



# Country Update

## Textile Articles' Exports to the US Market: Technical Barriers to Trade Faced by Exporters in Vietnam

Provided by



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### Setting the Scene: Vietnam's Textile and Apparel Industry

Vietnam is now ranked among the world's top five textile and apparel-exporting countries. Despite difficulties in the global economy, the pace of growth of Vietnam exports of textile and apparel products expanded in 2015 with an export value of US\$27.2 billion - an increase of 9.43 percent over 2014, only slightly lower than the US\$28-billion target.

Vietnam's textile and apparel sector is expected to continue experiencing robust growth rates in the short to medium term. This is due to sizeable local and foreign investments in different supply chain production processes including spinning, weaving and knitting, dyeing and finishing, and garment-making. Newly established and expanded investment projects have been made to capture opportunities offered by free trade agreements that Vietnam has signed with various trading partners, such as the Trans-Pacific Partnership Agreement (TPP), the Free Trade Agreement (FTA) with

the European Union (EU), the Asian Economic Community (AEC) and the Vietnam – Korea FTA. Vietnam's textile and apparel exports in 2016 are projected to rise by 12 percent from US\$29.5 billion to US\$30 billion.

According to latest official data, foreign direct investment (FDI) flow into Vietnam in 2015 increased to US\$22.75 billion, which is an increase of 12.5 percent year on year. An estimated amount of US\$2 billion was channelled into the textile and garment sectors. FDI flow into this attractive sector is expected to continue.

## Overview of Vietnam's Textile and Apparel Industry

Indicators	Unit	Value
Number of companies	Companies	6,000
Enterprise scale	People	SMEs of 200-500+ account for a large proportion
Company structure based on ownership		Private (84%), FDI (15%), SOE (1%)
Company structure based on operation		Sewing (70%), spinning (6%), weaving/knitting (17%), dying (4%), ancillary industries (3%)
Geographical location of companies		North (30%), Central and Highland (8%), South (62%)
Number of employees	People	2.5 million
Average income per worker	VND	4.5 million
Number of working days per week	Day	6
Number of hours worked per week	Hour	48
Number of shifts per day	Shift	2
Value of textile export in 2013 (excluding fibre)	US\$	17.9 billion
Value of textile and apparel imports in 2013	US\$	13.5 billion
Main export markets		United States (US), EU, Japan, South Korea
Main import markets		China, South Korea, Taiwan
Major export products		Jackets, shirts, pants
Method of production		Cut, Make and Trim (CMT) (85%), others (15%)
Compiled from various sources		

with the same period and accounting for 21.6% of total export value of apparel. With impressive growth in 2013, T-shirts and trousers have respective growth rates of 23.7% and 25.8% over the same period.

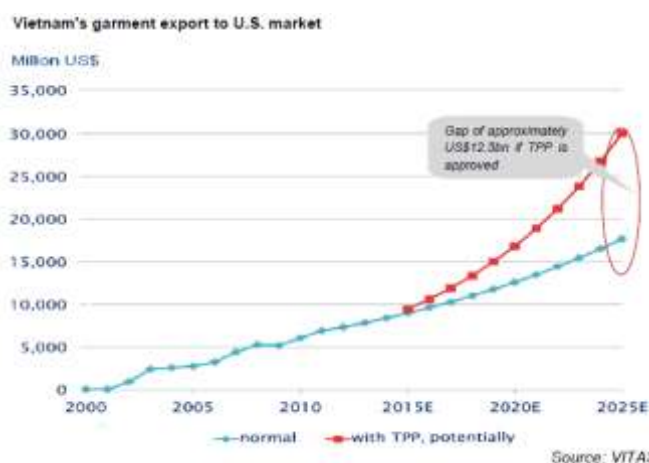
Vietnam currently exports about 1,000 lines of apparel products into the US with an average tax rate of 17-18%. The TPP Agreement is expected to cut the tariffs gradually to 0%. According to VITAS, with prospects of the TPP Agreement, Vietnam's apparel export to the US could grow 12-13%/year and could reach US\$30bn in 2025, thus, export scale of the whole industry in 2025 will reach about US\$55bn. Besides, if the TPP Agreement could boost investment in materials production as expected, indicators of trade surplus, added value and the rate of industry localization will be increased. It is expected that the industry will soon finish achieving a localization rate of 60% in 2015 and

The US, EU, Japan and South Korea are the four (4) biggest partners of Vietnam in apparel export. In 2013, total apparel export turnover to these four markets reached US\$15.3bn, accounting for 85.5% of total apparel export value. In particular, exports to the US market have continuously increased over the years and reached US\$8.6bn in 2013; accounting for 48% of total apparel export value of Vietnam. Simultaneously, among products that Vietnam exports to the US market, apparel products account for biggest proportion of total export with 38%.

