

# Policy Priority for Vietnam to Facilitate Apparel Enterprise Upgrading

## POLICY ANALYSIS EXERCISE

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**Client: World Bank Singapore Trade and Competitiveness Hub**

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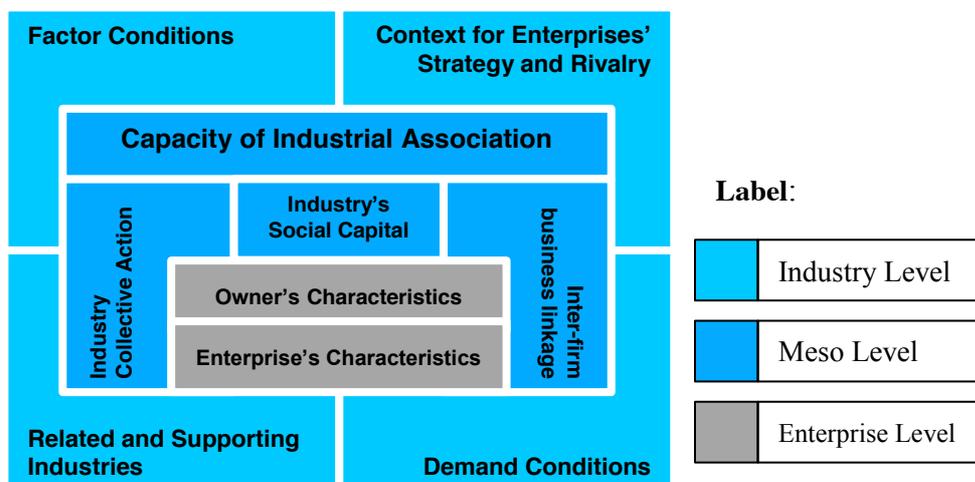
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## EXECUTIVE SUMMARY

The apparel industry has contributed significantly to Vietnam economic growth and economic integration into the global value chain. Gradual trade liberalization enables Vietnam’s apparel industry to grow rapidly. Vietnam became third largest apparel exporters in the world with a market share of 3.7% in 2013. The industry currently employs about 2.5 million workers. Despite the impressive growth, Vietnam’s apparel industry has been stuck in the “low technology, low value-added” trap. Among 6,000 apparel enterprises, 85% of their revenue is from lowest value-added activity—Cut-Make-Trip (CMT). Currently, only a handful number of Vietnam’s apparel enterprises can upgrade to higher value-added stages such as distribution, design, market, or branding.

This Policy Analysis Exercise (PAE) aims to study the underlying challenges that are preventing Vietnam’s apparel enterprises from upgrading to higher value-added activities. We developed policy recommendations to facilitate the upgrading process. In order to examine the challenges systematically, we developed a comprehensive analytical framework to guide our analyses and recommendations. This analytical framework was developed based on our literature review on industrial and enterprise upgrading and business linkages. This framework comprises of three levels: macro level (industry level), meso level (stakeholders’ linkages), and micro level (enterprise level).

### Analytical Framework



This PAE primarily used qualitative research methodology. Given the developed analytical framework, we developed interview guides to conduct semi-structure interviews with eighteen apparel enterprises, five foreign buyers, four associations, nine industry experts, and five researchers in Vietnam. Internationally, we consulted with three university professors, five international organization’s experts and three associations in Sri Lanka, Taiwan, and Cambodia to understand about international experiences.

**At the Industry (Macro) level analysis,** we found that Vietnam’s apparel industry has very poor related and supporting industries, poor factor conditions, moderate context for firms’ strategy and rivalry, and good demand condition. The three biggest challenges of Vietnam’s

apparel industry are 1) the insufficient availability of apparel-skilled workforce, 2) underdeveloped textile industry, and 3) unequal context for competition.

**At the Meso level analysis**, we found that the apparel industry in Vietnam is suffering from poor Inter-Enterprises Linkage, which means there is weak cooperation among stakeholders in the value chain and the lack of participation from enterprises, especially SMEs in industry associations. The poor linkages result in the absence of collective actions, which explains the inability to address chronic industry weaknesses. The underlying root causes of fragmented meso level's linkages and collective actions are 1) low social capital and 2) weak capacity of industry associations at individual, organizational, and institutional level.

**In the Micro level analysis**, we found that many domestic enterprises are facing challenges in transition from small-scale primitive business to more advanced manufacturing practices. However, leading domestic apparel enterprises have successfully adopted advanced manufacturing tools (e.g. 5S, Kaizen, Lean Manufacturing etc.) and acquired talents in their process, product and functional upgrading. The core competency of successful upgraders lies in their strong absorptive capacity, which is largely determined by owners' education and professional backgrounds, learning attitudes and enterprises' ownership structure.

Our recommends are divided into three levels as follows:

**At Industry (Macro) level**, we proposed three key recommendations. The first policy is to improve supply of apparel-skilled workers by reforming the existing apparel-training Institute toward the public-private partnership (PPP) model. The second policy is to promote investment in textile industry by creating a specialized textile industrial park. The third policy is to encourage enterprises to compete and upgrade by creating incentive schemes for upgraders and encouraging spill-over effects.

**At Meso level**, we proposed two key recommendations. The first policy is to improve association's institutional capacity by providing the association with more independence and autonomy. Policy market needs to engage industry associations and think-tank in the policy-making process. The second recommendation is to improve association's individual and organizational capacity, such as taking more leadership, introducing more transparency and accountability, staff's compensation, and funding.

**At Micro level**, we proposed two key recommendations. The first recommendation is to facilitate the accumulation of enterprises' absorptive capacities through accessibility and sharing of best practices. The second recommendation focuses on establishing the institutional arrangement, training activities and incentive systems to drive productivity in the industry.

T&A

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# 1 INTRODUCTION

The apparel industry has contributed significantly to Vietnam economic growth and economic integration into global value chain since the introduction of Doi Moi Process<sup>1</sup> in 1986. This industry has grown rapidly since the early 1990s and played increasing role in the economy. Starting from low and inefficient production capacity by state-owned enterprises (SOE), Vietnam's apparel industry has been liberalized more with the involvement of both foreign and local private enterprises. Openness leads Vietnam to be third largest apparel exporters in the world with a market share of 3.7% in 2013 (WTO, 2014). This industry is also employer to almost 2.5 million Vietnamese workers (FPT Securities, 2014).

Given the importance of apparel industry in Vietnam's economy and its remarkable growth, there have been a many attentions on Vietnam's apparel industry from both academic society and development institutions. However, most of the previous research works focus on topics from labor and trade point of views. Limited number of studies has focused on of upgrading apparel enterprises in Vietnam.

Our client, the World Bank Singapore's Trade and Competitiveness Hub, proposed to conduct a study on capacity building for enterprises in developing countries. Our team, then, has narrowed the topic of Policy Analysis Exercise (PAE) to focus on studying on challenges of upgrading apparel industry in Vietnam and developing policy recommendations to facilitate upgrading process.

## 1.1 Policy Context

Industrial development experiences from developed East Asia economies have shown that apparel industry was the entry point for their economics to integrate into the global value chain during their early stage of industrialization. Firstly, labor-intensive characteristic of apparel industry generates huge employment opportunities, which facilitates the economy restructuring from low value-added agriculture to higher value-added manufacturing activities. Secondly, the relatively low technology and capital-intensive requirements present a low entry barrier for local apparel enterprises to enter global value chain. Finally, gradual upgrading within apparel value chain enables economy, her industrialies, and workforce to accumulate experiences and capital before chain upgrading and moving into more complicated manufacturing sectors.

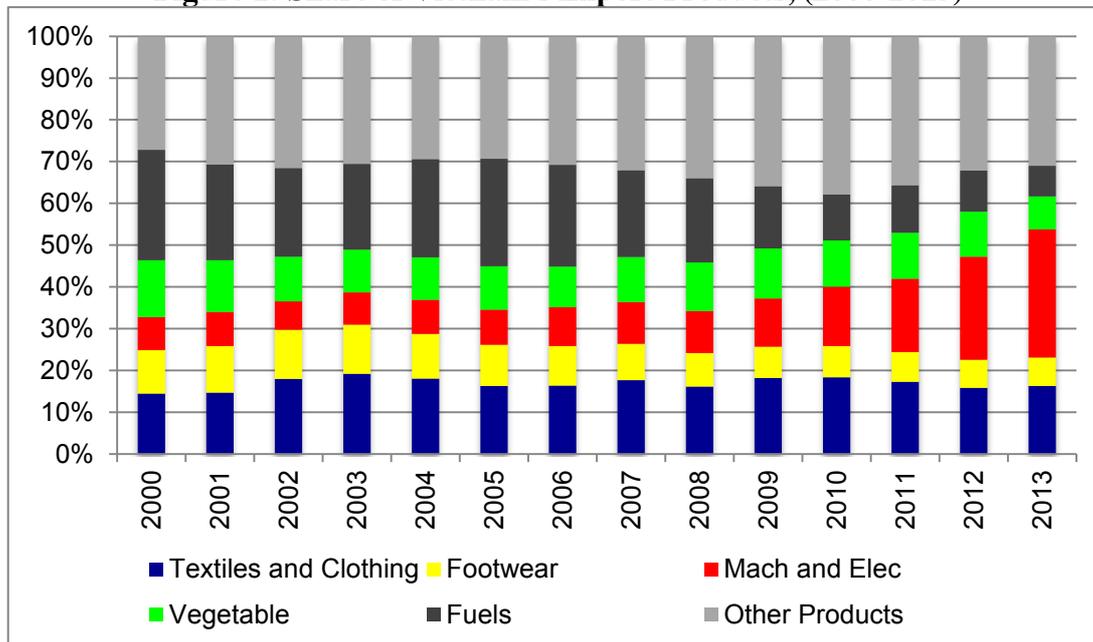
Vietnam's apparel industry plays a major role in earning foreign exchange and creating employments. In the last decade, annual share of apparel exporting has been around 17% of Vietnam's total export. It was the 2<sup>nd</sup> largest exporting industry of Vietnam in 2013 (Figure 1). According to a study by FPT Securities, the number of direct employments created by apparel industry has reached 2.5 million and generated US\$ 504.45 million monthly in wage

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<sup>1</sup> Doi Moi Process is an economic reform policy that aims to transform Vietnam economy from planned economy to socialist-oriented market economy.

(FPT Securities, 2014). These achievements are strongly driven by inflow of foreign investors from East Asia economies such as Japan, South Korea, Hong Kong, and Taiwan.

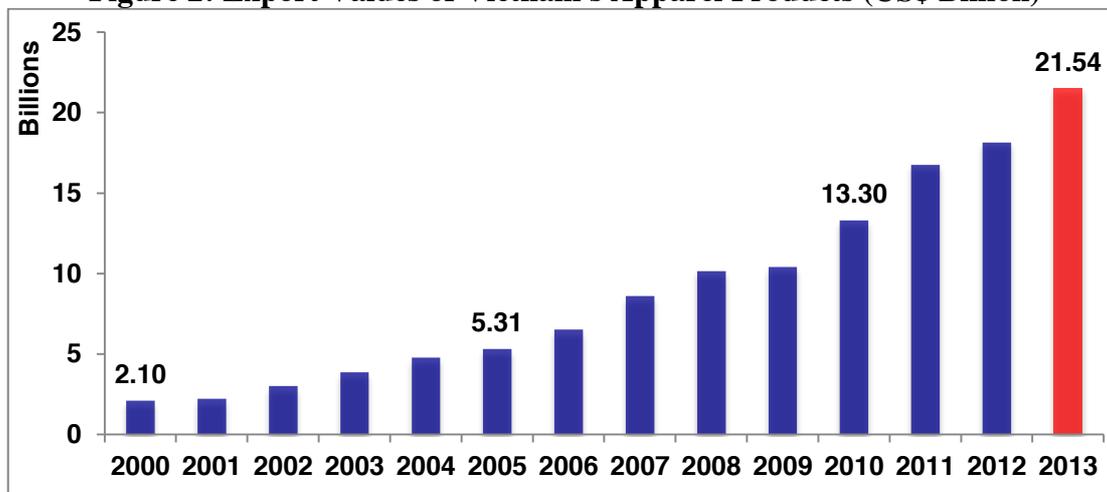
**Figure 1: Share of Vietnam's Export Products, (2000-2013)**



Source: A World Bank's World Trade Integrated Solution

Additionally, Vietnam is one of the fastest apparel exporting countries in the World. Between 2000 and 2013, apparel export values of Vietnam increased almost ten times, from US\$ 2.1 billion to US\$ 21.54 billion (Figure 2). 16 years ago, Vietnam ranked 12<sup>th</sup> as apparel exporter with market share less than 1%. However, Vietnam could increase its world market share to 3.7% and improve to be the 3<sup>rd</sup> largest exporter of apparel products in 2013 (Table 1). Increasing productivity and efforts to join free trade agreement are considered to be the main factors that lead Vietnam to be a major exporter of apparel products.

**Figure 2: Export Values of Vietnam's Apparel Products (US\$ Billion)**



Source: World Bank's World Trade Integrated Solution

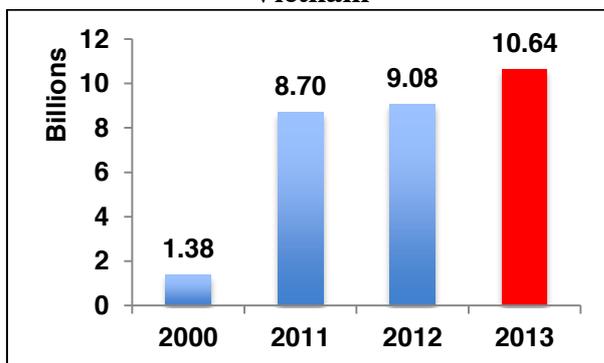
**Table 1: World's Top 13 Apparel-Exporting Countries**

Country	2000		2013	
	Share (%)	Ranking	Share (%)	Ranking
China	18.3	(1)	38.6	(1)
Bangladesh	2.6	(7)	5.1	(2)
<b>Viet Nam</b>	<b>0.9</b>	<b>(12)</b>	<b>3.7</b>	<b>(3)</b>
India	3.0	(5)	3.7	(3)
Turkey	3.3	(4)	3.3	(5)
Indonesia	2.4	(6)	1.7	(6)
United States	4.4	(2)	1.3	(7)
Cambodia	0.5	(13)	1.1	(8)
Malaysia	1.1	(10)	1.0	(9)
Pakistan	1.1	(10)	1.0	(9)
Mexico	4.4	(2)	1.0	(9)
Sri Lanka	1.4	(9)	1.0	(9)
Thailand	1.9	(8)	0.9	(13)

Source: World Trade Organization's International Trade Statistic 2014

Additionally, Vietnam has been able to increase value-added of its apparel industry. Table 2 shows that the ratio of apparel-export and textile-import has increased from 1.52 (Year 2000) to 2.02 (Year 2013). Most of the textile products are imported from China, South Korea, and Taiwan (FPT Securities, 2014). Aside from this, by comparing world market shares in 2013 and changes in world market share between 2005 and 2013 of top 10<sup>th</sup> apparel exporters, we have learned that Vietnam's apparel industry has been able to achieve both high world market share and high growth of world market share. This means Vietnam is one of the most competitive apparel exporters in the world (Figure 4).

