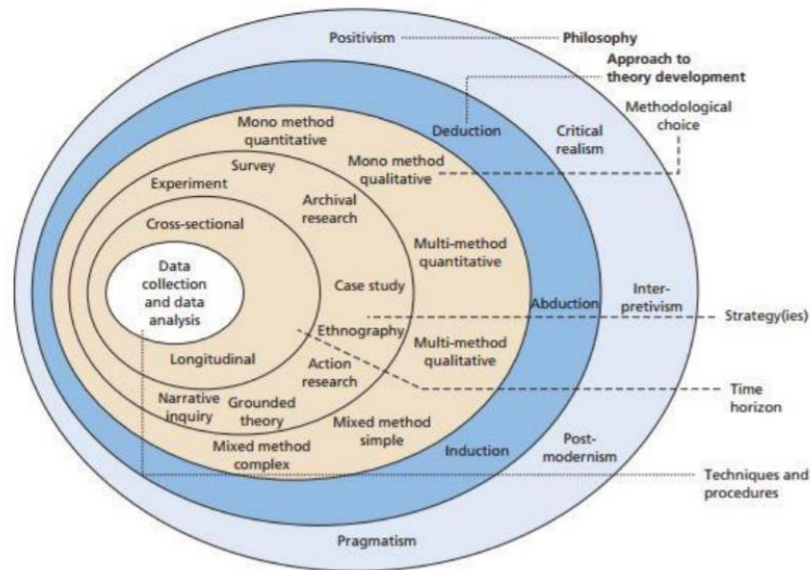


Figure 10. The Research Onion (Saunders et al.2015, 124)

Research philosophy

Research philosophy is the first layer of the research onion. Research philosophy provides a framework for research design, determines the suitability of data for a phenomenon for data collection and later, data analysis and its application (Saunders et al. 2009, 106). Burrell and Morgan (1979) believed that throughout the research, whether consciously or unconsciously, the researcher will develop a set of assumptions. The assumptions closely associated on how the researcher view the world and therefore, have predominant influences on the research strategy and its sub-categories, on the researcher's view of the correlation between knowledge and the development of the said knowledge (Saunders et al. 2009, 108-109).

For this research, pragmatism is believed to be the most suitable. Pragmatism, rather than devoted to a monopoly system of belief or philosophy, focus on the research problem and implement various approach to clarify the problem, as stated by Rossman and Wilson in 1985 (Creswell 2014, 39). Commonly, qualitative researches were applied in a research with pragmatism as the philosophy, as it enables the researchers to draw conclusions comprehensively from qualitative narratives to serve the objectives of the study.

The topic of this research is to assess the export competitiveness of garment & textile products from Vietnam to European Union. Vietnam has been acknowledged to be one of the countries with highest potential for the exports of textile & garment products, especially to the European Union. The author would like to get a comprehensive view on this phenomenon, in order to detect the reasonings behind it. To achieve the objective in the most unbiased and deliberate manner, the author decided to use qualitative research approaches with the application of Michael Porter's Diamond Model as a theoretical framework. There are four dimensions with two external factors contained inside the model: factor conditions; demand conditions; related and supporting industry; firm strategy, structure and rivalry; as well as the influence of government and chances

Research approach

Research approach is the second topic which was mentioned by Saunders and colleagues as the second layer of the research onion. For this research, an induction approach was decided for utilization. According to Saunders et al. (2009, 124; 2015, 144-145), the major of a inductive study is to achieve comprehensive insight of the event, and then draw relationships between different variables in order to form a theory based on the conceptual framework development. For this study, the author began by collecting relevant data as determined by Porter's Diamond Model, to acquire knowledge about the G&T industry of Vietnam: factor conditions; demand conditions; firm strategy, structure and rivalry; related and supporting industry as well as the possible impact coming from government and chance. Then, after harvesting a sufficient amount of important information, the author detected the connection of the factors, and how those factors simultaneously affect the export competitiveness of G&T products from Vietnam to the European Union.

Research methodological choice

The third layer of the onion, methodological choice usually refers to the selection of the principle data collection technique. The researcher will make a choice using either mono-method between quantitative (numeric) and qualitative (non-numeric)

method; or multi methods that combine multiple data collection technique to look at the research problems in different perspective (Saunders et al. 2009, 151-153). As mentioned before, the author had decided to use qualitative method. Qualitative research is commonly a study of an event as a reflection to its natural context (Creswell 2007, 7). By definition, a qualitative study is “a type of social science research that collects and works with non-numerical data and that seeks to interpret meaning from these data that help us understand social life through the study of targeted populations or places.” (Crossman 2019). In this study, qualitative data was collected following the Diamond Model as a theoretical framework, to the underlying characteristics of the G&T industry of Vietnam. Then, data would be interpreted to unravel the reasons behind the increasing turnover of G&T exports from Vietnam to the EU.

Research strategy

For the third layer of the research onion, archival research was chosen to be the research strategy. In an archival research, past historical data, administrative records as along with relevant documents as used as the chief source of information (Saunders et al. 2009, 150). This study with the main objective to detecting the underlying reasons for Vietnam’s export competitiveness to EU will examine the Total Garment Exports data from Vietnam during a time span of 10 years (2007-2019) from official sources. The author then will study the historical administrative data and documents to get a more in-dept understanding of the phenomenon.

Time horizons

The next layer is time horizons, in other word, is the period of time in which the project is examined (Saunders et al. 2009, 155). According to Saunders and colleagues, there are two types of time horizon: cross-sectional study that observe the subject at a particular time, enables intermediate methods such as survey, grounded theory or short period case study; and longitudinal study. In the longitudinal studies, the subject in observed the phenomenon through a long period of time when the aim of the research is to study about the changes and the development of the subject (ibid.).

As the purpose of this study is to provide with information regarding the current situation of Vietnamese G&T commodities to the European Union, the author decided to implement cross-sectional study.

4.3 Data Collection

After coming with a clear-structured research design, the next step is compiling relevant data to fulfil the research objectives. There are two types of data for collection: primary data and secondary data. From the names, it possible to see the distinct characteristics of each data types. While primary data is originally accumulated by the author specifically for a particular study, secondary data is usually collected previously by past researchers for other purposes (Saunders et al 2009, 598-600). The principle contrasts of the two data types had been examined by Surbhi (2016), can be found in the table below.

Table 4. Primary Data and Secondary Data (Surbhi 2016)

	Primary data	Secondary data
Definition	Authentically compiled by re-searchers	Previously collected for past studies
Characteristic	Real time data	Historical data
Accessibility	Difficult	Readily available
Origin	Experiments, surveys, interviews, case studies etc.	Journals, official data book, textbooks, past scientific papers etc.
Cost	Expensive	Cheap
Collecting time	Lengthy	Fast
Specification	Fulfil the objective of the study	Might not instantly fulfil the need of the study
Convenience	Unrefined	Refined
Dependability	High	Moderate

As mentioned in the previous sub-chapter, the author decided to apply mixed method data collection methods for this study. The type of relevant data used for this research is secondary data – the data which was not previously collected by the

author (Saunders, Lewis and Thornhill 2009, 611). The collected data can be furthermore analyzed to recreate and enlarge early findings to aggregate new insights to address different research problems which were not studied in the original research (Greenhoot 2015, 2). The export competitiveness of Vietnam's Garment and Textile products has been studied by past researchers for macro-economic purposes, as well as scholars around the world who interest in the topics. Because of that, the author believes that secondary data provided by valid sources is sufficient for the research purpose as well as the scope of the research objectives.