Vietnam apparel products exported to the world are mainly Jackets, T-shirts, trousers and dress shirts. Jacket export value in 2013 reached US\$3.88bn, increasing by 19.6% compared

Categories of apparel products for export			
Categories	2013 (US\$ mil)	2013/2012 (%)	Proportion (%)
Jacket	3,877	19%	21.60%
T-shirt	3,758	23.7	20.94
Trouser	3,011	25.8	16.78
Dress shirt	1,016	14.6	5.66
Others	6,285	3.2	35.02
Source: Vietnam Textile and Apparel Association (VITAS)			

70% in 2020.<sup>1</sup>



However, in order to enjoy tax rate of 0%, textile and apparel enterprises have to meet the requirements of "yarn forward", which means that all the stages of spinning, weaving - dyeing - finishing and sewing have to be done in TPP member countries.<sup>2</sup> This could potentially be quite a challenge for Vietnam, since, apart from the sewing stage (comprising of CMT activities), the country is not competitive in other segments, currently depending heavily on the supply of raw materials from foreign (non-TPP) countries, accounting for nearly 88% of total demand.

The TPP Agreement also has a Chapter on Technical Barriers to Trade<sup>3</sup>, which builds on the WTO TBT Agreement, which Vietnam undertook to comply completely with from the date of its accession to the WTO in 2007, with some new features such as: new transparency requirements (including public consultation requirements early in the development of new measures) enabling trade-related concerns to be vetted and addressed before new measures are finalized; requirements ensuring that information on regulatory decision-making is

publicly available; and greater clarification that companies will need to have their goods undergo conformity assessment procedures only once before being able to sell them in any TPP markets. This chapter also includes some annexes on specific products such as cosmetics, medical devices, and pharmaceuticals; ICT products; organic products; formulas for food products; and wine and distilled spirits. This means, for the time being, textile and apparel exports from Vietnam to the US would have to continue to comply with current regulations and standards of the US market, while watching out for new TBT measures along with conformity assessment procedures in the future, once this mega-regional is ratified and comes into effect.

## US Non-Tariff Barriers facing Vietnam Apparel Exports

Doing a simple web-search, one can easily find thousands of newspaper articles, along with research papers and even in-depth studies on the problems faced by Vietnamese apparel exporters to the world in general, and to the US in particular. These articles and papers referred to a great number of workshops, seminars and projects dealing with such issues as anti-dumping duties imposed on Vietnamese products, how the rules of origin under various FTAs could be interpreted, and certainly how to overcome technical barriers into certain markets, etc. This shows the level of industry concerns and the types of queries/requests that are being directed at the government for

<sup>1</sup> See

<<http://www.ncseif.gov.vn/sites/vie/Pages/tacdongcuatpdpdennganh-nd-17180.html>>

<sup>2</sup> For more information, see Chapter 3 of the TPP Agreement (Rules of Origins and Origin Procedures) and Chapter 4 (Textile and Apparel Goods) available at

<<https://ustr.gov/sites/default/files/TPP-Final-Text-Rules-of-Origin-and-Origin-Procedures.pdf>> and <<https://ustr.gov/sites/default/files/TPP-Final-Text-Textiles-and-Apparel.pdf>>

<sup>3</sup> See <<https://ustr.gov/sites/default/files/TPP-Final-Text-Technical-Barriers-to-Trade.pdf>>

clarification and support.

Specifically, to get into the US market, it is said that Vietnamese apparel exporters have to comply with the following regulations *inter alia*:

- The Consumer Product Safety Improvement Act of 2008 (CPSIA)
- Rules of origin for textile and apparel products (19 C.F.R Part 102)
- The Textile Products Identification Code (15 U.S. Code § 70)
- The Wool Products Labelling Act (15 U.S. Code § 68) and the Fur Products Labelling Act (15 U.S. Code § 69)
- Care Labelling of Textile Wearing Apparel and Certain Piece Goods (16 C.F.R Part 423)
- California Proposition 65 Toxic Enforcement Act
- CPSIA General Conformity Certificate

According to the Vietnam Chamber of Commerce and Industry (VCCI), while being highly complicated, the technical requirements set by these rules and regulations could be grouped into five main categories as follows:

**Requirement to meet with international quality standards:** The quality of textile and apparel products exported to the US, as well as other developed markets such as the EU, Japan, etc needs to be certified with international standards such as ISO 9001. Such certification is the pre-condition for penetrating and expanding into new markets. It shows that the companies have fully developed international quality management systems.