**Figure 3 Import Values of Textile to Vietnam**



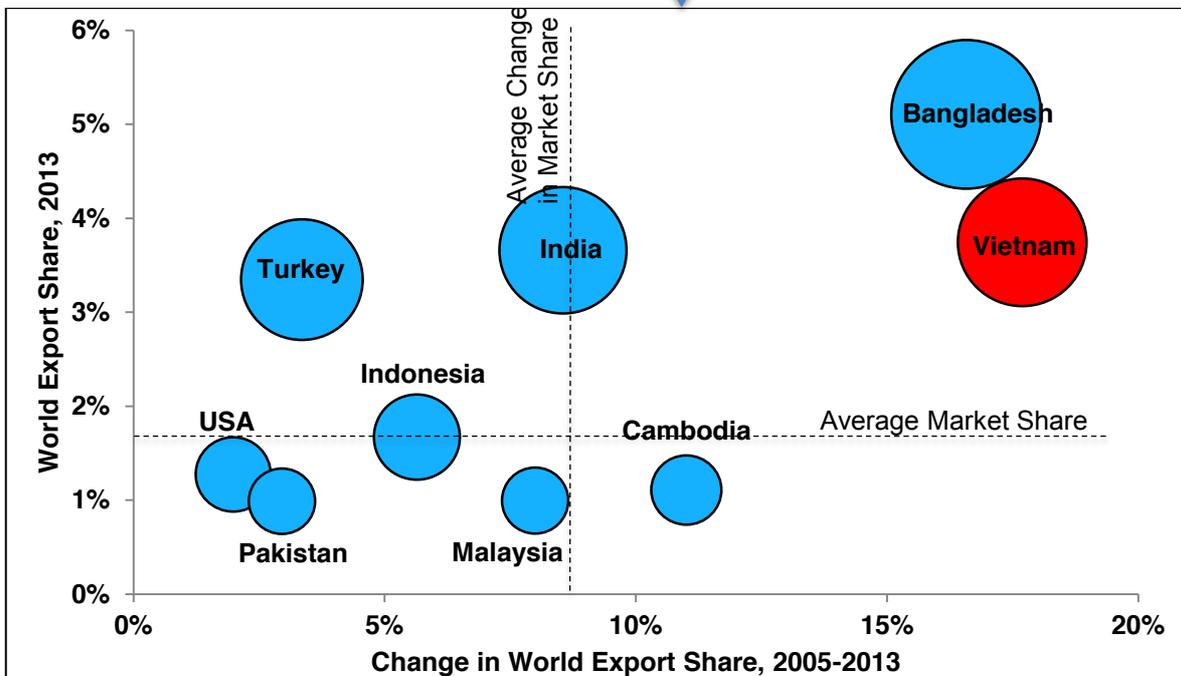
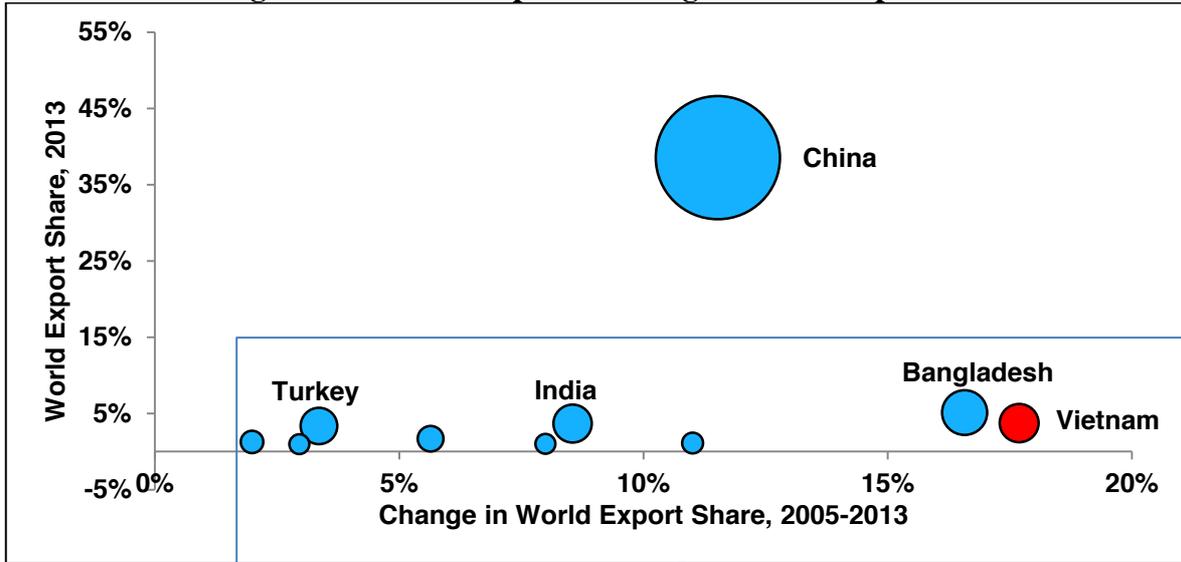
Source: World Trade Organization's International Trade Statistic 2014

**Table 2 Comparing Export-Import Ratio, 2000-2013**

Year	Apparel Export	Textile Import	Export-Import Ratio
2000	2.1	1.38	1.52
2013	21.54	10.64	2.02

Source: Author Calculation with Data derived from World Trade Organization's International Trade Statistic 2014

**Figure 4: World's Top 10 Clothing Products Exporters**

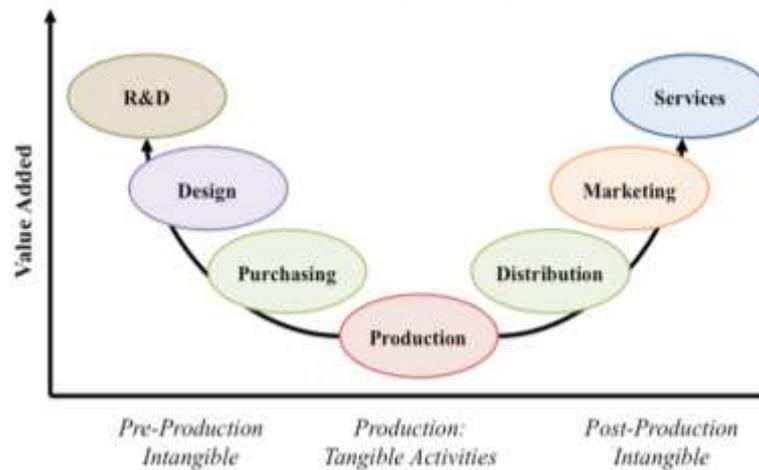


Source: World Trade Organization's International Trade Statistic 2014

### 1.2 Problem Definition

**Weakness:** Despite having fast export growth and increasing share in world market, Vietnam's apparel industry has been trapped in the low value-added stage. Among 6,000 apparel enterprises, 85% are Cut-Make-Trip (CMT) enterprises (FPT Securities, 2014). According to Duke Center on Globalization, Governance, and Competitiveness, CMT is the lowest value-added method of production in global value chain (Figure 4). Therefore, upgrading garment enterprises to higher value-added stages (e.g. purchasing, distribution, or design) is important for Vietnam's apparel industry to stay competitive and increase value-added.

**Figure 5 Curve of Value-Added Stages in Apparel Global Value Chain**



*Source: Duke Center on Globalization, Governance, and Competitiveness*

**Threats:** Vietnam’s apparel industry is facing two threats namely rising wage and global competition. Firstly, the wage is very sensitive in the apparel industry, because it is a labor-intensive industry. Rising wage could make Vietnam apparel industry less competitive and force investors to move their production to countries with cheaper wage (e.g. Myanmar, Cambodia, and Bangladesh). This inevitable trend has happened in the past, as apparel industry in developed East Asia economies (e.g., Japan, South Korea, and Taiwan) moved to China and then Vietnam. Secondly, a global competition of apparel industry is increasing. Figure 3 shows that Bangladesh, India, and Cambodia are major competitors of Vietnam because these countries also produce similar products segment as Vietnam. In order to maintain its competitiveness, Vietnam’s apparel enterprises need to upgrade its process, products, and function.

Base on the above reasons, our PAE’s main problem statement is:

**Vietnam’s apparel enterprises are facing increasing competition and trapped in low-value added stage of apparel global value chain.**

### 1.3 Policy Question

In this research project, we set the main policy question as follows;

**What are the policies that Vietnam can adopt to upgrade its apparel enterprises to high value-added stages?**

Base on this question, we asked following sub-questions:

Q1: What are the challenges that prevent Vietnam enterprises from upgrading to high value-added production? Why do they exist?

Q2: What are the differences between enterprises that have successfully and unsuccessfully upgraded? What are determinants of successful upgrading?

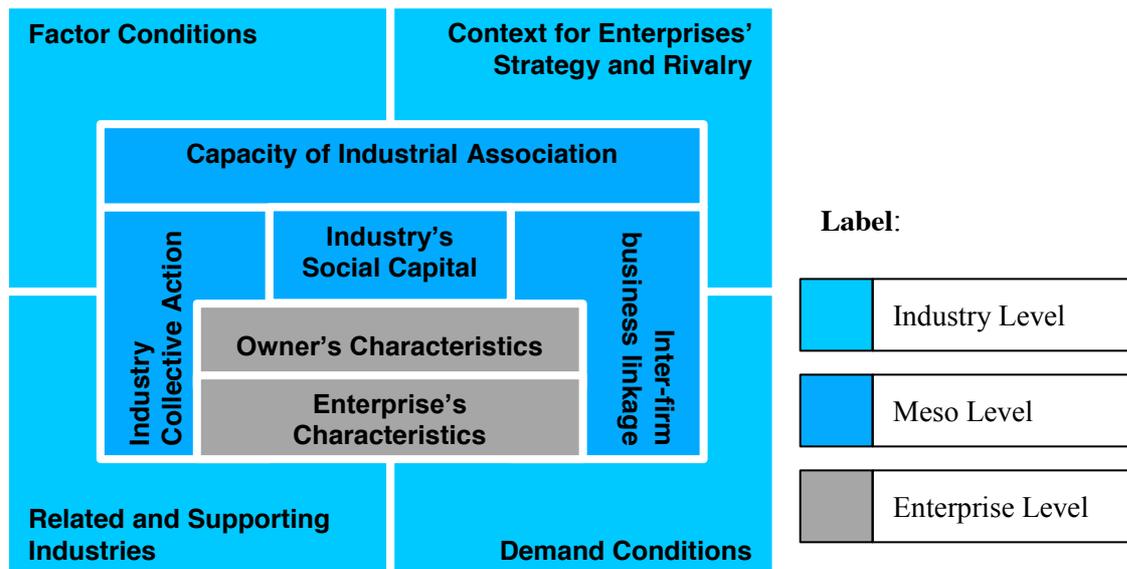
Q3: What could we do about it? How did other countries upgrade its apparel industry? What are the most suitable policies for Vietnam?

Q4: Which stakeholders should we involve in implementing the proposed policies?

## 2. ANALYTICAL FRAMEWORK

The analytical framework that guides our analysis and recommendations comprises three layers including industrial level, meso level (stakeholders' linkages), and enterprise level. We designed a comprehensive three-level analytical framework because upgrading apparel enterprises need solutions for entire apparel system. This framework is based on a combination of industry and enterprise concepts including diamond framework, concepts of business linkage, and enterprise characteristic. The following figure shows details of our analytical framework.

**Figure 6: Our Analytical Framework**



### 2.1 Industrial Level

We adopted Michael Porter's (2008) cluster diamond framework as a framework for our industry level. Industrial level comprises 4 important components including 1) Factor conditions, 2) Context for enterprises' strategy and rivalry, 3) Demand conditions, and 4) Related and supporting industries. These four components create a crucial environment in which enterprises are born, compete and upgrade.

- **Factor conditions:** refer to factor production such as skilled labour, physical infrastructure, information, legal system, and university research institutes. Improving efficiency, quality, and specialization of factor conditions can increase the productivity of targeted industry<sup>2</sup>. Having good factor condition increases the chance that apparel enterprises can upgrade to higher value-added activity and higher productivity (Porter 2008, p.227).
- **The context for enterprises' strategy and rivalry:** refers to the condition in country governing how enterprises are created, organized, managed and competed. It includes

<sup>2</sup> Porter, Michael E. *On competition*. Harvard Business Press, 2008.

rules, incentives, norms, and intensity of local rivalry that affect investment and upgrading (Porter 2008, p.227).

- **Demand conditions:** refers to the nature of market demand for apparel products. Characteristic of the market also support apparel enterprise upgrading. The advantage arises from having sophisticated and demanding customers, or customers with unusually intense needs for specialized variety also in demand elsewhere. Sophisticated and demanding buyers pressure companies to meet high standards, provide a window into evolving customer needs, and pressure companies to innovate and move to more advance segments (Porter 2008, p.228).
- **Related and supporting industries:** refers to the presence or absence of supplier industries and other related industries that are internationally competitive. The local presence of capable suppliers and related industries is important for the competitiveness and upgrading of apparel enterprise because sourcing from local market requires shorter lead-time and reduces transportation cost (Porter 2008, p.230).

## 2.2 Meso Level:

The meso level of our framework comprises of three components namely 1) capacity of association, 2) Industry's Social Capital, 3) Inter-firm business linkage, and 4) Industry collection action.

- **Capacity of Industry Association:** refer to the combination of institutional capacity, organization capacity, and individual capacity of the association (UNESCO, 2005). Industry association play key roles in promoting collaboration and collective action among stakeholders in industry. The presence of association plays a key role in creating a jump-start for enterprise's future rapport and in eliminating enterprise's cost of searching for partners Hubert Schmitz (1995)
- **Industry's Social capital:** refers the social or community ties among enterprises, which is fundamental for trust and mutual reliance. Social capital allows enterprises to collaborate with each other even presence of association. Social capital limits fraud and pressures enterprises to keep the commitment and cooperate with each other (Klein, 1991).
- **Inter-firm business linkage:** refer to the connection between enterprises in different stages of the value chain such as supplier, producer, trader, and buyer (Hubert Schmitz, 1995). The business linkage between enterprises plays an important role in the development and success of an individual enterprise as well as a group of enterprises as a whole (Antunes and Ruas, 1992). The essential factor is inter-firms relationship and cooperation are fostered and facilitated by groups of enterprises joining forces in a business association or social capital.
- **Industry Collective Action:** refers to the activities that enterprises collectively work together. Some forms of collective actions are representation in dialogue with government or international platform, lobbying work (Bennet and Ramsden, 2007), industry standards, codes of conduct, branding of quality control (Olson 1971) and training service (Schmitz, 1995).

### 2.3 Micro Level

The enterprise owners' capabilities and characteristics are highly significant for achieving their business success. In other words, and if they can obtain a technology upgrading largely depends on the characteristics of the individual entrepreneur. However, a lot of the enterprise owners are currently constrained by the following factors such as the shortage of quality education indicated in Table 3 below. As discussed in Figure, having enough education for enterprise owners is very crucial to understand international exposure, for instance.