Unfortunately, there are a few drawbacks that are associated with secondary data. While using secondary data published by governmental agencies, journals or scientific papers that have been peer reviewed are very reliable, there are still threats of using the source with insufficient validity. As a result, secondary data in such circumstances is not appropriate for the study (Saunders et al. 2015, 272).

Nonetheless, the author will take measure to ensure the authenticity of the collected secondary data. Only data from official sources are going to be used throughout this research. The sources include WTO data bank, industry specific studies from respectable corporations in Vietnam (FPT, ACB Bank, Phu Hung Corporation), Bank of Vietnam databank, General Department of Vietnam Customs' Yearbooks, General Statistics of Vietnam to name a few.

4.4 Data Analysis

By definition, data analysis is the process that includes simultaneous activity, when the raw data collected for the purpose of the study is arranged, structured, interpreted to generate useful and relevant outcomes according to the purposes and the objectives of the research (Saunders et al. 2009, 482).

As mentioned previously, in this study, qualitative data will be used. The ultimate goal that the author wants to harvest from this thesis is to gain more in-depth

knowledge of the G&T industry in Vietnam, as well as assessing its export competitiveness in a timely manner. The author believes that an appropriate application of qualitative data would bring about positive complementary effect. Porter's Diamond Model will be implemented to measure the competitiveness of the Vietnam's G&T industry.

For the qualitative part, the author will apply content analysis method to investigate the data to accurately emphasized on the four determinants of Porter's Diamond model: factor condition, demand condition, related and supporting industry, firm structure, strategy and rivalry, as well as the influence of the government and chance. Content analysis is the technique that helps the researcher in drawing the connections between related variables, as well as detecting emerging trends from the set of collected data (Saunders et al. 2009, 488-489).

Initially, secondary data which are closely related to the research are derived from the official websites. The collected data then was organized based on the different variables of the Diamond Model. Thus, Data collected for this study will be categorized logically by year to serve the systemization and analyzing effectively. The data will be sorted based on the source, year of publication and the type of examined products. This sorting and re-organizing data process will contribute greatly in further data analyzing as well as the data interpretation (Saunders 2012, 557). After that, the arranged and sorted data were reviewed carefully to ensure the relevancy and accuracy to the study, to avoid possible misunderstandings. Next, the data were analyzed systematically with Microsoft Excel following the Diamond Model. The data was coded based on the variables that were inseparable to the theoretical framework i.e factor conditions, human resources, infrastructure, domestic demand, firm strategy, competitors, macroeconomic environment, buyers' sophistication, supporting industries, Governmental issues using Microsoft Excel. Then, the data were highlight using different colors according to the related variables, to smoothen the accompanying process of visualization and interpretation.

Consecutively, the outcome from the analyze of coded data was being interpret by the author based on the four determinants of Porter's Diamond Model, as well as the

related literature reviews of export competitiveness. In the end, the narratives and findings were restructured into visual interpretations like graphs, tables to provide the reader with a comprehensive understanding of the researched subject.

4.5 Verifications of Findings

Validity, in general, is the process to assess the appropriateness of various aspects involved in the study, such as the effectiveness of data collection, data process and data analysis, the fitness of the research questions, research methods to the research objective, and satisfaction of the results to the objectives and context of the study (Leung 2015, 324-327).

The author decided to use triangulation as a mode of validation for this research. As defined by Creswell (2007, 208), triangulation involves the process of data collection from a variety of sources, through different methods focus solely on the studied topic, to ensure the level of validity of the research.

As a result, the author paid tremendous attention during the data collection part. As stated previously, the data from this research are obtained entirely through secondary sources, in other words, is a desk research. To maintain the highest authenticity of the data, only publishing and studies from reliable sources, such as governmental bodies, respectable investment banks in Vietnam, as well as important external international organizations like WTO, Eurostat, Center for the Promotion of Imports (CBI).

Reliability, simply put, the measurements of effectiveness of the data collection and analysis methods to harvest positive results to fulfill the objective of the study (Flick 2015, 229). The author was very conscious about this aspect in the beginning. That is the main reason why mixed method, with Diamond Model as a theoretical framework for the qualitative analysis. The author wants to ensure the results from the

study to be a positive convergence of different points of views and methods, to enhance the level of reliability to the highest level as possible.

Objectivity is also one important merit to verify the findings of a research. In general term, objectivity of the findings of a study can be confirmed when similar researches conducted by other researchers give out comparable results (Trochin and Donnelly 2007, 149). This is a very often discussed topic between scholars and policies makers in Vietnam because the Vietnamese Government has identified the Garment & Textile industry one of the core aspects for the sustainable growth of Vietnam in the long run. Throughout the study, the author will cross-check the data with previously approved papers, to make sure the final results of the study are approximate to the findings from reliable past studies, fortify the objectivity of this thesis.

5 Results

5.1 Factor Condition

Human Resource - With a population of approximately 97 million people, Vietnam is currently the world's 15th most populated country. Although the demographics of Vietnam is getting older over the years, but with a median age ranging from 28,5 to 32,5, Vietnam is still regarded as a nation with a young population. At the same time, Vietnam is having a very strong and increasing number of working force, rising from 51,398 million in 2011 to 55,354 in 2018, according to the General Statistics Office of Vietnam, with the people aged between 25-49 made up for the largest group. This is a very promising indicator for the development of Vietnamese economy since it represents the population group that is instantly available to participate in the production of goods and services, making Vietnam a to-go place for companies around the world to build up factories and production plants to make use of the redundant of the labor force.

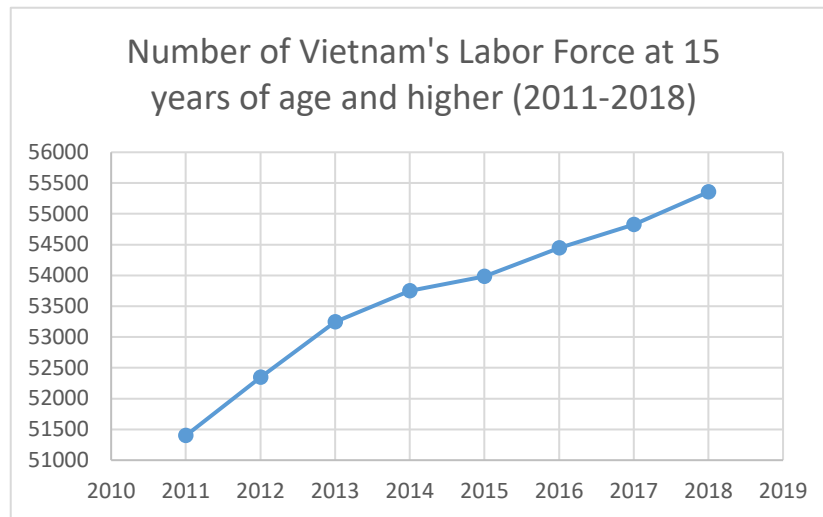


Figure 11. Number of Vietnam's Labor Force at 15 years of age and higher (2011-2018) (General Statistics Office of Vietnam n.d)

Textile & Garment production falls into the category of manufacturers commodity. During the examined period, the sector recorded stable increases over the year. In 2011, manufacturer workers accounted for 13,8% of Vietnam's employment structure and had been having a rising trend ever since with an average of 15,3% of the nation's employment structure.