**Requirement for flame-resistant clothing:** Garment and textile companies also have to meet the health and safety requirements for consumers like flame-resistance. Consumer health and safety is always a top concern of the US government and US consumer associations. They therefore introduce very high standards and regulations on garment and

raw textile materials to protect consumers, which require manufacturers and exporters from other countries to invest in modern and advanced production technologies, to be able to produce products that meet with their requirements. This could really be a big hurdle for manufacturers and exporters in developing countries, including Vietnam, because they often lack capital and modern technologies.

**Compliance with environmental protection standards:** Textiles and apparels exported to the US are required to meet eco-labelling standards, to ensure the health and safety of users, and also to ensure environment protection and fight against pollution.

In addition to the above technical standards, the **social accountability standard** SA-8000 could be counted as the biggest obstacle for apparel and textile exporters from Vietnam mainly because of the lack of awareness, and cultural differences between Vietnamese exporters and US buyers. Most Vietnamese enterprises either do not want to disclose financial records, especially if they are private businesses, or cannot afford to pay the necessary expenses for SA-8000 certification, particularly at the current time of economic meltdown.

Besides technical and social accountability standards, the **Worldwide Responsible Apparel Production (WRAP)** is another tough challenge for Vietnamese garment companies. In exporting apparels and textiles to the US, Vietnamese companies found it most difficult to meet with the requirements of having social responsibility (SA-8000) and WRAP certifications. Both these two standards include very high and strict provisions on the use of child labour, compulsory labour, health and safety, freedom of collective bargaining, discrimination, disciplinary forms, working hours and payrolls, etc.

Notably, however, the difficulties being raised by these technical regulations and standards

used in the US market were mostly identified/highlighted by representatives of large enterprises, such as Vinatex (Vietnam National Textile and Garment Group), Garco 10, or Dugarco, etc - those which often deal with large orders and have long-established relations with foreign importers from developed markets. What could possibly be the perspectives of the small and medium enterprises (SMEs) on these issues?

## The SMEs' Responses

As mentioned above, SMEs account for a large proportion of the textile and apparel sector in Vietnam, while more than 80% only get engaged via the CMT production method. This is the easiest export method and brings the lowest added value. When cooperating under this method, buyers offer entire inputs to outsourcing businesses for production including raw materials, transportation, design and specific requirements; manufacturers only carry out stages of cutting, sewing and finishing products.

This is confirmed by all the small Vietnamese garment producers/exporters that were interviewed when developing this note. They said their main sources of business are "outsourcing"/CMT contracts/orders that they receive from US buyers. These US companies would provide them with materials (fabric) and set the designs and technical requirements. They could also provide an on-site Quality Controller (QC) at the factories of the Vietnamese companies, or hire an independent third-party evaluator to inspect the quality of products produced by Vietnamese companies. Once approved by the QC or the independent inspector, the products would then be exported directly to the US market, by the buyers themselves. The garment exporters might be aware of specific technical details of the products as set out in the contracts/orders, but they are usually unaware of the bigger picture regarding rules and regulations of the US

market, or technical barriers to trade as we may call it.

The problem is that these QCs or independent inspectors often evaluate/inspect only a certain random samples throughout the orders. So once the products have reached the US, sometimes buyers found that products do not meet their requirements, the entire orders could be sent back to Vietnam to be repaired or destroyed. In these cases, the Vietnamese garment companies have to bear all the relevant costs. Many residual or defect products from such export orders might then find their way into the domestic market in Vietnam, as the garment companies try to cut down on their losses.

In some cases, representatives of the US buyers would even come to inspect the factories of the Vietnamese garment companies, or hire consultants to do so, to ensure that the factories meet the social accountability and environmental protection standards (mentioned above). The small Vietnamese garment producers themselves rarely pay attention to issues such as international quality standards, or social accountability and environmental protection and only try to comply with the minimum legal requirements set by the Government of Vietnam. Likewise, none of the SMEs interviewed, with the exception of one large enterprise (Dugarco), were aware of the WTO or the TBT Agreement or that their interests might be relevant there. They are, however, willing to invest capital and upgrade their production facilities to meet with the requirements of the US/foreign buyers if the orders were large, frequent and attractive enough.