**Table 3: Structural Factors and the Importance of Enough Education**

<b>Structural Factors</b>	<b>Importance of Good Education</b>
1) The lack of quality education	1) Understanding the importance of work experience
2) Skilled workers	2) International Exposure
3) Market information	3) Market Information
4) Access to finance	4) Human resource development and robust finance
5) Law enforcement	

Source: Loewe et al. (2013)

Loewe et al (2013) also pointed out the following six factors as the main determinants of upgrading enterprises including: a) Human capital, b) Motivation and readiness to take risks or the owner's risk aversion, c) Investment in human resources, d) Market research, e) Access to finance, and f) Ability to deal with persistent deficits in the rule of law.

### 2.4 How we use this framework

We identified and analyzed the key underlying problem in each component of this framework base on our interviews with stakeholders (e.g., apparel enterprises, international buyers, association) in Vietnam. After understanding issues that are preventing apparel enterprises from upgrading to higher value-added business, we studied literature and interviewed experts in other countries in order to find policies that have been used to improve each component of this framework. Then, we suggested policy priorities which are suitable in the Vietnam's context.

## **3. RESEARCH PROCESS AND METHODOLOGY**

### **3.1 Overview of Research Process**

This section provides an overview of our research processes. We divide our research process into four stages as following:

- In the first stage, we started with the defining problem of Vietnam's apparel industry and setting policy question.
- In the second stage, we aimed to develop an analytical framework to guide our analysis and recommendation.
- In the third stage, we studied in-depth about upgrading challenges of apparel enterprises in Vietnam.
- In the last stage, we finalized with proposing and evaluating policy recommendations to upgrade apparel enterprise in Vietnam.

### **3.2 Research Method**

#### **3.2.1 Literature Review**

Literature review served as the foundation for our research. The objective of the literature review was to understand: 1) What challenges in Vietnam's apparel industry are; 2) What global value chain of apparel industry is; 3) What frameworks are used to study on the industry-related issue, and 4) How some countries could upgrade value-added of their apparel industry.

#### **3.2.2 Qualitative Interview**

We adopted qualitative interview method to collect primary information and insights from various stakeholders, who can provide us with opinion base on their life experiences on targeted subject (Opdenakker, 2006). Moreover, participants of our research are enterprise's owner/manager and association's expert, all of who have in-depth expertise on the subject. Therefore, their opinion is credible for our research.

We used our analytical framework to design questions on several topics such as 1) challenges in the apparel industry, 2) performance and characteristic of local apparel suppliers, 3) the demand and perspective of buyers, and 4) the roles of association. We developed questionnaire guidance for interviewing key stakeholders. Throughout the interviews, some questions were modified to explore new themes that rose and to justify some constraint.

We conducted the fieldwork in August 2015 and December 2015 - January in 2016 in Ho Chi Minh City. We interviewed apparel enterprises (suppliers), buyer companies, experts, Vietnam T&G association (VITAS) and HCMC Association of Garment, Textile, Embroidery and Knitting (AGTEK). Interviews were conducted in Vietnamese for local enterprises and associations and in English for global buyers. Each interview was tape-recorded and note-taken with permission from our interviewees. We transcribed the recordings of interviews for our analysis. The Vietnamese transcripts were translated into the

English language. We conducted a total of 40 interviews with 6 associations, 9 industrial experts, 18 apparel enterprise, and 6 domestic and foreign suppliers.

### **3.2.3 Case Studies**

The case study is the extension of the interview survey. It is the in-depth study focusing on the success stories of enterprises that have managed to upgrade their competitiveness (e.g. process upgrading, product upgrading, functional upgrading). The key objective is to understand: (1) their development path and the strategy that they have employed to deal with the development challenges in the apparel industry (2) the key success factors (both internal and external factors) that differentiate their performance. Moreover, we will also apply case studies to show about the practices of apparel association in other emerging countries like Cambodia and Bangladesh, where associations play critical roles in the apparel industry.

Insights from the case study will provide meaningful lessons for other enterprises. They also serve as the input for associations and policy makers to identify specific areas and policies need to be designed and implemented.

### **3.2.4 Expert Consultation**

We conducted consultations with apparel industry experts and academic researchers in order to learn about experience of apparel industry development and institutional building for industrial association. Our team consulted with 8 academia and researchers and 6 international organizations.

## 4. LITERATURE REVIEW

### 4.1 The Apparel Industry in the Global Value Chain (GVC)

One of the biggest and oldest export-oriented industries in the world is the apparel industry, and it is “a classic ‘starter’ industry for export-oriented industrialization and one that played a key role in Asia’s industrialization and development (Gerefi, G. and O. Memedovic 2003).

A typical buyer-driven value chain or network can be represented in the global apparel industry structure including both global and regional highly competitors. On world product-markets, each enterprise’s performance for pricing is no longer the only function. “In the context of GVC networks, it is now mostly a function of reliability, which involves getting the right products in the right quantity, of the specified quality, at a competitive price, to the right place, at the right time (Gerefi, G. and O. Memedovic 2003).”

Along the way, it is very crucial for enterprises to be able to meet with strict standards, conventionality certifications and requirements. As illustrated in Figure below, value chain in the apparel industry is based on a buyer-driven. For instance, a decentralized production network located in develop countries is usually controlled by large international companies, and the operations of design and marketing or distribution are typically separated from the physical production. All of these processes can be integrated into the GVC.

Specifically, the (textile and) apparel GVC has structured around five main components (UNIDO 2003). These components are 1) *raw material supply*, including natural and synthetic fibers, 2) *provision of components*, such as the fabrics and yarns manufactured by textile enterprises, 3) *production networks made up of apparel factories*, including their domestic and overseas subcontractors, 4) *export channels established by trade intermediaries*, and 5) *marketing networks* at the retail level (UNIDO 2003).

In fact, for the most assembly apparel factories, entry barrier are low in the apparel industry. Moreover, they can move up from textiles to fibers in the GVCs. Some chains activities in the apparel industry are globally going around may different countries and regions. For instance, the design operations are taking in the most of the large cities such as London, Milan, Tokyo, Paris, and New York. In contrast, the assembly is mostly taking place in developing countries, the places with much lower cost. As globally dispersed production needs to be carefully planned and managed, some chain process can be integrated vertically. For instance, “Humphrey comes up an example; a study of the silk sub-sector in Thailand revealed that the modern Thai silk chain consisted of a single vertically integrated enterprise that was involved in all activities from silkworm research to retailing the final product (Humphrey, 2003).

### 4.2 Opportunities for Apparel Enterprise in GVC

Through the division of labor and specialization, Industrial regions are networks of SMEs which are connected to together leading to economies of scale and scope and the improvement of collective abilities. The competitive advantages of SMEs within industrial regions with comparing to isolated SMEs are involved in the dense networks of competition

and co-operation. Brusco (1992) discussed through institutional support; institutional support can enrich local capabilities. So, connecting to the industrial regions or cluster is the key capability for promoting upgrading and innovation that are crucial to ensure profits in the face of global competition. As argued by Porter, "In theory, more open global markets and faster transportation and communication should diminish the role of location in the competition. After all, anything that can be efficiently sourced from a distance through global markets and corporate networks is available to any company and therefore is essentially nullified as a source of competitive advantage... the enduring competitive advantages in a global economy lie increasingly in local things - knowledge, relationships, motivation - that distant rivals cannot match" (Porter 1998: 77-78).

### **4.3 Three Types of Enterprise Upgrading**

Regardless of the enterprise size, all the enterprises joining in Global Value Chains requires improvements and changes their performance among enterprises and in GVCs. Changing means all the enterprises requires to "upgrading." The perception of upgrading is an essential point of GVC analysis. "Upgrading is a form of innovation that generates rent if it occurs ahead of that of rivals (Kaplinsky 2005: 63)." There is a varied consensus with regards to the GVC research that upgrading within GVC can normally categorize into three areas that are product upgrading, process upgrading, and functional upgrading (see for instance Gereffi and Memodovic 2004; Kaplinsky 2005; Kaplinsky and Morris 2001; Palpacuer et al. 2005).

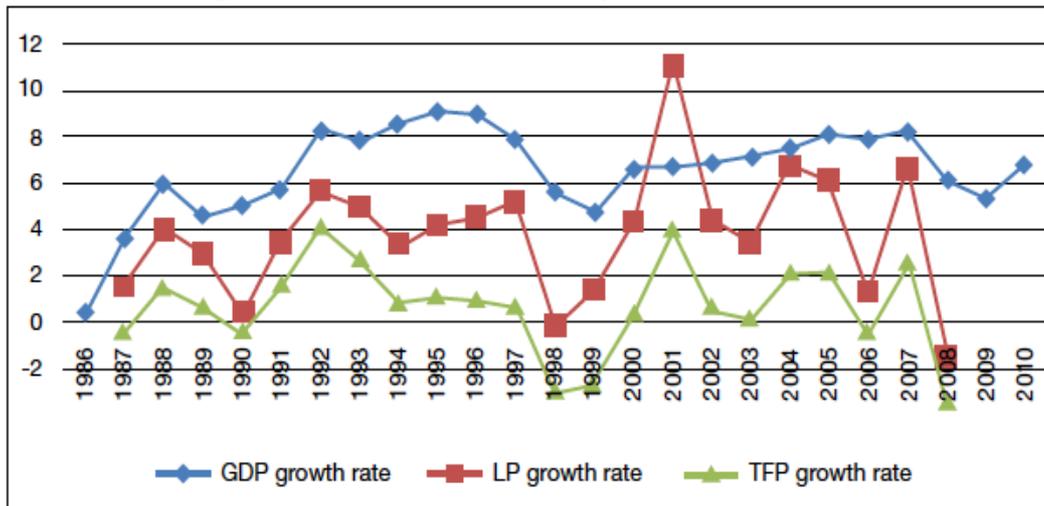
Opportunities for upgrading are shaped by the buyer-driven governance structure of the apparel industry. Humphrey and Schmitz (2002) identify four types of industrial upgrading: (1) functional (moving to higher-value functions); (2) product (producing higher-value products); (3) process (incorporation of more sophisticated technologies into production); and (4) intersectoral (leveraging expertise gained in one industrial sector to enter a new sector.)

## 5. CURRENT INDUSTRY UPGRADING LANDSCAPE

### 5.1 National Program for Promoting Productivity Growth

Vietnam economic growth has been driven mostly by labor expansion and structural shift instead of TFP growth. A labor-intensive industry like apparel will erode its competitiveness when labor productivity cannot commensurate with wage rise.

**Figure 7 GDP and Productivity Growth, 1985-2010**



Source: APO, Productivity in the Asia-Pacific: Past, Present, and Future (2015)

While there is a National Wage Committee to calibrate annual minimum wage adjustment, there is non-existent of any National Committee to spearhead productivity growth.

The Vietnam National Productivity Institute (VNPI) was established in 1997. The institution orchestrated initiatives in 3 key areas: promote productivity and quality awareness, implement and coordinate projects, provide high-quality training and consulting programs (APO, 2015). The government also promulgated the national program 712 to improve productivity and quality in 2010. The program is chaired by the Minister of Science and Technology. VNPI is currently under the Directorate for standards, metrology and quality (MoST). The relatively low ranking of a national productivity promotion institution and programs does not provide sufficient weight and resources for the comprehensive and strategic design and implementation capabilities.

Furthermore, the subsidies of training and consultancy programs are attached to the government-linked service provider (e.g. SMEDEC 2 in the South). Consultancy and training services provided by SMEDEC 2 is 90% subsidized by the government. The monopoly of subsidy service provider diminishes motivation to improve. It also prevents private service provider, who may provide better services, from accessing this subsidized program.

The Program 712 is well known among industry consultants but not apparel enterprises that we spoke to. VNPI has been doing well in coordinating programs, with assistance from international organizations, to train experts in the fields. However, the existing national

institutions also face serious weakness due to the lack of representation by business sector, especially private SMEs. It is found out during the interviews that there is a very low enterprises' awareness about VNPI and their productivity programs. Enterprises are also very skeptical of participating in state-led programs due to the long-held negative perception of red-tape and harassment of public services.

## 5.2 Three Types of Upgrading in Apparel Industry

There are three main types of upgrading in the T&G industry that we focus on this research. Each type of upgrading poses different challenges. The level of difficulties is increasing from process upgrading, product upgrading and eventually functional upgrading. Functional upgrading requires acquisition of new capability from pure assembly to more knowledge and capital-intensive activities. Based on our interviews with stakeholders in Vietnam, we analyzed the challenges of upgrading and summarized key characteristics in the following figure.

**Figure 8 Three Types of Enterprise Upgrading Experience**

Type:	What	Why	How	Challenges
<b>Process</b>	<ul style="list-style-type: none"> <li>Improve productivity &amp; efficiency manufacturing process</li> <li>Apply advanced manufacturing process (kaizen, lean, TQM) &amp; automate certain process</li> </ul>	<ul style="list-style-type: none"> <li>Reduce time &amp; cost → improve productivity &amp; profit margin</li> </ul>	<ul style="list-style-type: none"> <li>Technology transfer from external parties</li> <li>Self-initiative:               <ul style="list-style-type: none"> <li>Experienced managers</li> <li>Engage external consultant</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Access to advanced know-how &amp; technology &amp; machine</li> <li>Long-term commitment</li> <li>Supply of capable consultancy services</li> <li>Owner's mind-set and commitment</li> </ul>
<b>Product</b>	<ul style="list-style-type: none"> <li>Upgrade capability, process, machine and employee skill to</li> <li>Produce higher value added products (e.g. suit, fashion, etc.)</li> <li>Access to more demanding market</li> </ul>	<ul style="list-style-type: none"> <li>Higher value per unit → higher margin</li> <li>Improve employee's satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Initiate by buyers</li> <li>Explore and acquire new customers</li> <li>Train or acquire skilled workers to meet higher requirements &amp; standards</li> </ul>	<ul style="list-style-type: none"> <li>Access to new market demand</li> <li>High capital investment to acquire new production line</li> </ul>
<b>Function</b>	<ul style="list-style-type: none"> <li>Upgrade from CMT to more advanced contract:               <ul style="list-style-type: none"> <li>FOB (+ supply chain management)</li> <li>ODM (+ Design capability)</li> <li>OBM (+ Branding &amp; Marketing)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Higher profitability (CMT 3%, FOB 5%, ODM 10%)</li> </ul>	<ul style="list-style-type: none"> <li>Develop new capability               <ul style="list-style-type: none"> <li><b>FOB:</b> merchandising → Access to demand, restructure operation, acquire experienced staff, establish overseas offices</li> <li><b>ODM:</b> product development → M&amp;A or organic upgrading: Acquire customers, org restructure, acquire talents</li> <li><b>OBM:</b> branding → M&amp;A or organic upgrading</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Strong &amp; Established hierarchy in the GVC</li> <li>Weak domestic textile industry</li> <li>Lack of skilled labour, (merchandiser, designers, etc.), middle management</li> <li>Size matters</li> <li>High capital investment</li> </ul>

Source: Authors' Evaluation with information from primary and secondary research

### 5.2.1 Process Upgrading Challenges

Many domestic enterprises place greater emphasis on process upgrading (e.g. 5S, TQM, lean manufacturing, etc.). Vinatex's members are the pioneering adopter of this quality and productivity management tools.