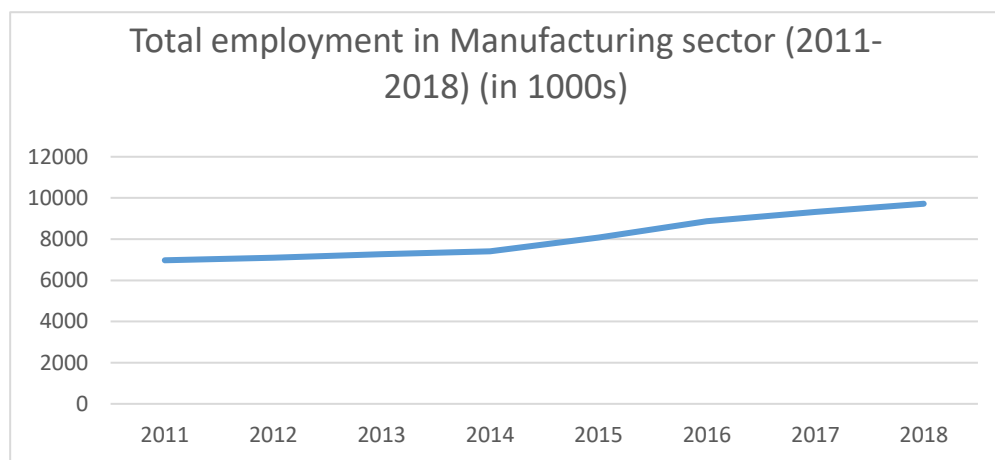


Figure 12. Total Employment in Manufacturing sector (2011-2018) (General Statistics Office of Vietnam 2019)

Employments in garment & textile industry usually contribute to a large part of total employment in manufacturers. In 2017, the number was 25%, the majority of which were females (General Statistics Office of Vietnam 2018).

However, the abundant of the labor force does not always equal to the level of competitiveness. Comparing to the manufacturing counterparts of other countries, Vietnam's productivity was significantly lower, especially when put side by side with

three big G&T exporters, China; India and Indonesia, the low number was more highlighted. It took longer time in Vietnam than in India and China for production. In average, it takes 60-90 days in production time in Vietnam, lower than 40-70 days period of China and India, stressing lack of Vietnam's productivity in this labor-intensive sector (Le 2017, 20).

But on the other hand, China, the producer of the world, is having great economic success, the living standards of the country are increasing and as a consequence, the average wage of a manufacturing worker is on the rise. This can be seen as a competitive advantage for Vietnam as T&G is the industry with high rate of labor exploitation. Because of that, low cost production as well as productivity are pristine elements for companies.

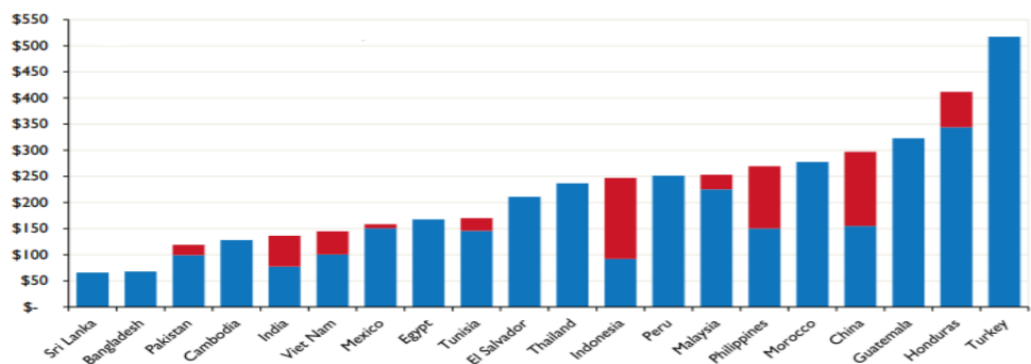


Figure 13. Nominal Monthly Wages of 20 Biggest Clothing Exporters in the World in 2015 (Le 2017, 20)

However, in the recent year, the wages of Vietnam are gradually increasing. BMI placed Vietnam in the 14th position of out 18 countries with high possibility of a shift a labor cost. As a result, production cost is rising, which leads to a shift to countries with lower labor costs such as Cambodia and Myanmar (Nguyen and Kieu 2019, 68).

Despite the abundant in the number of available workers, the knowledge resources of G&T in Vietnam are somewhat limited comparing to that of other countries. Only 25% of the T&G workforce received specialized education for the occupation, which means 75% of the labor has not received any formal trainings for their jobs. This

number is alarming since now is the dawn of Industry 4.0. According to ILO (International Labor Organization), the results of Industry 4.0 can replace 86% of Vietnam's G&T labor forces with modern machinery alongside advanced techniques. Nowadays, skillful workers, especially the ones that know how to operate specialized software in management, design only accounted for 20%, 70% have adequate knowledges for moderate ICT skills while the remaining 10% has little to no computer competency (Hai 2019).

On the other hand, Vietnam is paying more attention to develop high-skilled labor to adopt a more sustainable growth for the industry. In March 2010, the Government of Vietnam, under directive 32/2010/TT-BTC, started a project to increase the qualification alongside capability for G&T workforce in the future (Ministry of Finance 2010). The Government, Vietnam National Textile and Garment Group (VINATEX) as well as investments from different intermediaries will support the funding for the projects. At the moment, there are 237 universities and colleges in Vietnam, 18 of which is having programs with a focus on G&T and the number is expected to increase in the future thanks to the interference from various sources.

Physical resources – Vietnam lies directly next to the South China Sea, with a coastline of 3,260km in length. This important geographical location gives Vietnam a great deal of advantage when it comes to trading, tourism as well as economic development. It was estimated that nearly one-third of the world's ship must cross this area, with the total values of transported goods of US\$3 billion annually. Thus, Vietnam is bordered by China, although the biggest exporter of G&T in the world, at the same time, is the largest suppliers of materials crucial for the industry. Being near in distance with China, as well as principle exporters such as South Korea, Taiwan, Japan of such material thanks to the sea, is a great competitive advantage for Vietnam. Moreover, due to the Trade War between the USA and China erupted, China's goods are obligated to pay 25% tax to be imported to USA. Because of that, in the future, there might be a shift of orders for T&A products from China to Vietnam to avoid unnecessary costs.