Finally, the interviewed enterprises all confirmed that the export markets, including the US, are much more demanding and their technical requirements are more difficult to meet, as compared to the domestic market. This means the enterprises have to put down



more capital, so as to install modern machines and equipments, upgrade the production chains and hire more qualified workers. Costs would be further increased if their products are returned for repairs/replacement and thus compliance could become inhibitive for some SMEs, because of their technical and capital constraints. On the other hand, servicing the export market is certainly more rewarding in terms of revenue and business opportunities.

In summary, Vietnamese textile and apparel producers seem to be well aware of the problems posed by technical barriers into the US market. Certainly difficult and capital-intensive for compliance, these barriers can still appear insurmountable. This might be due to the fact that Vietnamese garment makers are still at a very low value-added level of the global supply chain and they can still depend on the foreign buyers for all information about the export markets. This could prove to be problematic in the future when these Vietnamese enterprises try to move up the value chain and penetrate into foreign markets on their own, as in the case of some large enterprises mentioned in earlier parts, who are now voicing their concerns in as many forums as possible and asking for support from the government.

## **Some solutions**

The WTO TBT Agreement essentially encourages countries to adopt international standards in developing their system of technical regulations and standards. This means if Vietnamese enterprises would like to move up the ladder and expand into new

markets, as well as strengthen their exporting base to the US and other developed market, sooner or later they should consider applying international standards, be it on quality management system, social accountability or environmental protection, throughout their manufacturing process. More and more Vietnamese enterprises could nowadays show that they have complied with international standards such as ISO 9001 (Quality management system), ISO 14001 (Environmental management system), SA 8000 (Social accountability), etc. They consider these certifications as long-term investments, rather than short-term solutions to penetrate into any particular market. The awareness of more and more smaller and medium enterprises regarding such role of international standards should be raised and more assistance be provided by the Government of Vietnam and international donors towards the implementation of such standards at enterprise level.

The Geneva mission and the TBT Office could play more pro-active role by providing hands-on information about new TBT notifications of other countries, especially those markets of significant industry/trading interests for Vietnamese enterprises, so that these enterprises could not only come to understand the requirements of these market better, but also provide any comments/feedbacks they may have about such notifications within the permitted timeframe of 60 days.

## Annex – Brief Profile of Some Vietnamese Garment Companies Interviewed for this Note

S.No.	Company	Number of employees	Products	Export markets
1.	<b>Hoa Do Co. Ltd.</b> Main address: 310/112, Dien Bien Phu Street, Binh Han Commune, Hai Duong City, Hai Duong Province Tel: 0320.389 4956 – 0977 033 587 With branches in Quynh Phu District, Thai Binh Province	700	All types of clothing, except fur	US
2.	<b>Duc Giang Corporation (Dugarco)</b> <a href="http://www.mayducgiang.com.vn/en/">http://www.mayducgiang.com.vn/en/</a> Certified with ISO 9001, ISO 14001, WRAP, SA 8000	9,900	Shirts, jackets, trousers, uniforms and workwear	US (38%) EU (35%)
3.	<b>Hoang Anh Garment Export Company</b> Certified with ISO 9001-2008 Address: Plot 4B, Quynh Coi Town, Quynh Phu District, Thai Binh Province	1,200	Jackets, sportswear	US
4.	<b>Phuong Nam Garment Export/Import &amp; Trading Joint-stock Company (Funagamex)</b> <a href="http://funagamex.vn/">http://funagamex.vn/</a> Address: 18 Phan Huy Ich, Ward 14, Go Vap Distric, Ho Chi Minh City Certified with ISO 9001	750	Jackets, pants, sportswear skiing-suits, polo-shirts, t-shirt, clothes for children, etc	EU, US, Canada, Japan
5.	<b>Chien Thang Garment Joint-stock Company (Chigamex)</b> <u>Address:</u> 22 Thanh Cong, Ba Dinh, Hanoi <u>Phone:</u> 04 3831 4342		All types of clothing for export	US, EU
6.	<b>Hanoi-Osaka Trading Co. Ltd.</b> Address: No. 2 Lane 2, Cau Dat street, Chuong Duong Commune, Hoan Kiem District, Hanoi <b>Tel: 9324893 - Fax: 9324893</b>	40	Eco-bags,designed cloth bags	Japan



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