The application of these modern manufacturing tools is not straightforward. Many enterprises reported the tendency of falling back into old practice after a while. Besides experience and competencies of consultants, process upgrading requires a strong commitment to make and decision to push forward implementation amidst inertia and to resist to changes. The successful transformation of process upgrading also necessitates resources commitment, as there is usually a lag time between initial investment and actualization of return. Reflecting on his own enterprise experience, Mr. Hong, Chairman of Saigon 3 Garment JSC claimed that *“cost increase 15% during the first three months after introducing the change. It is because the workforce needs time to adapt to the new practice. Therefore, to make the change last, it requires continuous commitments by the top managers to reinforce the new practice”*.

“Many SMEs’ owners have the perception that only large-size enterprises should apply lean manufacturing. SMEs are in greater need to be lean to stay competitive,” said Mr. Hong, Chairman of Truc Quang JSC. The majority of domestics’ enterprises, especially SMEs, are still practicing primitive manufacturing practices. Although their current production process is inefficient, many SMEs do not change their manufacturing practice. “It is very challenging to teach local factories that quality and delivery date are the most important factors in our sourcing strategies,” said Mr. Mr. Hidekazu Takahashi , Chief Representative of Marubeni in Vietnam.

### **5.2.2 Product Upgrading**

Product upgrading is normally an advanced step of process upgrading. Product upgrading can be in two main forms. First is the transition from commodity product to more premium products, such as fashion clothing, suit, etc. Secondly, product upgrading is the transition to higher standard market, for example, from domestic to the foreign market.

A successful SME enterprise that we had an interview with is Tien Tien Garment JSCs. The enterprises started from scratch in 1994 with man T-shirt and evolved to become among the most reliable suppliers for a global fashion brand. The upgrading into fashion products came from the vision of the founding director, Mrs. Pham Thi Du: “making T-shirt is very competitive due to the low entry barrier and everyone can participate. However, women fashion keeps changing and in greater demand than man’s clothes, the design also require more sophistication. If we work hard to build the capability, then we can build monopoly power.”

Another higher value-added product is man’s suit. Previously, the segment was exclusively dominated by Japanese and Korea FIEs. Viet Tien was the first domestic enterprises to build capability in man’s suit production. Gradually, other Vinatex’s members, such as Nha Be, May 10, Hoa Tho followed to build their own capability. However, the production line requires a huge investment in machinery and production line up front. Therefore, only large size enterprises have successfully built the capacity so far.

### 5.2.3 Functional upgrading

Function upgrading is the most advanced type of upgrading within a sector. Enterprises need to acquire new higher value-added capability. Expert estimates that 85% garment industry output is in the form of Cut-Make-Trim (CMT), the lowest value-added contractual arrangement. Buyers provide from raw materials, technical design, and logistics arrangement. Supplier just needs to do the simplest activity of cut-make-trim. The competitive advantage of the supplier is normally the low labor to do the simple assembly.

Given the poor local textile industry, upgrading to FOB is a big challenge as sourcing raw materials requires international sourcing capability. However, there is a transition from CMT to FOB for domestic enterprises. The transition occurred primarily at SOEs, Joint venture, and FIEs. Size commonly matters, except for niche products because suppliers can only source competitive pricing with large orders. That explains the reservation of buyers to maintain CMT arrangement to keep their cost leverage.

Besides, sourcing demand capability personnel with both technical, trading knowledge and English proficiency to deal with international raw materials suppliers. This placed a high overhead cost that SMEs hardly can afford cost without scaling up their production. Lastly, FOB also requires the higher financial capability to procure materials upfront. Hence, suppliers expose to a higher financial risk. Some medium private enterprises have managed to establish trade offices or personnel in China to source materials to earn a higher margin.

Phong Phu International is the first enterprise developing ODM capability in Vietnam. However, it is the lower level of ODM, where concept design still needs to be fed by buyers. There are other Vinatex members have tried to develop ODM capabilities earlier but failed. Buyers normally have a full list of ODM suppliers. Hence, competition is tough to get in. Besides, there is a big gap between fashion industry in Vietnam and the major export markets (e.g. US, EU, Japan, etc.). It is an enormous challenge for local designers to produce a design that can catch global trends. Functional upgrading to ODM is almost an entirely different game from CMT. Hence, it requires acquisition and retains knowledge-intensive talents, which is highly sought-after given the limited availability in Vietnam. In general, the learning cost is extremely high.

Even medium to large size and the high-performing enterprise also focuses more on expansion to rural areas with lower labor cost than functional upgrading to. Such investment is less risky, and the return on investment is quite certain. However, this is not sustainable in the medium term when rural labor cost is no longer internationally competitive. “What is the most worrying issue for the economy is that majority of FDI invest here just to exploit the low labor cost. In a new future, they will just relocate to a new emerging market when labor cost in Vietnam is no longer competitive. Vietnam needs to upgrade their skill, management,” said Mr. Mr. Suguru Kitagawa, General Director of Nomura Trading.

## 6. CURRENT CHALLENGES

### 6.1 Industry Level Analysis

#### 6.1.1 Overview of Apparel Industry

**Demand Conditions:** Vietnam's apparel industry has "good" demand condition. Vietnam has a large population of 90.73 million and GDP per capita of US\$ 1,910.51 (World Bank, 2014). According to Vietnam Retail Analysis Demand for high quality and brand, clothes are increasing in Vietnam, as more brands (e.g., D&G, Gucci, Bossini or Mango) are coming to Vietnam to serve middle-income and high-income Vietnamese (RNCOS 2008, p. 31-32). Additionally, Vietnam's apparel industry has access to sophisticated market such as US, EU, Japan and South Korea (Van Tot 2014, p. 11). Understanding local and international demand conditions are a potential window for apparel enterprises in Vietnam to upgrade.

**Factor Conditions:** this section is evaluated as "poor". Although Vietnam has the second lowest wage among top 10<sup>th</sup> apparel-exporting countries (IPP & CIEM, 2013), skilled workers and administrative infrastructure are still problematic. According to our interviews in Vietnam, insufficient availability of apparel-skilled workers is the biggest challenge in factor conditions.

**Context for Firms' Strategy and Rivalry:** we evaluated it as "moderate". Despite the high intensity of apparel firms in Vietnam, SOEs and FIEs receive more preferential treatment (e.g., loan, tax break, land allocation) than private domestic enterprises. It discourages apparel enterprises to upgrade. Moreover, there is limited spill-over effect, technology transfer from foreign enterprises to local enterprises. In summary, local context discourages enterprises to upgrade.

**Related and supporting industries:** we also evaluate this section as "very poor" because there is a serious shortage of capable related and supporting industries for Vietnam's apparel industry. The biggest problem of this section is "underdeveloped textile industry".

Due to the space limit, our analysis will focus on the three biggest challenges of Vietnam's apparel industry includes:

- Insufficient Availability of Skilled Workers
- Unequal competition (preferential treatment)
- Underdeveloped textile industry

**Table 4 Evaluation of Vietnam Apparel Industry**

<b>N</b>	<b>Industrial Factor</b>	<b>Evaluation</b>	<b>Key Issues</b>
1	<b>Demand Conditions:</b> (+) Large population (90 million) (+) Favorable access to the global markets, both in quality and sophistication (e.g., US, EU, Japan) (+) Rising middle-income populations and purchasing power.	<b>Good</b>	(+) Current demand is favorable for upgrading
2	<b>Factor Conditions:</b> (+) Low-wage (-) <u>Insufficient availability of apparel-skilled Workforce.</u> (-) Ambiguous & bureaucratic legal system	<b>Poor</b>	(-) Shortage of Skilled Labor for Upgrading
3	<b>Context for Firms' Strategy and Rivalry:</b> (+) 9 Free Trade Agreements are in effect (-) <u>Access to benefits (e.g., loan, tax break, land allocation) is favor SOE and foreign firms than local private firms</u> (-) Weak technology transfers from foreign firms	<b>Moderate</b>	(-) Unequal competition
4	<b>Related and Supporting Industries:</b> (-) <u>Underdeveloped textile industry</u> (-) Underdeveloped retail and fashion industries (-) Weak manufacturing consulting services (-) Weak financial & logistics services	<b>Very Poor</b>	(-) Underdeveloped textile industry

Source: Authors' Evaluation with information from primary and secondary research

### 6.1.2 Industry Level Key Challenges

#### Challenge 1: Insufficient Availability of Apparel-Skilled Workforce for Upgrading Enterprises

**Problem:** Apparel enterprises cannot upgrade to the higher value-added stage, because of insufficient availability of apparel-skilled workforce<sup>3</sup>. Upgrading to more sophisticated productions require enterprises to improve its human resource by employing new skilled workers/professionals or to invest in training its current workers (Karina et al., 2011). However, recruiting locally capable apparel-skilled workers or professionals is very tough due to the shortage of supply. This is the most common complaint issue from our interviews with local and foreign enterprises in Vietnam. Alternative methods such as recruiting global talents or improving skills of currents workers are costly for enterprises.

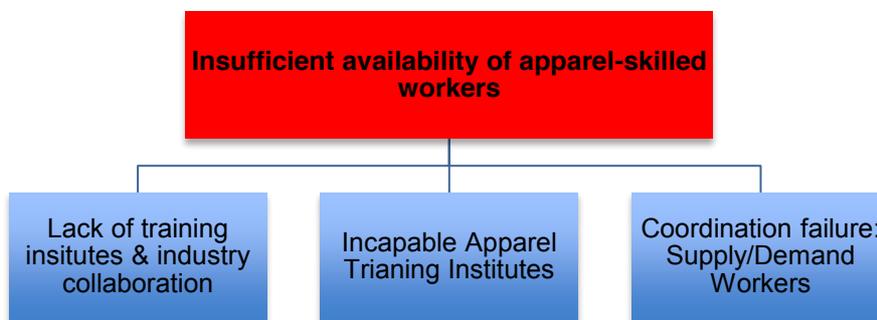
<sup>3</sup> Apparel-skilled workers include cutting-machine operator, apparel patternmaker, tailor, custom sewer, dressmaker, quality controller, apparel designer, marketing and branding executive, production flow supervisor, and general manager.

### Quote 1

“Korean, Taiwanese, and Hong Kong’s apparel companies are thinking to move other departments (sourcing, testing, or design) to Vietnam. When production sides and other departments are in different countries, it is more challenging and expensive to communicate and operate. However, they cannot move those departments to Vietnam now. Local workforces do not possess the right knowledge and experience in those activities. Even if they move to Vietnam, they need to bring their people to Vietnam, but this strategy is expensive.”

Interview with Mr. Alan Forgaty,  
Country Manager of MSG Far East Sourcing Limited

Figure 9 Problem Tree Analysis for Challenge 1



Source: Authors’ Evaluation with information from primary and secondary research

**Underlying Cause:** Insufficient availability apparel-skilled workforce or the mismatch between training programs and skill demand is due to three main reasons: 1) lack of collaboration between training institutes and the industry, 2) incapable training institutes, 3) externality problem and lack of budget, and 3) coordination failure in the employment market.

- **Firstly, there is a lack of collaboration between training institutes.** Training institutes are lacking of knowledge about what the industry needs. “Current factory managers are weak in both technical skill and soft skills. For example, they are not trained in production line design, operations analysis (optimization and eliminates waste)”, said Mr. Mai Khac Minh, a veteran consultant in the apparel industry.
- **Secondly, training institutes have weak management capacity.** Ms. Pham Thi Du, General Director of Tien Tien (Apparel Company) said, “Local trained designers are not ready for the job market due to the weak training programs in Vietnam. The program is not thorough enough so that students are incapable of designing samples after graduation”. The public institutes cannot renovate their training curriculum, as they do not

have management capacity to acquire trainers with practical knowledge and investment in training infrastructure.

- **Lastly, high-skilled workers and higher value-added activities do not exist because there is a coordination problem.** “Coordination problems meant when profitable new industries fail to develop unless upstream and downstream investments are coaxed simultaneously” (Rodrik 2004, p. 13). For example, students do not invest time and finance to study high quality fashion design programs because there is a lack of ODM activities in Vietnam. On the other hand, ODM enterprise does not invest in Vietnam because there does not find capable designers workforce to work for them.

**Impact:** Lacking of the apparel-skilled workforce is the bottleneck for the enterprises upgrading. Experiences from countries that have successfully and unsuccessfully upgraded garment industry have shown that the availability of right workers is a key determinant for garment industry upgrading. *General Manager of Gunze Vietnam* said, “In 1950, Japan prioritized to establish specialized T&G institutions to train high skilled labor in the industry”. Moreover, since 2000, Sri Lanka’s Government has invested in training new fashion designers in order to transform apparel industries from doing CMT to ODM (Karina et al. 2011, p. 29). In contrast, countries such as Nicaragua and Mauritius have failed to achieve their upgrading goal because they do not have workers with right skills for upgrading (Karina et al. 2011, p.29-39).

#### Quote 2

*“Many apparel vocational schools in Kyoto and Fukui around the 1950s were in Japan to educate students to expertise in the garment industry in Japan.”*

*Interview with General Manager of Gunze Vietnam*

#### Challenge 2: Unequal competition discouraging enterprises upgrading

**Problem:** Due to unequal access to resources, domestic private enterprises are “crowding out” and face serious difficulties to invest effort in upgrading. The current incentive system in Vietnam is against domestic private enterprises, but in favor of FIEs and SOEs. SOEs have access to abundant benefits such as lower taxes, cheap credit, large land allocation, and leasing property. On the other hand, FIEs can enjoy good infrastructure with attractive incentive (e.g., zero VAT on inputs) of EPZ even though apparel FIEs are no longer create

much externalities as before if they still focus only on CMT, which is the same activity done by local enterprises.