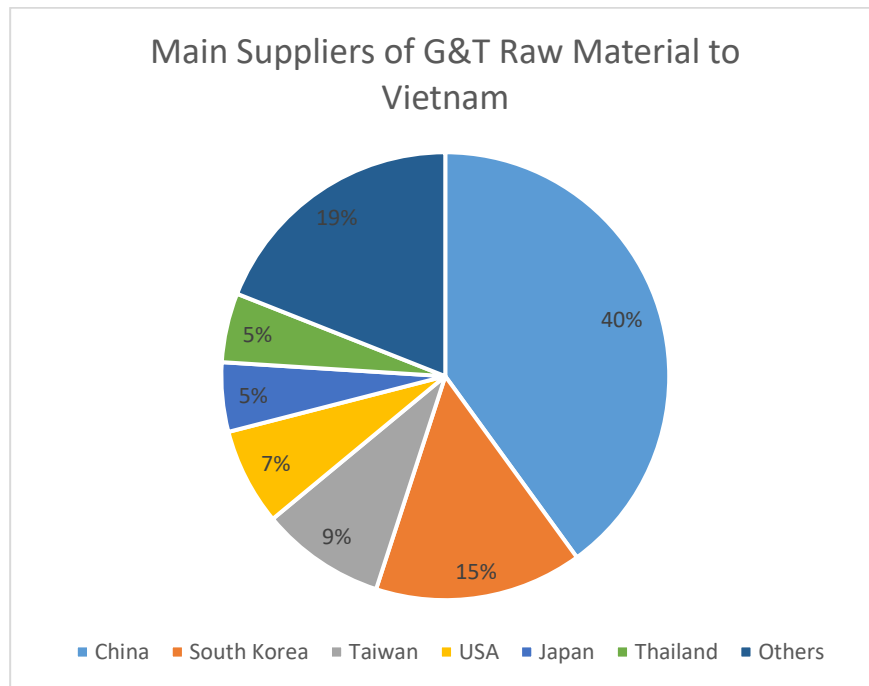


Figure 14. Main Suppliers of G&T's Raw Material to Vietnam (Phu Hung Securities 2019, 5)

In term of weather, Vietnam lies in the area that is under the impact of tropical monsoon climate, is believed to be very beneficial to the plantation of cotton, which is one of the most used materials for G&T. Being in possession of such things will help Vietnam more proactive in the accessibility to raw material, increase productivity, ensure competitiveness (Le 2012, 6).

Knowledge resources – A large amount of Vietnam's G&T companies are small and medium size enterprises (SMEs), which mean that they do not own a sufficient capital ability to invest in R&D, as well as expensive machinery and equipment, in addition with the initial resistant to adopt new technology as companies tend to stick to the traditional ways of production. These elements, altogether, will create a tremendous burden to the competitive advantage of the industry, if no measurements are initiated (Nguyen and Kieu 2019).

Capital resources – As mentioned previously, a majority of G&T companies in Vietnam are local private entities with limited access to funding. However, in the recent years, there has been a big wave of funding coming from Foreign Direct Invest-

ments (FDI) to the G&T industry of Vietnam. The Garment & Textile industry of Vietnam is the 2nd most attractive sector for FDI behind Electronic industry. As of Q2/2014, the reported FDI projects for G&T to Vietnam was 1390 projects with US\$6,12 billion in capital. Notably, in 2014-2015, when Vietnam was in the negotiation phase for a number of important FTAs such as TPP, EVFTA, there was an unprecedented shift in G&T investments to exploit the competitive advantages from the FTAs. As a result, in that period, there were 83 G&T FDI projects to Vietnam with registered capital of US\$1,64 billion. The new projects were consisted of 11 fiber projects, 14 weaving projects and 58 sewing projects. With these investments, the productivity of domestic G&T industry is expected to increase by 20% in the near future (Le 2017, 33).

Infrastructure - The problem regarding logistics is a burning issue for policy makers and G&T producers. As Vietnam made T&G an export-oriented industry, the amount of goods that needs to be transported is enormous. According to VITAS, in 2017, the exported value of G&T increased 19,23% Year on Year, at US\$31 billion. However, the expenses for logistics were estimated at US\$2,79 billion, equaled to 9,1% of the turnover of the same year. Government policy is the main driver behind this phenomenon. Comparing with other G&T exporters, Vietnam's taxes and payments for transportation as well as logistic cost are fairly higher, at around 30%-40%, while this number is at 15% in other countries (Nha Be Corporation 2018). This creates a barrier in the formation of relationship between G&T producers and logistics providers. Negative impacts might be steamed from this situation, especially since the volume of G&T exports from Vietnam is growing annually.

At the same time, Vietnam has more stable electrical supply comparing to other growing clothing exporters such as Nepal and Cambodia. Vietnam is paying more attention to technology development, adopting higher computerization in G&T firms (IDS 2009, 11).

5.2 Demand Condition

Vietnam is a country in South East Asia. With a population of around 97 million at a current median age of 30,5 years old, Vietnam has a vast potential in developing a fruitful retail market, including the apparel market, the direct product of P&A process. Indeed, the revenue from retail was growing significantly, from US\$85 billion in 2013 to \$142 billion in 2018, and is expected to reach US\$ 180 billion by the end of 2020. The retail sector was a part of the service industry of Vietnam that contributed 41,12% of Vietnam's Gross Domestic Products (GDP) (Doan 2020). Vietnam is believed to have the highest growing market in South East Asia since the implementation of the economic reform called Doi Moi in 1986. These characteristics make Vietnam an extremely appealing market for apparel industry. As stated in Deloitte's Vietnam Consumer Survey 2019 (2020, 12), 50% of the respondents said they will increase their spending for apparel products and footwears. Spending for apparel is at 5%-6% of the total spending of Vietnamese, at about US\$3,5-4 billion. According to VITAS, the domestic market of G&A in Vietnam is expected to worth US\$10 billion in 2035 (Sai Gon Independence 2019).

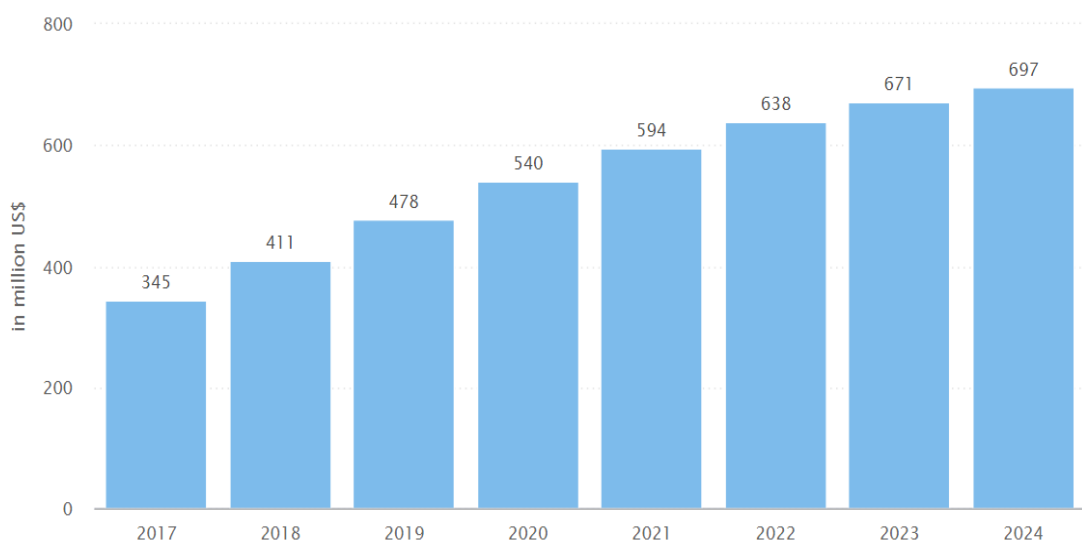


Figure 15. Total Revenue of the Apparel Market of Vietnam during 2017-2024 (Statista 2020)

According to The Global Competitiveness Report (2019, 65), with a score of 3.9, Vietnam was ranked 44 out of 141 participating countries, which means that Vietnam has a moderate level of buyer sophistication. In terms of Clothing and Footwear products, consumers base their purchases primarily on Design and Quality of the commodities, following by the price and fit (Deloitte 2020, 17).

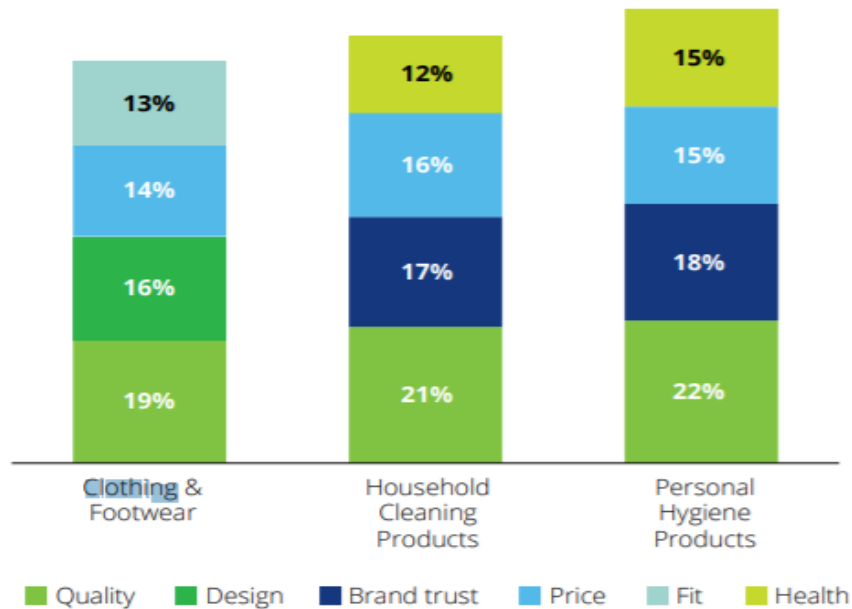


Figure 16. Top Attributes for Driving Purchase Behavior for Non-Electronics Categories (Deloitte 2020, 17)

Brand is also an important motivation for apparel purchase. Vietnamese people now still prefer local brands rather than foreign brands. In a study conducted by Deloitte, 95% said that they would like local brands, and a humble number of 6% said that foreign brand is better. This might be because the lack of knowledge resources of the domestic G&A companies of Vietnam. When the foreign firms have big budget of R&D, design and technologies, Vietnamese companies relies mostly on their intuition and their history, eventually becoming slower than the worlds trend, according to VITAS. Despite of this, Vietnam is a country with 54 ethnics groups each with a clothing tradition of their own, contribute greatly to the diversity of design and materials (Vu and Pham 2018).

In overall, for the Garment & Textile sector, it seemed like Vietnam pays for attention the exported markets rather than the domestics counterparts. The turnover generated mostly comes from the abroad destination, as a consequence, the domestics

market does not create an influence on the competitive advantage of the G&T industry.

5.3 Firm Strategy, Structure and Rivalry

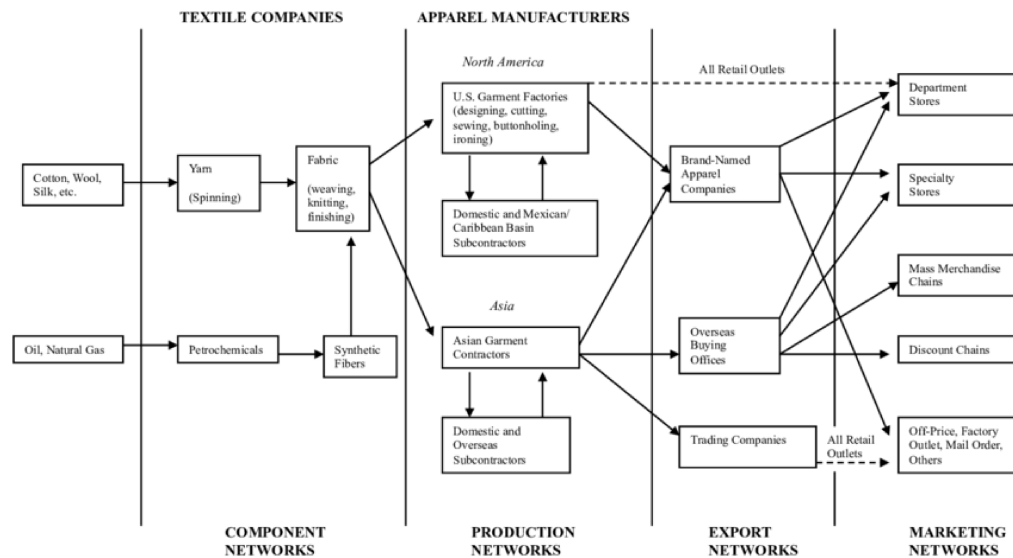


Figure 17. Value Chain of Global Garment & Textile Industry according to Gereffi & Memedovic 2003 (Stark et al. 2011, 11)

Due to lack of research and development, as well technical capacity, Vietnam is currently in the production network of the world's textile & garment value chain. The activities of Vietnam in this phase is mostly the production according to the orders from overseas, with pre-determined design alongside the appointed raw materials by the foreign firms (Nguyen and Kieu 2019, 4). Large corporations in developed countries, in this phase, outsource their production to lower-cost country and region, to save operational cost (Nielsen et al. 2014, 2). However, the production process is regarded to be the lowest in terms of added value. R&D, designing and long-term plan the most important aspects, are usually decided by the mother company. Vietnam's firms only participate through the less valued stage, CMT (Cut-Make-Trim). In this process, the firms assemble simple products in large quantity according to the orders from the mother company. With relatively low labor costs, cheap production process, alongside with an abundant workforce producing high volume of good, is how Vietnam achieve competitive advantage (Nguyen and Kieu 2019, 4). The amount of local enterprises engage in the processing phase is tremendously big, at 5101 firms

out of a total 6000 firms which operate in G&T in Vietnam in 2018 (Phu Hung Securities 2019, 2).

Garments & Textile firms in Vietnam made up of three distinctive business models: state-owned enterprise, private companies and FDI entities (Nguyen 2017, 6). Nonetheless, IDC – International Development Systems (2009, 17) identified four types of ownerships: state-owned, co-operatives, joint stock companies and FDI entities. As mentioned in the factor condition, FDI investments pay a huge part in transforming Vietnam’s G&T sector. However, local firms are immense pressure from these capital and technology rich foreign enterprises. These overseas companies are only 25% of operating G&T firms, but the exports from them accounted for 60% of the total G&T from Vietnam in 2017 (Bui 2017, 4). This situation, at the moment, is a competitive advantage for Vietnam. Not only Vietnam receives an inflow of foreign capital alongside technological capacities, the rivalries from the entry of the foreign players will create incentives for the domestic firms to develop, to adapt to further changes in the future.