### Quote 3

*“SOEs enjoy lower taxes, cheap credit and large bank of land (allocated by government); other than garment manufacturing, they engaged in various business activities, especially land leasing as a source of income. For SOEs, not losing money is already an achievement with commendation. The granted privileges diminish their incentive for profit-seeking, optimize the business”.*

*Interview with a former SOE staff*

### Quote 4

*“FDI enterprise entered Vietnam just to take advantage of cheap labor, slack tax administration. Because of that, foreign companies can also easily transfer price. Price transfer causes unfairness for Vietnam enterprises. Foreign companies that do price transfer only move money into VN to pay for labour cost. FDI companies produce textile only supplying within their group, so Vietnam private enterprises also do not benefit from their investment in the textile sector,”*

*Interview with Ms Thai, CEO of Minh Thao Garment JSC*

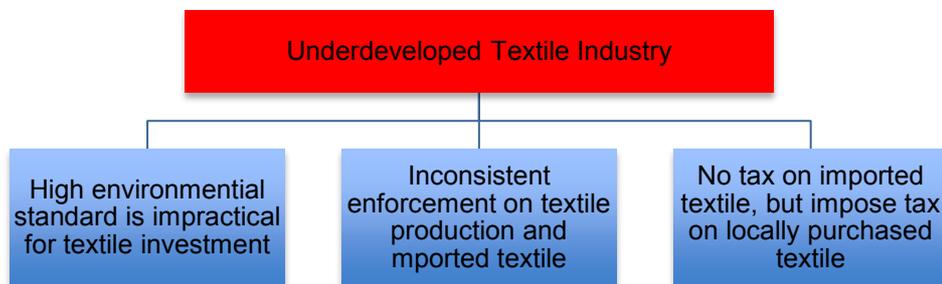
**Impact:** Therefore, the current local context of Vietnam discourages innovation and upgrading for enterprises. It discourages local private enterprises to upgrade because they are deprived from accessing resources and the high cost and complexity in dealing with government agencies. On the other hand, SOEs are so well protected and lack of motivations (due to its weak governance structure) to be more competitive and efficient, which hinder upgrading. According to the experience of the apparel industry in Nicaragua and Lesotho, Untargeted incentive-based policies did not help their apparel industry to upgrade to the higher value-added stage (Karina et al. 2011, p. 29-39).

### Challenge 3: Underdeveloped textile industry

**Problem:** Textile is the main inputs of apparel industry; however, Vietnam does not have strong local textile industry. The textile industry of Vietnam only produces 20% of the need by apparel industry. The majority of materials are imported from Japan, South Korea, and China. According to our interview with Mr. Hidekazu Takahashi, Chief Representative of

Marubeni in Vietnam, local fabric production is dominated by Vinatex, but their production is not competitive because of low technology. There are capable Chinese and Taiwanese textile enterprises in Vietnam, but FDI investment in textile was still relatively low until recently. Currently, input materials and accessories, specifically fibers, are imported mainly from China (43%), Korea (20%), Taiwan (15%). There has been a large inflow of FDIs in textile industry in the past two year in anticipation of the forthcoming TPP. However, these FIEs are normally supply to their closed value chain, external enterprises are not able to source from.

**Figure 10 Problem Tree Analysis of Challenge 3**



Source: Authors' Evaluation with information from primary and secondary research

**Cause:** The main cause behind low investments in the textile industry is because of high environmental standard, tax on locally purchased textile, and smuggling of textile products.

- **Firstly, high environmental regulation is the bottleneck for textile investment.** Vietnam's regulation restricts that the garment manufacturer must treat industrial wastewater to the drinkable quality before it is allowed to dump into the water bodies. This makes the treatment of textile enterprise's wastewater very costly for textile production.

**Quote 5**

*"Dyeing has difficult investment criteria (environment, procedures, regulations...). Current environmental regulations require waste after processing to achieve class A, which means drinkable. If done exactly according to the requirements, the cost is certainly higher than China".*

*Mr. Tran Van Quy, Trung QuyTextile JSC.*

- **Second, inconsistent regulation enforcement discourages investor in the textile industry.** Even though the environmental standard, enforcement is not applied consistently. This discourages serious investors. *Former chairman of VITAS said:” “Although environmental regulation is set to achieve “A”. The actual waste treatment “C” quality is acceptable in the testing stage. The government set on-paper standard higher than desirable standard because enterprises often achieve standard lower than on-paper standard. If the government set “C” as standard of waste, enterprises might only reach level “D” or “E” ”.*

*Second, there is a problem of smuggled textile products, which competing with local textile products. “The market is now using lots of smuggled goods. If we cannot prevent this situation, supporting enterprises cannot grow. Since legally produce and pay full tax, the price cannot compete with the other smuggled goods. So we should pay attention to this market,” said Mr. Pham Xuan Hong, Chairman of Saigon 3 Garment JSC.*

- **Third, current tax practices on imported and local textile product are against the investment of textile industry.** Importing inputs for apparel production is not subjected to VAT in Vietnam for the apparel enterprises in export processing zone. The garment manufacturers can enjoy VAT-free for sourcing material from other countries. However, the opposite practice is applied for enterprises that source inputs from local suppliers. Although apparel manufacturers can rebate tax back, process it very problematic that garment manufacturers try to avoid. This type of practice discourages investor to invest in textile industry because purchasing from other countries is less complicated and expensive.

**Impact:** Insufficient locally capable textile suppliers create several negative impacts to the apparel industry.

- **Losing advantage from TPP membership:** One of TPP’s requirement for tax relief is the rule of origin. The inputs must be sourced from TPP’s member. Since Vietnam imported much fabric from China, partial apparel products of Vietnam will not be able to get import tax exemption of TPP’s members. Therefore, the growth of the domestic textile industry is crucial for the upgrading of apparel enterprise.

### Quote 6

*“By participating in the TPP, if domestic textile industry does not develop, Vietnam enterprises especially private enterprises will be lost, even eliminated from the game instead of benefited because we can not control the supply of fabrics to enjoy preferential tax like businesses have already developed as a closed production line such as Vinatex and FDI enterprises ”*

*Interview with Tien Tien.*

- **Quality and choice of textile suppliers are limited:** Vietnam can produce 20% of total needed fabric locally. The Industrial Garment Company of Dong Nai (Donamay), for example, imports about US\$ 2 million in inputs by value each year from South Korea, China, and Taiwan, which is equivalent to nearly 50 percent of exports. According to the company’s Vice Director, Ms. Nguyen Thi Bich Lien, domestic inputs lack variety and simply do not meet Donamay’s requirements. She said, *“Certain types of fabric which our foreign clients demand are not available domestically. Those that are available are hard to find, and their prices are also not cheaper than imported fabric. Nearly 100 percent of our inputs each year are imported”*.
- **Losing competitiveness due to longer lead-time, higher cost due to transportation, customs clearance.** Reliance on import makes it challenging for firms to engage in proactive quality control and delivery planning. Porter (2008) also suggests that sourcing inputs for local can result in lower transaction cost. Eliminates importing cost and delay (Porter, 2008).

### Quote 7

*"Enterprises face two problems when importing inputs: first, they cannot actively manage time and second, there are costs to quality control. However, the currently available domestic inputs cannot substitute for imports in terms of quality and quantity. To have large orders for domestic inputs is extremely difficult."*

*Interview with Mr. Bui The Kich, General Director of  
Dong Nai Garment Joint Stock Company (Donagamex)*

## 6.2 Meso Level Analysis

### 6.2.1 Poor Inter-Enterprises Linkage Weak cooperation among stakeholders in the value chain

Apparel industry cluster in Vietnam suffers from the fragmented vertical and horizontal linkages among the interested parties in the value chain. We interview with both VITAS (Vietnam Textile and Apparel Association) and AGTEK (HCMC Association of Garment, Textile, Embroidery, Knitting). This is also confirmed with us by Mr. Le Quoc An, former chairperson of VITAS and VINATEX. “The key role of the association is to gather information and represent the collective voice of industry enterprises. However, the business linkage is still not substantial, and implementation is always harder than idea generation,” he said.

Firstly, there is a lack of participation of enterprises, especially SMEs in the apparel industry associations. “I was never aware of the presence of industry association for the whole of my life! Enterprises need to fight on their own. They are rowing in their small boats without expectation of any external helps,” said Ms. Thai, chairperson of Thao Minh Garment JSC, an SME exporting to the US market.

For all FIEs that we interviewed, they almost have no contact with VITAS or AGTEK. Normally, they only participate in their respective country’s business association (e.g. JETRO, AmCham, etc.). “The most helpful association for us is AmCham. I do not know what local industry association does and what they can do for me. Besides, we already 40 years in the business,” said Mr. Alan Fortgarty, Vice President of MGF Sourcing.

Our interviews with stakeholder also confirmed the loose or almost non-existent of with other related industries (machinery and equipment for textiles, chemical, fashion, footwear, etc.) and supporting institutions (research institutes, universities & training institutions, etc.). That result in the industry weakness explained in the previous section of industry analysis.

### 6.2.2 Lack of industry collective actions (Think tank, trade promotion, standard, training programs, etc.)

The poor linkages result in the absence of collective actions. The consequence is the poor competitiveness of the industry’s cluster, as explained in the previous section of industry analysis. “The role of AGTEX is very negligible, it is only for socialization, drinking and polishing their name,” said a medium size garment enterprise’s manager. Therefore, there are

relatively low collective benefits that are generated through the current coordinating mechanism. Therefore, the market failures (in workforce development, supporting industries development, trade promotion, and industry standard, etc.) are not corrected, both by the government and the associations' activities. For example, knowledge generation and sharing activities, which create positive externalities for members, are done at an ad-hoc rather than consistent and effective approach. "There is a lack of frequent activities for enterprises to share their best practices, technology, and difficulties," said an SME's manager.

### **6.2.3 Low Industry' Social Capital**

Low social capital in Vietnam is an impediment to forging greater horizontal and vertical linkages. Klein (1991) emphasizes that community formed among the members further not only their business but also social relationships. Getting to know each other socially fosters mutual reliance and limits fraud, hence reducing transaction cost. Social ties among enterprises are significant because it cultivate incentive for enterprises to keep the commitment and cooperate.

There is a low trust among enterprises, which hindrance collaboration. "We did not have much collaboration activities with enterprises because we worried that they may not keep their commitment and just take the benefit. We also need to keep our trade secret or information to remain competitive," said an enterprise manager.

There is a low trust for the association and government agencies as well. In their sweeping perception, many SMEs' owners associate association with government-linked agencies, whom they are very scared of. "In my experience, these agencies only bring because "harassment" rather than "help,"" said an SME's owner. In private enterprise's opinion, VITAS is just an extended arm of VINATEX and government, rather than the actual representative of the industry

The common's mindset of enterprises is the expectation of immediate value from association rather than constructive feedback for improvement due to past experiences and long-held prejudice.

### **6.2.4 Weak capacity of Industry Associations**

There is an absence of an effective industry association in Vietnam T&G industry (Hill, 1998). This is a serious weakness of the industry as an association is vital to the development of the industry because: (1) an association can overcome problems of 'market failure, (2)

governments need an effective feedback channel of industry concerns. Both VITAS and AGTEK only focuses on short-term issues, lacking programs and commitment to address in strategic issues of the industry clusters. The usual explanation by association for the inability to deliver high value-added services is lacking funding.

The industry association is falling onto vicious cycle: enterprises do not participate because they do not see the value of participation. Low membership constraints the funding for operation (through membership fee). Because of that, associations cannot deliver high-quality services and commit to strategic issues. This eventually leads to the unattractiveness of associations from enterprises' perspective. Current VITAS's activities mostly focus on macro and issues (e.g. support FTA negotiation, policies advocacy, representative the industry in international cooperation, etc.). However, there is a lack of activities to support enterprise directly. Therefore, it is not easily recognized by enterprises.

The lack of true representation of the business community, especially for private SMEs and FIEs is the characteristics of VITAS. The association is dominated by SOEs (e.g. Vinatex enterprises) and *"The most critical constraint on industry association in Vietnam is that they do not represent us, the big SOE guys control them. If there is no representation what is the point of joining them? The lack of representation results in their inability to deliver what we need,"* said a medium-sized business owner. VITAS is in short of a demand-driven and industry-responsive institution for SMEs.

The cause of the problem is not the funding, but the constraints in their intuitional organizational and individual capacity of the industry association.

### **Institutional capacity**

**Lack of autonomy:** Many people still perceive association as a shadow, an extended arm of government agencies. Associations are supervised by the respective government agencies, for example, the national association is under the supervision of respective ministry (VITAS is under MIT), local association is under the supervision of the municipal people's committee. This also shows the hierarchy relationship rather than the equal relationship between government and the business community. Association's leadership need to be approved by the government. Therefore, he or she needs to answer to the party/government rather than to the business community. That is a serious principal-agent problem.

**Weak mandate in the policy making process:** a policy-making process in Vietnam is top-down rather than bottom-up. It is the legacy of a command economy. Channels of communication between the industry and the government do not appear to be well developed (Hill, 1998). The business community is normally not engaged in the policy making process. Associations are not treated as a partner but the passive receiver. This also discourages enterprises to participate in association because the function of industry association as a feedback channel for a policy maker is not working.

### Organizational capacity

**The Governance structure:** the operation of VITAS is more like a bureaucracy rather than result-oriented institutions. It makes the association more like an administration agency rather than a demand-driven and industry-responsive organization. There is no clear division of Board of Directors and Executive Management Team. *“There is not much pressure to perform; there is no reward as well as the penalty for your leadership and performance. Hence, the quality of work is purely self-driven,”* said former chairperson of VITAS. Our interviews also showed that the majority of staff are SOEs’ retirees, who are a lack of drive, interest, and energy to commit. Association work is seen as a “leisure” retiree job rather. Chairman of VITAS are usually chairman or former chairman of VINATEX. Therefore, the assignment of leadership is not based on commitment, contribution potential to the industry but by default.

### Individual capacity of the industry association

The salary level at VITAS and AGTEK is far from competitive to attract committed and capable experts and staff. For example, at AGTEK, there is currently only two permanent staff doing administration and coordination. The basic monthly salary is about 250 US dollars. The salary can only attract either retirees or administrative staff. The permanent management staff from VITAS is more experienced as many of them are the former manager of Vinatex enterprises. Besides, VITAS also receive certain funding from the government. The lack of source for financing is a major constraint problem to develop strong human resources that can take up strategic industry issue.

## 6.3 Micro Level Analysis

### 6.3.1 Underlying causes of barriers to enterprises' upgrading

Our interviews have shown that many SMEs are facing challenges to transition from traditional business practice to modern business management. “Many of garment SMEs are still using family-business management style. They still manage by experiences and are lacking of leadership and management skill. They have yet practiced modern management methods, tools. For example, standard operating procedures are not paid due attention in manufacturing,” said Mr. Mai Khac Minh, a veteran garment consultant.

**Management Mindset focuses on short-term issues than setting strategic direction for enterprise.** Garment SMEs are not growing because these enterprises' managers are always grappled with daily issues such as getting more orders or crisis handling. They do not spend sufficient time to set and implement strategic direction. An independent consult, Mr. Nguyen Quoc Minh, Director of IMQ management consultancy, said: *“Local garment enterprises are very reactive in developing core capability. They only look for a consultant or external help after falling into crisis. When they can still exploit cheap labor, enterprises are not proactive in upgrading”*. These observations are confirmed in interviews with foreign buyers in Vietnam. *“The mentality of Vietnam enterprises, when they meet the problem, they just put more people. The solution is in engineering, efficiency building,”* said Alan Forgy, Country Manager of MGF Sourcing. These are underlying reasons for SMEs stagnation, losing of competitiveness, struggling to survive.

**Challenge in Attracting and Retaining Workers.** *“The labor market has changed, the period when you can find worker easily does no longer exist. Domestic enterprises are facing competition not only from FIEs but also from other industries,”* said Mr. Pham Xuan Hong, AGTEK chairperson. *“It is extremely difficult for my enterprise to attract and retain skilled workers. Inexperienced workers can work here for 6 – 12 months to accumulate their experiences. After that, they find jobs in other companies. If we try to discipline them, they will just leave. For 20 workers, we can only retain 2-3 skilled workers. I am also facing difficulties in finding capable workshop manager. Many of them can only talk,”* said Ms. Thuy, the owner of apparel SMEs of 60 workers in Dong Nai province.