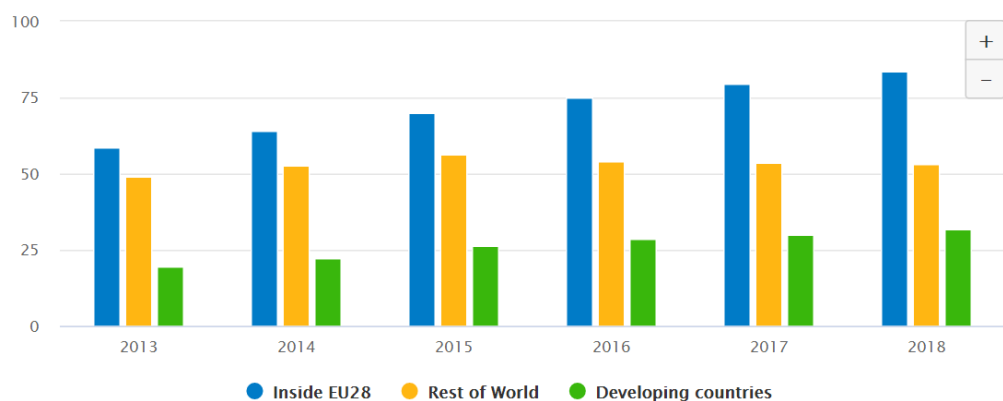


Figure 18. European Apparel Imports by Origin (Center for the Promotion of Imports 2019)

At the present, the majority of apparel products circulating in the EU market are of EU28 origins. Yet, there has been a shift regarding production among EU firms to employ subcontractors from developing countries in Asia for manufacturing to release the stress of operational cost. This results in a spike in the apparel exports from Asian

countries, led by China with €26,9 billion in value. Even so, there has been redirections of investments initially designated for China to establish new production amenities in Nepal, Cambodia, Vietnam (Eurostat 2017, 106). The value of G&T exports to EU from Vietnam was €3,4 billion with the anticipated five-year growth rate of 12,8%. This figure is lower when compare to other competitors of Vietnam's G&T industry such as Bangladesh, Cambodia, India, China, while Pakistan and Myanmar are two potential contenders with their impressive growth rate. Thus, Bangladesh and Cambodia is a part of the FTA with EU through the program EBA (Everything but Arms), whereas Pakistan is in GSP+ (Generalized Scheme of Preferences), which exclude the aforementioned countries from import tax for G&T products imported by the EU (Anh and Han 2020).

Table 5. Top Non-EU Apparel Exporters to EU in 2018 (Center for the Promotion of Imports 2019)

Countries	Value (in € billion)	5-yr. Growth (%)
China	26,9	-0,1
Bangladesh	16,2	10,6
Turkey	9,8	2,0
India	5,3	2,7
Cambodia	3,9	17,2
Vietnam	3,4	12,8
Pakistan	3,0	12,1
Morocco	2,7	5,4
Tunisia	2,1	-0,01
Myanmar	1,7	66,1

Europe – Vietnam Free Trade Agreement (EVFTA) has been ratified by both parties and is expected to come in full-force in Q3/2020. With EVFTA, G&T exports from Vietnam will bear no import tax from EU after maximum 5 years since the officialization of the agreement. Thanks to this event, Vietnam will be equal with the competitors regarding taxes-related issue. Meanwhile, Cambodia, a neighbor country and a direct competitor of Vietnam in G&T exports, is under threat of being eliminated from the EBA programs in August 2020 due to violations of the regulations from EU

(ibid.). These elements will help G&T products from Vietnam to EU in the future, making this a competitive advantage for the industry.

5.4 Related and Supporting Industry

Despite the increasing growth in the volume of exports annually, the national related and supporting industry of G&T cannot fulfil the growing demand of the global market, stopping Vietnam to integrate deeper into the G&T global value chain. It was estimated that 70% of the raw material used for manufacturing had been exported in 2013 (Vu 2014, 4).

Raw Materials

Cotton - In 2015-2016, there were approximately 1 thousand hectares of area used for plantation of cotton, producing about 0,5 thousand tons. This amount satisfied less than 1% of the production demand throughout the country. Although Vietnam has a long history of planting cotton, but this sector had been left unnoticed for a long time until 20 years ago, when Vietnam approached globalization and put G&T commodity as an emphasis for economic growth. Unfortunately, the nation does not have natural advantage when it comes to cotton plantation. Cotton industry is labor-intensive, requires a lot of land, suitable climate as well as an effective irrigation system to get plausible results, which Vietnam cannot achieve. The current need for cotton supply for G&T production is at approximately 1 million tons, to overwhelming when compared with 0,5 thousand tons of domestic production. Top exporters in 2016 of cotton to Vietnam include the USA (49%), Australia (11%), Brazil (13%). Even though Vietnam is not flexible for material supply and pricing, the imported cotton to Vietnam are usually in very good quality, ensuring the competitiveness of Vietnam in term of cotton-made products (Bui 2014, 18-19; Le 2017, 31).

Polyester/Synthetic Fiber – Similar to cotton, polyester input for production in Vietnam principally comes from imports. Polyester is the results of synthesizing petro-

leum. Although Vietnam has various petroleum-extractions currently, polyester production is not the chief focus of the projects. There were projects to reduce the reliant of Vietnam on overseas for polyester. However, the production cost was rather high, made it hard to compete with abroad markets. Top exporters of Polyester to Vietnam include China, Taiwan and South East Asia countries (Le 2017, 31; Dai Nam Securities 2018, 6).

Fabric –

Table 6. Textile Fabric Imports of Vietnam (in million US\$) (General Statistic Office of Vietnam n.d)

2011	6,8
2012	7,0
2013	8,3
2014	9,4
2015	10,2
2016	10,5
2017	11,4
2018	12,8

As mentioned in the previous chapter, Vietnam joins the world’s T&G value chain as part of the production network through mainly CMT (Cut-Make-Trim) for exports. This process requires an enormous fabric input for production.

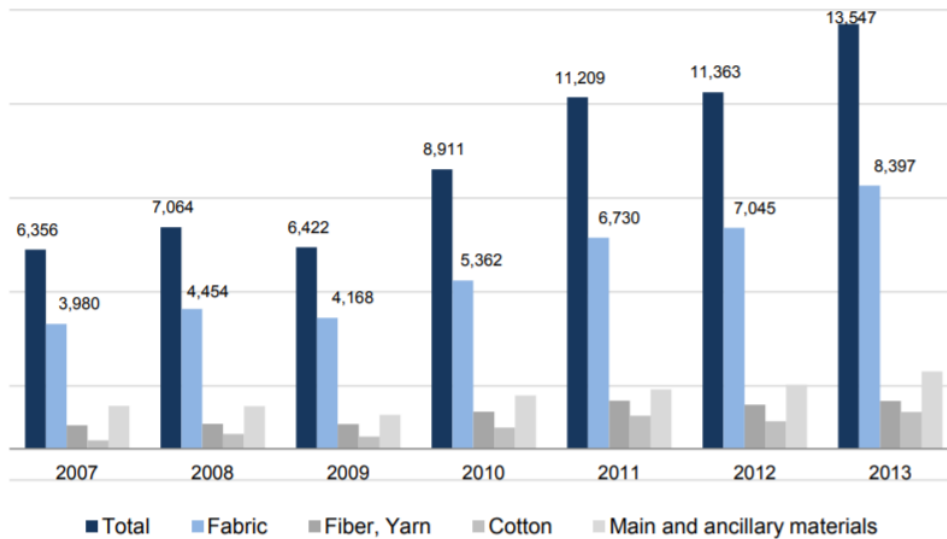


Figure 19. Total Value of Garment and Textile Imports according to VITAS (Le 2017, 16)

As seen from Figure 16, during 2007-2013, the majority of imports of relating to G&T were fabric, at around 65%-75%. Annually, Vietnam can produce 3 billion m2 fabric.

However, the industry requires approximately 8,9 billion m² for production (Le 2017, 43). Looking at the upward trend of Vietnam G&T industry, it is predictable that unless Vietnam has a way to secure the production of fabric, it is hard for the country to break out of the low-added value process of the G&T value chain.

Weaving, Dyeing and Finishing Industry

The dependence of fabric imports is one of the main weakness of Vietnam. This is because of the lack of modern machinery as well as technical engagements in the process of weaving, dyeing and finishing. These processes is believed to be considerably slower compared to other countries, especially in dyeing as most of the equipment in this process has been in used for around 15 years, which eventually took a toll on Vietnam's G&T industry productivity (DNSE 2018, 7).

The principle reason for the lack of development is believed to be from waste management. As the factories for weaving, dyeing and finishing use a huge amount of chemical and water, there is urgent need for a thorough waste management systems to prevent negative impact to the environment. In Vietnam, only a limited amount of areas such as Vinh Phuc, Bac Giang, Phu Tho, etc. that have standardized waste processing structure. To create such qualified waste processing systems demands a lot of monetary resources but the profit generated is not very satisfactory, make investments for weaving, dyeing and finishing rare in Vietnam. On the other hand, Vietnam do not have a lot of G&T clusters to reduce production cost, which result in a disconnection of different production phases, combined with expensive logistics, reduce the competitiveness of Vietnam. Thus, to operate weaving, dyeing, finishing factories needs a large amount of qualified human resources. Unfortunately, most of the G&T labor forces do not have enough knowledge the intricate process. At the same time, as a characteristic, workers will have to constantly exposed to chemical, high heat, while the career aspects and salary is sacred, makes it less desirable to attract more qualified employees (Le 2017, 45).

Moreover, as the input of fabric are usually from abroad according to the contract of the company, domestic G&T firms cannot be in control of the design and printing

process, create a barrier for Vietnam to extend the penetration in the world's G&T value chain (ibid.).

Export, distribution and marketing industry

As the majority of G&T manufacturing from Vietnam are CMT or FOB level 1 (Free on Board-firms by materials from the place appointed by the contractors), the G&T products of Vietnam relies heavily on traders, mainly from Hongkong, South Korea, Taiwan, etc., or from the Vietnamese representatives of brands, wholesale stores to obtain contracts for production. Vietnam G&T industry do not have the direct connection with the end-users, limited the activeness of domestic firms in reaching the customers for marketing process (ibid.)

5.5 The Role of Government and Chance

According to Nguyen and Kieu (2018,5), in the Textile and Garment Report (Le 2017), the Government of Vietnam put garment and textile exports as one of the six pillars of industrial development of the nation with an orientation to 2030. Vietnam has been receiving a great deal of benefits thanks to exportation of this commodity, however, the weakest point that prevent Vietnam from integrating into more crucial steps of the world's G&T value chain in the lack of competency in the related and supporting industries (ibid.). Realizing the urgency of the situation, the Government has been issuing a number of directives to assist the development of the industries, such as Decree No. 111/2015/ND-CP: On Development of the Supporting Industry; Decree 3218/QD-BCT from Ministry of Industry and Trade on the Approval of Development Planning of the Garment and Textile industry of Vietnam; Directive No. 880/QD-TTg ratified by the Prime Minister of Vietnam on the Approval of the Plan for Industry Development of Vietnam until 2020, with the orientation to 2030. The nation is paying more attention to upgrade the machinery which are used for G&T production. Among the ASEAN countries, Vietnam was the 2nd biggest investor in ring spindles and open-end rectorors. Also, to limit the dependency of Vietnam in cotton

supply from foreign countries, “Rang Dong Industrial Park”, a cotton-production facility, is being formed with an expected yearly production value at US\$3 billion (Akter 2018).

At the same time, the Ministry of Industry and Trade recognized the negative ecological impacts that come as the byproduct of the development of the industry, has been taking strict measurements into making the G&T more sustainable to the environment. Awareness for controlling and applying alternative energy is being raised through the government agencies. Vietnam is also one of the countries besides China, Bangladesh, India that is sponsored by HSBC to apply ecological approach in production, minimized the amount of waste and exhaust fumes emitted to the environment (Duc 2018).

Vietnam has a fairly stable socio-political stability. In the recent years, the Government is making efforts in revitalizing the climate for business activities, as well as creating a fair and rewarding business climates to attract foreign investors through the introduction of legal framework and institution for foreign business operators. In the Global Competitiveness Report of Vietnam (WEF 2019,596), Vietnam was the 1st in terms of terrorism incidence and inflation rate. This makes Vietnam to be a very attractive place for investments thanks to the stable social-political premise alongside macroeconomic situation. As a result, for the relentless efforts from the environment, Vietnam in 2018 was the 22nd country that receive most FDI (Central Intelligence Agency n.d).

At the moment, Vietnam is encouraging the domestic firms to expand their operations to adopt value-adding abilities, to develop local brands with an aim to shift to more advanced mode of production such as material autonomy outsourcing FOB (Free On Board), ODM (Original Design Manufacturers), to decrease the reliant solely on CMT (Cut-Make-Trim) for production. This shift is crucial for Vietnam to have a sustainable and active G&T industry, to enhance competitiveness of the industry and ensure long-term benefits to the country (Nguyen and Kieu 2019, 5).

The newly ratified EVFTA is also a very important aspects for the increase of export competitiveness of Vietnam G&T products to European Union. From 12% import tax for EU exports of G&T commodities, with EVFTA, the tax would come to 0% within 3-7 years of officialization. Some product categories can even entitle to tax-free instantly like G&T accessories and commodities which were mentioned in Chapter 62-63 of Tariff including vest, women's nightgown, swimming suit, etc. Due to the strict regulation of the EU, all export commodities must be made from materials of Vietnam/EU origins and the production process must be done in Vietnam/EU (WTO Center 2019, 12). This is both a challenge and an opportunity for the G&T industry of Vietnam as most of the materials nowadays are from imports. However, it will be a big incentive for the domestic firms to develop according to different stages of the value chain, to create long-lasting value for the sector.