**“Theory X” Management<sup>4</sup>:** Top performing enterprises shared about how they care workers’ welfare, motivate them with incentives and provide them training to improve skills. In contrast, some low-performing enterprises that we spoke to complaints that workers are lazy and not motivated. The acquisition of talents for functional upgrading is even more acute as enterprises need to upgrade leadership and management capability to attract, manage and incentive knowledge-intensive workforces.

#### **Quote 8**

*“In manufacturing, workforce’s spirit is very important. The labor market has changed dramatically; workers are already changed. Managers cannot treat them as in during colonial time. Good managers need to have the soft skill to win workers’ heart. Specifically, workers need to be convinced that it is beneficial for them to follow best practice and work more productive. Many managers only pursue enterprises’ immediate benefit at the expense of workers. This is not sustainable because good workers can always find jobs somewhere else,”*

*Interview with Mai Khac Minh, Senior Manager Thank Cong T&G JSC*

**Lack of knowledge about market and international trade:** While enterprise’s upgrading capability to meet stricter standard is the most fundamental challenge, “ *many SMEs are unfamiliar with international trade and the global value chain. They are lacking of knowledge in international business practices, trade customs, and customer segments,*” said Mr. Bui Quang Viet, Vice President of Song Hong Garment JSC. “*Majority of garment enterprises are a passive receiver rather than the proactive hunter. They acquire customers because they come to Vietnam to find them, they do not go out to look for demand and proactively approach customers,*” said Mr. Le Quang Hung, Chairman of Garmex.

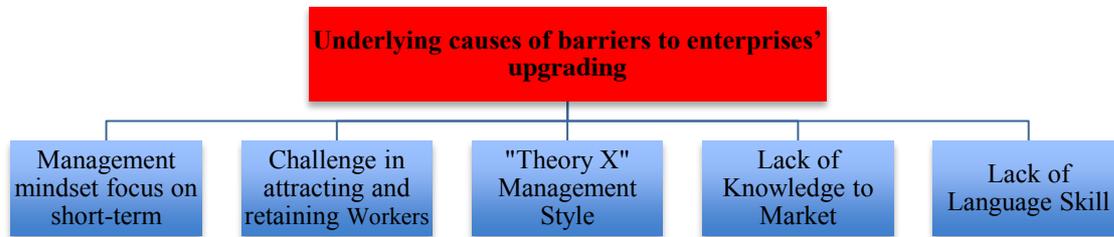
**Lack of International Language Skill:** Language barrier is the major barrier for many domestic enterprises in accessing to international customers. The lack of language prevents them from searching, approaching and learning from international buyers. Some enterprises can overcome by going through trading enterprises, which established an office in Vietnam. While SOEs can access to direct buyers, SMEs are involved in the triangular manufacturing. The English proficiency team helps enterprises to gain information about customers, market

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<sup>4</sup> Theory X management supposes that the average employee has little to no ambition, shies away from work or responsibilities, and is individual-goal oriented.

trend, technology acquisition, and upgrading. This is the “luxury” that not many local enterprises can enjoy.

**Figure 11 Problem Tree Analysis for Challenge**



Source: Authors' Evaluation with information from primary and secondary research

### **6.3.2 Key differentiating characteristics determine enterprises' performance**

While all enterprises are subjected to the same macro and industry conditions, the performance varies due to their micro level's characteristics. We conducted mini case studies of high-performing enterprises and summarized key characteristics as follow:

**Figure 12 Successful Upgrading Cases**

Type:	Upgrading Stories	Sources of Learning
<p><b>Garmex</b></p> <ul style="list-style-type: none"> <li>Privatised local SOEs</li> <li>FOB, OBM</li> </ul>	<ul style="list-style-type: none"> <li>Privatised in 2004 and achieve CAGR at 25%</li> <li>Process upgrading</li> <li>Transition from CMT to FOB, OBM</li> <li>Diversify market to EU, Japan, US</li> </ul>	<ul style="list-style-type: none"> <li>Overseas training in Japan (5S, TQM)</li> <li>Domestic Consultant (management, lean production, kaizen, etc.)</li> <li>Domestic training (language, business development, supply chain mgt)</li> <li>Buyer technical support (e.g. Colombia &amp; Decathlon)</li> </ul>
<p><b>An Phuoc</b></p> <ul style="list-style-type: none"> <li>Family biz</li> <li>Domestic OBM</li> <li>CMT to Japan/Germany</li> </ul>	<ul style="list-style-type: none"> <li>1992: started as a family business with 40 hand-operating machines &amp; 60 workers</li> <li>Gradually access to Japan, Germany markets</li> <li>Licensed to distribute Pierre Cardin brand and develop its own brand</li> <li>2015: 9 factories, 4200 machines and 5000 workers</li> </ul>	<ul style="list-style-type: none"> <li>Owner was govt. trade officer</li> <li>Owner's overseas training in Japan and Singapore (management)</li> <li>Client &amp; partner's training (Pierre Cardin)</li> <li>Buyer's technical support (2 Japanese specialists to train quality control, store managers)</li> </ul>
<p><b>Phong Phu Int'</b></p> <ul style="list-style-type: none"> <li>JV between Phong Phu Group (SOEs) and private investors</li> <li>ODM</li> </ul>	<ul style="list-style-type: none"> <li>Formed in 2007</li> <li>Pioneer ODM in Vietnam</li> </ul>	<ul style="list-style-type: none"> <li>Chairman earned a PhD in textile technology</li> <li>Attract talents from FDI enterprises and overseas</li> <li>Engagement with buyers (M&amp;S from US, manufacturing process from Japan, product development from EU)</li> </ul>
<p><b>Truc Quang</b></p> <ul style="list-style-type: none"> <li>JV with Japan partner</li> <li>FOB, Domestic OBM</li> <li>downstream integration</li> </ul>	<ul style="list-style-type: none"> <li>Formed in 2004</li> <li>Trading to OEM manufacturers</li> <li>Gradually downstream vertical integration (spinning &amp; dyeing)</li> </ul>	<ul style="list-style-type: none"> <li>Owner worked for Suminoto (knowledge, network, finance)</li> <li>Japanese partner provide manufacturing expertise &amp; market access</li> <li>M&amp;A to build upstream capability</li> </ul>

Source: Authors' Evaluation with information from primary and secondary research

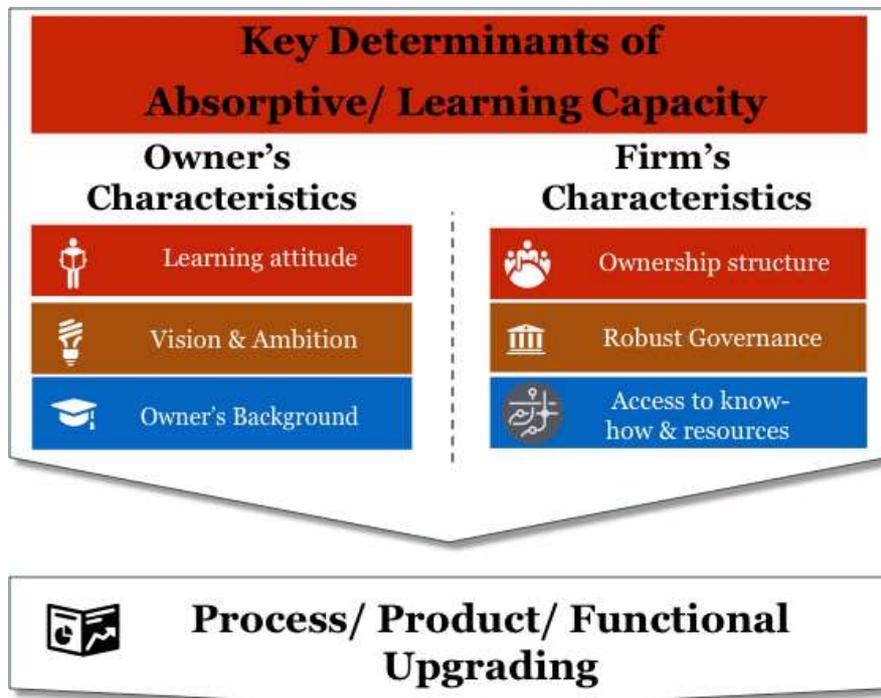
### 6.3.3 Absorptive capacity: the fundamental for enterprise learning and upgrading

Absorptive capacity is identified as the most fundamental factors that differentiate high-performing and low-performing enterprises. High-performing enterprises show strong absorptive capacity. These enterprises successfully acquired knowledge and technology to upgrade their capabilities gradually. In contrast, low-performing enterprises with low absorptive capacity are stuck at primitive manufacturing practices.

According to Cohen and Levinthal (1999), “absorptive capacities are the ability of enterprises to recognize the value of new information, assimilate it and apply it to commercial ends”. Absorptive capacity can also break down into potential absorptive capacity (i.e. external knowledge acquisition and assimilation) and realized absorptive capacity (i.e. knowledge transformation and exploitation) (Zahra and George, 2002).

**Key Determinants of Absorptive capacity:** we go further to decode the determinants of absorptive capacity. Below is the diagram that summarizes our findings. They are categorized into 2 main areas: owner and enterprise characteristics.

**Figure 13 Key Determinants of Absorptive Capacity**



Source: Authors' Evaluation with information from primary and secondary research

### Learning Attitude

The learning attitude is demonstrated clearly in high performing enterprises. They show a strong emphasis in training and development both for themselves and the workforce development. Through continuous learning, Tien Tien Garment JSC, and An Phuoc Garment started their business from scratch and continuously acquired necessary knowledge and know-how for the enterprise's growth and upgrading. Ms. Du said: *"I always tell my staff that there is nothing that we cannot learn. We learn from scratch how to make a shirt and then gradually make fashion apparel. Last year, we made the "Ao Dai" uniform for Vietnam*

*Airlines, one of the toughest challenges that we conquered. I never hesitate to invest in training & development. Besides, it is also important to provide incentives for staff to innovate.”*

### **Owner’s Education**

Even though there are exceptions, the level of education generally put a limit on absorptive capacity. *“I want to grow the enterprise and work with the external consultant, but nothing could avail so far. After implementing changes, everything gradually falls back to its status quo. Perhaps, that is the limit of my capacity, or I have yet found the right person,”* said Ms. Thuy. Before starting her entrepreneurial journey 17 years ago, she was an apparel worker. She began with trading activities and acquired manufacturing capability through gradual self-learning. That is quite a common story that we came across through the interviews. *“In the old time, people who are hardworking can run a business through self-learning. However, today competition requires proper education and knowledge,”* said another SME’s owner who successfully grew his business from scratch. However, he finds himself stuck in the current level and struggle to expand the business. Before starting his business, he only finished primary education and worked in the industry. Given the low starting point, there seems to be a ceiling limit on how far they can scale up.

On the other hand, founders of high-performing enterprises that we interviewed acquired a solid education background. While Ms. Du and Ms. Nguyen Thi Dien (An Phuoc) are university graduates, Mr. Nguyen Hong Quang (Truc Quang) had a master degree in International Business and worked for major Japanese trading companies to accumulate network, knowledge and capital before starting his business. Mr. Dang Vu Hung (Phong Phu Int’) earned a doctoral degree in textile technology from Belgium education. Education qualifications do not guarantee business success, but it is a necessary foundation for acquiring and assimilating more complicated knowledge, technology and skills. English proficiency is also the critical asset in international business. It helps them to overcome the limited knowledge and information in local language. Hence, they can easily access to foreign customers, international market trend and evolving industry technology

## Ownership Structure

Ownership structure plays a critical role in shaping governance structure of enterprises. For Truc Quang, it is a joint venture with a Japanese partner. The Japanese structure provides expertise in state-of-the-art manufacturing management and the access to the Japanese market.

For SOEs, the dominant share of the state compromises its autonomy and business decision. They have a huge problem with business governance. *“Some SOE are very bureaucracy. Putting people in the wrong place is a problem in many SOEs. However, some SOEs are running like a business, after privatization, because they have productivity bonus and the incentive system is changed to motivate a profit-maximizing decision and behavior,”* said a foreign buyer.

Garmex is originally an SOE established in HCMC in 1976. Since privatization in 2004, the enterprises achieved significant growth (CAGR at 25%). Mr. Le Quang Hung, Garmex’s chairman, said *“the change in ownership structure is the fundamental source of the enterprise’s development. The non-dominant share of the state creates the right pressure for the management to pursue commercial objective and less distracted by political intervention.”*

Phong Phu International is the Joint Venture between SOEs (Phong Phu Corp) and private investor. The enterprise enjoyed both the long history of its parent enterprise and the flexibility of a commercial-oriented enterprise. As a result, the enterprise achieved significant success, being the pioneer ODM manufacture in Vietnam, since its incorporation in 1997.

## 7. POLICY RECOMMENDATION

### 7.1 Recommendations at Industry Level

#### Policy Priority 1: Reforming existing apparel training institute (VINATEX College of Economics and Technology) with public-private-partnership model

**We propose to solve the problem of insufficient skilled workers by reforming the existing apparel-training Institute toward a public-private partnership (PPP) model, which key stakeholders can collaborate on management, training program, and financing. The objective of this recommendation is to improve the effectiveness of existing apparel training Institute, so these institutions can provide better training quality and develop good skilled workers for the upgrading of apparel enterprises.**

PPP for apparel training school is an important mechanism to address the current low quality, mismatched skills, and financing problems. Experience from Sri Lanka shows us that collaboration among three stakeholder groups is a key to the success of training program and human resource development for apparel industry (Bruce, 2013). Three stakeholders (1) The apparel industry, represented by their VITAS, (2) The education and training institutions (University) and (3) The national government (MOET, MOLISA, MOIT). Their partnerships should focus on management, training program, and financing. We propose following PPP model for the apparel training institute.

Having good apparel training institutes is important for enterprises upgrading. To increase value-added and upgrade apparel industry, stakeholders of the apparel industry in Turkey, Sri Lankan and Bangladesh have put many efforts in educating and training the specialized workforce for the industry. For example, Sri Lanka has successfully transformed its apparel industry from CMT to ODM, because it has educated local designers and locally trained skilled workers (e.g., custom sewer, apparel patternmaker, and dressmaker) (Karina et al. 2011, p.27-32).