Nonetheless, the COVID-19 happened against everyone's expectation. Due to the virus, the G&T industry of Vietnam was suffering badly. China, who supplies 80% G&T's essential raw materials to Vietnam, closed the border in January 2020, barring Vietnam from getting the raw materials for production. Until March 2020, China showed signs of recovery and re-opened the business flows, allowed Vietnam to have access to the needed materials, then came Europe and the USA, the 1st and 2nd biggest importers of Vietnam's G&T commodities, was struck hard by the virus. The world's supply chain was disrupted, the contracts from Europe and American were postponed or cancel, created a havoc for the industry in Vietnam. However, there has been a sudden demand for masks and hazmat suits as protective measurement against the virus. Seizing the opportunity, Vietnam is converting the normal clothing production line to manufacturer anti-bacterial masks to foreign markets. Luckily, Vietnam is self-reliance in anti-bacterial knitted fabric, the material required for the protective masks. Thus, the Government has instructed the General Custom Departments to facilitates urgently the exports of this commodity, as well as reducing unnecessary papers to make exports as fast as possible, create a competitiveness advantage for Vietnam's G&T industry even in time of a pandemic (Chi 2020; An 2020).

6 Discussion

6.1 Answers to the Research Questions

As mentioned during the first chapter, this study sought to a number of research questions. The first question is to explain the situation regarding the Garment & Textile industry of Vietnam. From the findings based on Porter's Diamond Model as a theoretical framework, it can be concluded that Vietnam is on a very good path to build a strong Garment & Textile industry with major emphasis on exportation of the commodity. The country owns an abundant labor with a comparatively cheaper price compared to China, the biggest clothing exporter of the world, which is a great advantage for a labor-intensive industry like Garment & Textile. At the same time, Vietnam is having good relationships with strong markets thanks to the establishments of national and regional FTAs, ensure the potential consumption of G&T commodity from Vietnam. Besides that, Vietnam has a stable socio-political setting, with a lot of attractive incentives from the Government to boost investments, developing the economy. This is one of the reasons why Vietnam is attracting a lot of FDI, especially in the G&T sector. Thus, Vietnam is located next to the South China Sea, one of the most essential routes for maritime trading. This is a great advantage for Vietnam is elevating export capacity for G&T industry, as well as importing vital raw materials from other countries to satisfy the increasing demand of the rapid development of the industry. However, the Government of Vietnam is trying to limit its reliance on imported foreign raw materials by continuously approving projects that focus on producing cotton, fiber, polyester, fabric, to become more proactive in the supply of raw materials.

However, the majority of G&T export products from Vietnam is only in the CMT and level 1 FOB, which are very low in term of added value as the sector is very lacking in high-skilled labor as well as technical advancements, to integrate deeper into the value chain. Thus, most of the G&T firms of Vietnam are medium, small enterprise with limited access to funding. As a consequence, the domestics cannot be proactive in research & development, as well as possible machinery and technology upgrade

for production. This makes the domestic firms to depend on traders and outsourcing contracts for G&T outputs without flexibility and controls for the commodity.

The second question was about the export competitiveness of Vietnam's G&T products to the EU based on the Porter's Diamond Model. In terms of factor conditions, Vietnam has a very large labor-intensive force with lower average salary which are quick to adapt to changes, especially when the changes coming from EU, a very wealthy but high standards market. The newly ratified EVFTA between Vietnam and European Union opens an amazing door for G&T products from Vietnam. The taxes for this commodity will decrease from the current rate of 8-12% until 0% in 7 years since the officialization. This will eliminate tax-related drawbacks of Vietnam comparing to rival countries such as Bangladesh and Cambodia. At the same time, there is a production shift from China to its bordering country. Vietnam, with its stable political and social situation, complemented by the attractive incentives for investments with an abundant but low salary work force, is a very compelling new destination for the EU-based firms since the light of the EVFTA. The agreement will also help Vietnam in obtaining modern machinery originated from EU with 0% import tax as an effort to modernize the G&T industry, to enhance the quality as well as the exquisiteness of the outputs. However, only the products with raw materials produced in Vietnam, European Union or the countries that partnered with EU in other FTAs would be eligible for exportation. This is a complicated issue for Vietnam since the country imports majority of the needed raw materials.

6.2 Managerial Implications

To further enhance the export competitiveness of G&T products from Vietnam to European, a number of measurements need to be taken. The Government of Vietnam should ease the access for funding for the domestic firms, and work with the firms to take on projects for research & development, technology advancements. More efforts on educating potential high-skilled work force should also be emphasized to minimize the risks concerning human resources and modernization in G&T industry. At the same time, projects that focus on waste management, especially in the G&T

industrialized area, to reduce the environmental impact from the commodity productions. Documentation as well as quality assurance process are important to make sure of the highest quality outcome, to create a comfortable investment atmosphere for both international and domestic firms. Industrialized G&T clusters establishments in Vietnam is also way to increase the competitiveness of the industry. Vietnam should form more G&T clusters as an effort to limit the costs of transportations, technological applications, waste managements. Moreover, the clusters will urged the domestic firms to work closely together, lower local competition to focus on the competitiveness in the EU market.

Furthermore, Vietnam Textile and Apparel Association should act better as an intermediary between local enterprises through the formations of trade deals or international collaboration projects. Strong partnerships between Vietnamese G&T firms and the big supplying intermediaries in Europe (supermarket, mall, clothing chain) to boost direct exportations, diminishing the reliance of Vietnam on international traders for exports. Thus, the domestic firms from Vietnam should focus on creating an awareness on EU consumers about the products from Vietnam by participating in exhibitions, trade programs with the EU market.

6.3 Limitations of Study

The initial goal of the study is to provide the readers with more insight about the garment & textile industry of Vietnam, and then reflect on the export competitiveness of the sector's output to the European Union. However, there are a few limitations in this study that need to be raised.

In the study, the author only used secondary data. One of the biggest disadvantage of secondary data is that it might not give the author the ability to acquire data specifically for the research questions or content the information which the author would like to obtain. At the same time, secondary data is previously collected set of data. Even though the numbers are taken from reliable sources, the author was not involved in the formation of the said data. Eventually, it limited author's capability to

get the data specifically for the purpose of the thesis. At the same time, there were minor discrepancy in the reported data from official organizations such as WTO and the General Statistics Office of Vietnam. To solve the problem, the author decided to use the data sources interchangeably to ensure international and local validity of the information.

6.4 Recommendations for Future Research

This study only took Porter's Diamond Model as the theoretical framework. For future research, it is a good idea to combine the results of the research with another theoretical framework such as SWOT (Strength, Weakness, Opportunities, Threats) analysis or a PEST (Political, Environmental, Social and Technological) analysis to aggregate insights from different points of views.

Moreover, secondary data from this study can become out of date until the next study. Because of that, it is advisable for the future researchers to update the data according to the current situation then while simultaneously working on the research.

At the same time, further studies about the competitiveness of rival countries of Vietnam for G&T commodity exportation to European Union should be conducted. The results from the said study can be compare with this research in order to generate more holistic insights.

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