**Table 5 PPP Model for Apparel Training Institute**

<b>Area of Collaboration</b>	<b>Activities for Government, VITAS, and Training Institute</b>	<b>Purpose</b>
<b>Management of Training Institute</b>	<b>Government + VITAS + Training Institute</b>	- Improving institutional quality of training institute
	<ul style="list-style-type: none"> <li>- Join as members of Board of Director</li> <li>- Jointly recruit capable management team to run Institute</li> <li>- Jointly monitoring and evaluating result of Institute</li> </ul>	
<b>Financing Theme for Training</b>	<b>Government + VITAS's members</b>	- Solving coordination failure and externality problem
	<ul style="list-style-type: none"> <li>- Jointly create scholarship for students to learn potential apparel skills</li> <li>- The government provides a tax credit to encourage apparel enterprises to invest more in training its employees.</li> </ul>	
<b>Training Program</b>	<b>VITAS and Training Institute</b>	<ul style="list-style-type: none"> <li>- Matching demand and supply for skilled workers</li> <li>- Improving quality of training</li> </ul>
	<ul style="list-style-type: none"> <li>- VITAS surveys need of its members for training</li> <li>- Jointly develop training curriculum to match with current and future demand of apparel industry</li> <li>- Create apprenticeship program to link training and real work</li> <li>- Promote internship in apparel enterprises</li> </ul>	
<b>Finding Trainers</b>	<b>Government + VITAS + Training Institute</b>	- Improving quality of training
	<ul style="list-style-type: none"> <li>- VITAS's members bring experts from its international network.</li> <li>- Government ministries provide experts on local legal and regulation training.</li> <li>- Training Institute localizes expertise to local trainers.</li> </ul>	

Source: Authors' PPP model with ideas derived from Mori et al. (2009) and Bruce (2013)

## Policy Priority 2: Attracting investment in textile industry with specialized textile industrial park

**We propose to solve the problem of insufficient skilled workers by creating of a specialized textile industrial park in a location where apparel enterprises are concentrated. The main objective of this policy is to promote more investment in the textile industry with a lower cost of waste treatment and consistent enforcement of standard.**

In his book “On the Competition”, Michael Porter suggests that establishing cluster-oriented industrial park is an ideal policy that government should do to upgrade cluster (Porter 2008, p.267). Adding to Porter’s idea, we suggest equipping the industrial textile part with common a joint waste treatment plant. Having a large waste disposal plant allows the textile industrial park to achieve economic of scale in waste disposal. Therefore, the unit cost of waste disposal can be reduced. Besides, a concentration within a specialized park can address the issue of inconsistent enforcement of environmental standard.

Additionally, having joint waste disposal plant will eliminate problems between the environmental regulator and textile firms. Aside from this, apparel enterprises source textile inputs from this textile industrial park should be subjected to tax exemption like imported textile. A higher level of incentives can be provided for areas where domestic enterprises are still lacking the capability. With this initiative, textile industrial parks can attract more investment in textile industry and improve the quality of textile suppliers for local apparel enterprise. The location of such industrial park should be carefully planned, preferably at downstream areas of river flow. This is important as it minimize environmental impact in case of waste treatment failure.

Availability of capable textile supplier is crucial for apparel enterprise to upgrade from the assembly (CMT) to full-package (OEM). For instance, Bangladesh has been able to upgrade from assembly to full-package supply in large part because of its new textile industry. In Turkey, the domestic textile industry was already strong when the apparel industry was established, allowing the country to leapfrog into the full-package supply.

Sri Lanka leveraged regional textile opportunities and developed backward linkages with the textile industries in India and later Bangladesh to facilitate its upgrading (Karina et al., 2011). Investment in supporting industries will also help enterprises shorten production time, increase quality control, and improve planning and customs clearances. This is the positive externality generated by the textile industry.

The following table lists the summary of main issues and recommendations that need to be considered for this policy.

**Table 6 Issues and Recommendations for Policy 2**

Issue	Recommendations
<b>Operation of Textile Industrial Park</b>	Right to operate the park should be given to private sector through transparent and fair auction process.
<b>Public Services</b>	The one-stop office should be established to deliver service to business in the industrial park.
<b>Monitoring and evaluation</b>	Local government and the industrial park should closely monitor the waste treatment process of manufacturers to prevent noncompliance which may cause severe environmental impacts

Source: Authors' Analysis

### **Policy Priority 3: Creating awards for successfully upgrading enterprises**

**We propose to solve the problem of insufficient skilled workers by creating of incentive program for the pioneering enterprises in upgrading to higher value-added activities. This policy serves three objectives namely 1) Promoting competitions among apparel enterprises, 2) Encouraging apparel enterprises to upgrade their business, 3) Reducing self-discovery cost of enterprises.**

The incentive scheme in the overall industrial policies is an effective policy tool to promote enterprise upgrading. The governments of Turkey and South Korea have used incentive schemes to encourage apparel industry upgrading in their countries. In Turkey, the government provided incentives for firms to upgrade into branding and increase their competitiveness in global markets. In another example, the South Korean

apparel manufacturers took advantages of government’s awards<sup>5</sup> to gain recognition from consumers and promote the successful business practice (Ha-Brookshire et al. 2010).

Therefore, we recommend creating a set of incentives for different types of upgrading for all kinds enterprise in Vietnam. The following table provides the main issues and recommendations that need to be considered for this policy.

**Table 7 Issues and Recommendations for Policy 3**

Issue	Recommendations
<b>Incentive Committee</b>	Incentive Committee comprise representative from both public and private sector that evaluate the eligibility of applicants
<b>Incentive/ Award Categories</b>	<ul style="list-style-type: none"> <li>• Process Upgrading Award</li> <li>• Product Upgrading Award</li> <li>• OEM Upgrading Award</li> <li>• ODM Upgrading Award</li> <li>• OBM Upgrading Award</li> </ul>

Source: Authors’ Analysis

The policy can create high impacts on the apparel industry. First, the successful practices are spilled over to other firms as well. In Sri Lanka’s apparel industry, for instance, two local firms successfully upgraded their production to produce more sophisticated apparel products (e.g., sportswear), and then other firms learned the practices of these pioneering firms to produce more sophisticated products (Fernandez-Stark et al., 2011).

**Financing strategy:** For this particular policy, we suggest the government to mobilize resources from existing preferential treatment for SOEs (credit, tax, direct subsidy, land). This process is done in parallel with the privatization of SOEs. The remarkable achievement of T&G SOEs after privatization should motivate the government to continue. That is even more urgent to privatize loss-making SOEs. Moving forward, instead of giving tax holiday/exemption and other preference treatment for SOEs and

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<sup>5</sup> Reward to encourage innovative, entrepreneurial, and risk-taking activities among business.

Apparel FIEs, the government can turn this incentive tool to award successful upgrading.

## 7.2 Recommendations at Meso-Level

There is crucial need to improve the institutional, organizational and individual capacity of the apparel industry associations in Vietnam. The effectiveness of association can (2) foster horizontal and vertical linkage (2) coordinate collective actions in the apparel industry. This is instrumental to the feasibility of recommendations that we make in this report.

### Policy Priority 4: Improve Association' Institutional Capacity

**We propose a change in the institutional arrangement to enhance the association's institutional capacity. This can address the bottleneck constraint to allow the association to become a truly representative of the business communities and function as an effective coordinating vehicle for the industry.**

- **Give Association more independence and autonomy**

**The establishment of association** should be market-driven, instead of being strictly controlled by the government. It is important to drive associations' agenda to be more market-driven so that they can meet the dynamic needs of the society.

#### **Vibrant Apparel Associations in Taiwan and Sri Lanka**

In Taiwan, SMEs with a common interest in the industry can come together to form their associations. This is because the voice and concerns of SMEs will not be easily reflected in the agenda of associations dominated by major players. In order to take into account the diverse interest and concerns across the industry, there are 20 associations related to apparel in Taiwan. It is the same practice in Sri Lanka. There are several apparel associations in the country (Sri Lanka Apparel Exporters' Association, Sri Lanka Apparel Sourcing Association, Chamber of SME Apparel Manufacturers Association, etc.). Interesting, Joint Apparel Association Forum (*JAAF*) was created in 2002 to unite all apparel related associations. These creations are bottom-up that are driven by the business community.

Source: Interview with Dr. Lee Chen-in, Chung-hua Institute for Economic Research and Mr. M.P.T. Cooray, Secretary General of JAFF

“Today, the reluctance of the government to discuss association law and freedom to form an association is similar to their reluctance to discuss private enterprises 25 years ago. However, private enterprises have made the great leap and become a pillar of the manufacturing base. Market economies require the development of a more open civic society,” said Dr. Nguyen Duc Thanh, the Vietnam Institute for Economic and Policy Research (VEPR)

- **Engage industry Associations and Think-tank in the Policy-Making Process**

Vietnam’s Industry policy making process needs to engage business communities more deeply and proactively throughout the planning, monitoring, evaluating. The arrangement is crucial for government That can be done through more active engagement with industry associations and think-tank. The empowerment provides a stronger mandate for associations and encourages more participation of enterprises into associations to make their voices and concerns heard.

According to Dr. Lee Chen-in, Chung-hua Institute for Economic Research, successful industrial upgrading in Taiwan is driven by the tri-balance: Industry – government – think tank. Policymaker engages associations both during policy design and implementation.

For Sri Lanka, the Export Development Board organizes a monthly meeting with the Ceylon Chamber of Commerce and the Apparel Exporters Association in Sri Lanka in order to discuss solutions at both the macro and micro level issues. Moreover, the Ceylon Chamber of Commerce also has a regular meeting with the Finance Minister and the Secretary to the Treasury. The main purpose is to give an opportunity for the associations to discuss and formulate the annual budget with the government. Thus, from the above examples, it is clear the governments of Taiwan and Sri Lanka actively engage industry associations in their official policy-making process.

Despite the intimate relationship between policymakers and the industry, rent-seeking behaviors do not exist because of the high level of transparency during these processes. “The government respects our perspective because we never ask for rent, we ask for the

better business environment and industry conditions to make Sri Lanka apparel sector is the global preferred sourcing destination,” said Mr. M.P.T. Cooray.

The following table lists the summary of main issues and recommendations that need to be considered for this policy.

**Table 8 Issues and Recommendation for Policy 4**

Issue	Recommendations
<b>Freedom to form association</b>	<ul style="list-style-type: none"> <li>• Eliminate official and unofficial obstacles to establishing the new associations according to their interests/ subjects</li> <li>• FIEs should be engaged by associations to promote spill-over effects</li> </ul>
<b>Policy making process</b>	<ul style="list-style-type: none"> <li>• Engage associations and think tank throughout planning, monitoring, evaluating stages</li> </ul>

### **Priority 5: Improve Association’s Organizational and Individual Capacity**

**We propose the improvement in governance structure and human resource matters to incentivize result-oriented behaviors and management practice**

We propose organizational arrangements to make associations provide more result-oriented output. VITAS should transform to be managed as a commercial entity rather than an administration entity.

- **Leadership:** Leading enterprises should move beyond their narrow interest and pursue the industry’s objective. “We do have competition and disagreement, but when it comes to collective issues, a member put our own interest aside and speaks with one voice. That is crucial in trust building,” said Mr. M.P.T. Cooray
- **Transparency and accountability in the selection of Board of Directors and Chairman:** performance of association should be evaluated against a matrix of criteria that reflect priority of the industry's strategic issues: 1) Industry’s labor productivity 2) industry growth 3) intensity of high value-added activities 2) availability of skilled workforce 3) value chain linkage. : Selection of association’s representative should not be based on enterprise size but the overall contribution of candidates (commitment, capability, leadership). Managers from major enterprises without a commitment to improve the industry should not be placed in association’s

leadership position. In Sri Lanka, JAAF’s chairman is not necessarily from the three biggest enterprises.

- **Staff’s compensation:** The association should offer market competitive compensation to attract experts and capable staff. The capable association can generate greater value-added for the industry and individual members. “You cannot get expertise at low cost, we are hiring the most capable people in the industry by providing a competitive salary,” said Mr. Cooray.
- **Funding:** association should not rely solely on membership fees as the main source of financing. Association can generate revenue by offering value-added services with fees. Before, major enterprises should also be encouraged to contribute more as they can enjoy greater benefit from the improvement of the industry. Government funding can also be expected if the association can play an effective role in correcting market failure.

The following table lists the summary of main issues and recommendations that need to be considered for this policy.

**Table 9 Issues and Recommendations for Policy 5**

Issues	Recommendations
<b>Leadership:</b>	<ul style="list-style-type: none"> <li>• Move beyond narrow interest of individual companies to overall industry interest</li> </ul>
<b>Transparency and accountability in the selection of Board of Directors and Chairman</b>	<ul style="list-style-type: none"> <li>• Performance is evaluated against matrix that reflects the industry’s priority</li> <li>• Key criteria: Commitment, Capability, and Leadership</li> </ul>
<b>Staff’s compensation</b>	<ul style="list-style-type: none"> <li>• Competitive compensation to attract experts and capable permanent staff</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>• Diversify sources of financing: member fees, fees from value-added services, government support</li> </ul>

### 7.3 Recommendations at Micro Level

#### Policy Priority 6: Facilitate the accumulation of Enterprises' absorptive capacity

**We propose strategic initiatives and programs to accumulate absorptive capacity at the individual, firm and industry level. Absorptive capacity is crucial for a firm to engage in continuous upgrading and stay relevant in the increasing international competition.**

Domestic enterprises, especially SMEs, need to evolve away from primitive business management practices (e.g. family-business style) to higher performing equilibrium. The advantage of first mover advantage by domestic apparel enterprises is eroding. FIEs increasingly dominate the industry structure. There is a big gap between domestic apparel SMEs and established firms from established market (Korea, Taiwan, Hong Kong, China, Sri Lanka, etc.) In the catch-up phase, there is a significant room for domestic firms to deploy creative imitation strategies by repeating acquisition–assimilation–improvement learning cycle constantly (Kim 1997, 1999).

Our analysis has argued that absorptive capacity - the ability to acquire new, technology and management practice – is the most critical factor for firm's performance. It is also widely recognized that firms can learn faster with a deeper level of absorptive capacity (Zahra and George, 2002). A firm's existing knowledge base determines its capacity to bring external knowledge into an organization (Cohen and Levinthal 1989; Inkpen 2000; Liyanage and Barnard 2003). The level of prior related knowledge enhances the learning of new related knowledge and determines how effectively it is absorbed.

There are three key issues to facilitate this catch-up process: (1) Facilitate the accumulation of absorptive capacity by firms (2) Attract talent with strong absorptive capacity (3) Facilitate industry consolidation and

- **Facilitate accumulation of absorptive capacity activities**

First and foremost, we strongly recommend firms and associations to focus on activities that facilitate the accumulation of absorptive capacity. Catch-up process can be shortened by establishing a dynamic knowledge accumulation infrastructure. Such

infrastructure facilitates access to international best practices and peer sharing. The table below chart out the framework for the association to become the coordinator of knowledge diffusion within for the industry.

### Connect to source of knowledge

The association needs to be proactive in seeking support or establishing this win-win partnership with external partners. As the middle man, the association can work in both ways. On one hand, the association represents the industry to communicate its needs to relevant partners. This is important for the partners to understand industry to design services and products that meet the industry needs. On the other hand, the association can disseminate information from original sources into edible knowledge is crucial for SMEs. The direct or indirect provision of these public and merit goods is the key knowledge domains create positive externalities for the cluster and meaningful value creation for associations. The majority of firms are not able to access to these sources directly because of a language barrier or big knowledge gap.

**Table 10 Summar Knowledge of Domain, Partnerss, Infrastructure**

<b>Knowledge domains</b>	<b>Key partners</b>	<b>Infrastructure</b>
<ul style="list-style-type: none"> <li>- Industry statistics/ Market Trend Analysis</li> <li>- Management tools</li> <li>- Manufacturing Technology</li> <li>- Machine</li> </ul>	<ul style="list-style-type: none"> <li>- Think tank</li> <li>- Universities and training institutions</li> <li>- R&amp;D Institutes</li> <li>- International Development Agencies (JICA, UNIDO)</li> <li>- International Industry Network (ITAA<sup>6</sup>, IAF<sup>7</sup>, etc.)</li> <li>- Government agencies</li> </ul>	<ul style="list-style-type: none"> <li>- Database of all players in the value chain (suppliers, buyers, service provider)</li> <li>- Member Services               <ul style="list-style-type: none"> <li>➤ Online Achieved Knowledge Portal</li> <li>➤ Weekly/ Monthly Report/ Magazine/ Journal</li> </ul> </li> <li>- Fee-based services               <ul style="list-style-type: none"> <li>➤ Specialized Consultancy services</li> <li>➤ Training and Workshop</li> </ul> </li> <li>- Benchmarking</li> </ul>

<sup>6</sup> International Textile and Apparel Association

<sup>7</sup> International Apparel Federation

### **Peer sharing of Best Practice**

Horizontal knowledge transmission is another key channel. However, this channel needs to overcome the tendency of hiding “business secret”. As discussed in the analysis part, there is a trust deficit in the business community. However, interviews with enterprises show that some of them are willing to share their practices, in particular among the young generation of managers. The industry should promote collaboration to build a stronger cluster where every firm can benefit from it. It is to overcome the unhealthy competition of cut-throat price war, isolation of knowledge and know-how accumulation. The gradual change of mindset requires the emergence of trusted leadership and coordinating mechanism. Industry association is in the best position to do this. Vinatex enterprises, who have received many subsidies from states, should also play their part in generating spillover effects. They are the forerunner of lean manufacturing implementation among domestic firms. Lastly, FIEs are the great sources for technology transfer. Policy-makers should implement policies to encourage their collaboration and linkage with the local environment. However, FIEs are currently not allowed to be official members of industry associations (e.g. VITAS), this prevents such collaboration to happen.

- **Attract talents with strong absorptive capacity into the industries**

The industry needs to attract more well-trained talents to sustain its global competitiveness by transitioning into more sophisticated businesses. It is even more relevant when the industry attempts to upgrade from CMT to more knowledge-intensive activities, such as FOB, ODM, and OBM. The competition is no longer about cheap labor force with basic management to do simple assembly; but high skilled, international-savvy, supply chain and large-scale management. Cohen and Levinthal (1990) argue that absorptive capacity is cumulative. The cumulative nature of knowledge is also related to employees’ level of education. Therefore, Firms’ absorptive capacities depend on those of their employees, the general level of education, experience and training their staff have, and this has a positive influence on firms’ level of absorptive capacity (Thornton, 2008).

There is a glass ceiling to many business owners, what brought them success in the past does not prepare them enough for future competition and upgrading. Some family businesses started their succession planning by handing over to more well-educated second generation. However, the industry still needs a larger influx of capable manpower to stay relevant amidst rising international competition, even within Vietnam. The participation of more capable professionals will make the industry more vibrant and adapt in tackling industry's chronic bottlenecks as discussed in the macro session.

### **Rebrand the industry's image**

Therefore, T&G need to rebrand itself to attract more capable entrepreneurs and middle managers into the industry. It is currently rare for young professional entrepreneurs without a connection. T&G has been regarded as low-tech, low value-added industry and unattractive to the workforce in Vietnam. The industry is inferior to more glamorous industries (e.g. services sector, electronics, IT, etc.). It is essential to reverse the trend and revitalize the industry's human capital.

Interview with Joint Apparel Association Forum Sri Lanka (JAAFSL) revealed that T&G industry is highly regarded in the country. “We do not position cheap labor as the competitive advantage of the industry. We manage to attract capable workforce with a competitive salary. They are consequently able to provide high value-added services. That is the vicious circle to make Sri Lanka T&G industries stay competitive”, said Mr. Rohan Masekorala, JAAF.

### **Public Campaign**

Public campaign through school engagement, exhibition, conference and public media coverage, etc. is necessary to show the potential of high value-added, fast-paced and cosmopolitan the industry can be when it move up toward upstream and downstream activities. Given the industry's huge growth potential in the context of coming favorable free trade agreements, VITAS and industry players can leverage on these enormous opportunities in their campaigns.

### **Industry practice and opportunity to absorb talents**

However, publicity needs to complement with real change on the ground to absorb talents sustainably.

Firstly, enterprises need to enhance their management and leadership style to be able to attract and absorb talents. FIEs are one step ahead of domestic enterprises in talent acquisition. However, that is inevitable and healthy for the industry. While domestic firms cannot yet create a favorable environment to attract talents, FIEs are great training ground for local professionals in the catch-up face. We came across local business owners and managers who are former FIE employees. The networks, knowledge and know-how developed over a year inside FIEs are essential assets for their own business or employment with domestic enterprises later. This is a human capital spill-over effect.

Secondly, we recommended measures to make the entry barrier lower for entrepreneurs. Specific measures to encourage the creation of new firms are:

- Support industry professionals access to business and management skills
- Support entrepreneurs with business and management skills to access to Industry knowledge
- facilitate networking and matching of people from the above two groups to collaborate

**Table 11 Issues and Recommendation for Policy 6**

<b>Issue</b>	<b>Recommendations</b>	<b>Rationales</b>
<b>Accumulation of absorptive capacity</b>	Provide essential supporting services (e.g. workshop, training on essential skills) to upgrade continuously middle and top manager's absorptive capacity	Absorptive capacity is path dependent therefore improving capacity is an accumulation process
<b>The industry's human capital</b>	Attract talents with strong absorptive capacity the industry Rebrand the industry's awareness Enhance firm management and leadership's style to attract and absorb talents Lower the market barriers to enable more capable entrepreneurs entering	Human capital (e.g. entrepreneur, managers with strong absorptive capacity) is critical to industry's upgrading  There is a glass ceiling for the first generation of entrepreneurs in the industry
<b>Industry Structure</b>	Allow inefficient firms to exit or be acquired by large firms Promote Value Chain Linkage Promote interaction among enterprises through impartial and industry-driven associations Large enterprises to engage win-win collaboration with SMEs SMEs to proactively engage rather than holding negative perception on large enterprises	Efficient market needs to facilitate exits of poor performing players and entrance of more capable Economy of scale is a critical competitive advantage in international competition Large firm has the capability to access to market and acquire technology

### **Policy Priority 7: Implement National Productivity Program**

**We propose coordinated measures make productivity improvement at the core development goal of T&G industry. The competitiveness of the industry lies in the ability to drive productivity consume rate with wage rise.**

#### **Institutional arrangement**

There is a critical need to improve the effectiveness of VNPI. We propose an establishment of a National Committee chaired by a high-level government official (PM or Deputy PM) that is accountable for national productivity improvement objective. The

Committee needs also have a representation of the business, especially SMEs, and non-state academia. This is essential to design and implement a program that can address the industry's real needs.

**Table 12: Lesson Learnt from Singapore Productivity Improvement**

<p>Singapore government realized the importance of productivity growth since the early days of their industrialization. The central and consistent characteristics throughout the years are the establishment of institutions with the strong mandate, high-level representation (e.g. government, enterprises, labor union and academia) and high level of resources allocation. The government strongly endorses these programs. The PM delivers productivity speech in 7 consecutive years.</p> <ul style="list-style-type: none"><li>• 1967: Singapore Productivity Center (SPC) was established under Economic Development Board in.</li><li>• 1972: SPC was upgraded to become the National Productivity Board, a full-fled statutory board in.</li><li>• 1981: The Committee on Productivity as formed by PM Lee Kuan Yew. The National Productivity Council was also established in the same year</li><li>• 2010: National Productivity and Continuing Education Council (NPCEC) was set up and chaired by Deputy Prime Minister. NPCEC coordinates national level improvement in productivity through business restructuring and workforce skill' continuous development.</li></ul> <p>Source: APO (2015)</p>
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We propose VITAS to establish a permanent committee on productivity improvement to drive and monitor productivity growth in the industry. Currently, the T&G development plan only focuses on output growth, without a target on productivity growth. A permanent committee can work in close collaboration with VNPI or National Productivity Committee to facilitate proactive leveraging of available infrastructure and programs. Firstly, they can provide practical feedback and suggestions from enterprise's perspective to the policy maker. Secondly, the committee helps to communicate and tailor national programs, manufacturing tools (e.g. 5S, 6 sigmas, Total Quality Management, Lean manufacturing, etc.) to suit industry needs. This will make them more accessible to SMEs, lowering down trial-and-error cost.

### **Linking up with strategic partners**

Industry association (VITAS, AGTEK) can leverage on support from productivity-focus international organizations (e.g. UNIDO, Asia Productivity Organization) and advanced country's development agency (e.g. JICA, GIZ, etc.). Singapore utilized the support from JICA to implement the national productivity movement, which promotes the transfer of Japan's know-how in quality and productivity improvement. There is increasing investment in the country from advanced countries. Hence, Vietnam can leverage on mutual benefit from such technology transfer collaboration. A conducive business environment with a strong baseline of productivity is conducive for both Vietnam and the foreign investor. Besides, there is still a large gap between Vietnam and those countries. Hence, there is the little incentive that discourages such transfer.

### **Training of human resources**

The core of this technology transfer lies in the training of human resources, especially for enterprises' owners and trainers. These generate the most spill-over effects. Our interviews with successful firms have shown that business's owners of high-performing firms benefit tremendously from learning from these advanced economy' manufacturing standard. The Industry consultants that we also spoke to benefit tremendously from such assistance programs (e.g. Japan, Singapore) to acquire advanced manufacturing's know-how.

### **Investment in productivity enhancement measure**

In order to overcome the vicious cycle of low investment, low productivity, and low-profit margin, the government is recommended to introduce more comprehensive incentive scheme. They can be in the form of tax break, preferential loans, or subsidies for firm investing in technology (e.g. computer-aided design (CAD), and computerized cutting, high-speed and sophisticated machines, etc.) or manufacturing management. According to Rodrik (2004), this is the necessary intervention to correct the market failure due to information externalities. It gives a necessary push that enables the firm to move from low-performance equilibrium to higher-performance balance, given the two key constraints. Firstly, the low-profit margin of the industry leads to the low level of re-investment. Secondly, firms are risk-averse to try new methods as there is a high risk of failure.

The incentive program can range from improving firm's process upgrading of current activities to business structural change or functional upgrading. The wider adoption of advanced technology and management practices will gradually bring down the acquisition cost for players within the industry cluster. This is a virtuous cycle that government and industry associations can trigger.

Ultimately, higher business performance can translate into higher tax base in the future. Therefore, these measures can be beneficial to the local's tax revenue in the end. Given the budget constraints reality, government incentives should be highly targeted to areas that produce the most impactful spill-over effect. Policymaker should also be aware of the caveats of rent-seeking or abuse when designing and implementing government subsidies. Moral hazard occurs when the system is designed in such a way that firms are protected from loss due to their bad behaviors.

Extravagant subsidies without reasonable binding conditions (e.g. complete participation commitment, performance target, etc.) make firms fail to recognize the true cost of investment (e.g. subsidized price + subsidy) It consequently diminishes firms incentives to make the best decision out of the investment, which is an inefficient allocation of social resources.

### **Provision of subsidies**

We recommended that government should stop binding subsidized consultancy productivity program exclusively to the government-linked service provider (e.g. SMEDEC 2 in the south). The fund can be changed into conditional cash transfer (investment in tools, technology acquisition investment). This arrangement will allow market competition of service providers. The participation from private service providers makes the market more efficient. Enterprises can choose service providers relevant to their needs. However, government agencies then will need to develop detailed guideline and play a certifying role to avoid abuse of funding.

### **Benchmarking & Promotion of Best Practices**

Currently, there is no benchmarking exercise in T&G manufacturing. Hence, it is impossible to track the industry productivity performance, particularly at the firm level.

We cannot manage what we cannot measure. Hence, there is strong needs to collect and detailed and up-to-date information (machine-to-labour ratio, the number of workers employed per line, average machine speed, average machine-to-line ratio, etc.) on the industry productivity performance, not just generic information, such as export volume. This is extremely vital to effective policy making, implementation, and monitoring process.

### **Industry structure**

It is expected that many uncompetitive SMEs will be driven out of the market when the market competition intensified with increasing presence of FIEs in the country. This is the inevitable market consolidation trend. This can be a painful process for the economy. However, it makes the industry more competitive. Free market competition should be embraced. The regulation framework should (M&A, bankruptcy law) should allow the low-performing firm to exit or be acquired by more capable firms efficiently. Association can be proactive to become the intermediary party to those transactions. The market can operate efficiently when buyers can find seller efficiently at the least cost.

Besides, stronger value chain linkage should also be promoted so that the whole value chain can become more competitive because of two reasons. Firstly, firms can specialize and develop deep expertise on what they can do best. Secondly, collaborative value chain linkage reduces transaction cost. This requires leadership of the major players with the resources and power to show the goodwill and build trust. The feasibility of stronger value chain linkage is challenged by the low trust between SOEs and SMEs. It makes striking the win-win arrangement of profit-sharing difficult in Vietnam

## POLICY ASSESSMENT

**Policy Criteria:** Five criteria are used to assess the impact and feasibility of the proposed policies at Industry (Macro), Meso, and Micro level as follow:

**Table 13 Policy Assessment Criteria**

Criteria	Rationale`
<i>Impact</i>	The impact of the change on the industries and stakeholders.
<i>Political Feasibility</i>	Any change in policy and rule will redistribute current resources allocation, and create winner and loser. Political stakeholders with diverse interests and agendas interact and influence the decision-making and implementation process.
<i>Organizational and Administrative Feasibility</i>	Successful implementation of change is determined by the organizational and administrative capacity of key implementing stakeholder.
<i>Resources</i>	Implementation of new initiatives, approaches require committed resources (financial, human, and technological) as a one-off event or on a regular basis.
<i>Social context</i>	Social context such as public perception and concern, common business practices and customs, relationships between groups, regulatory environment contribute to the support or resistance toward the change.

### **The Summary of Overall Assessment**

Overall, assessing the exact quantitative benefits of all policy priorities at the industry, meso, and micro level makes an impact due to the vast scope of the problem, policies, and choice. For the summary of the overall assessment, the following quantitative scores apply. ■ **many concerns (0-3)**, ■ **some concerns (4-6)**, ■ **no concern (7-10)**. For more detailed evaluation, you can refer to the APPENDIX 3.

**Table 14 Summary of Recommendation, and Overall Assessment**

<b>N</b>	<b>Recommendation</b>	<b>Impact</b>	<b>Political Feasibility</b>	<b>Organizational and Administrative Feasibility</b>	<b>Resources</b>	<b>Social context</b>
<i>Industry Level</i>						
1	Reforming the existing apparel-training Institute with public-private partnership (PPP) model.	■/8	■/9	■/7	■/6	■/7
2	Creating a specialized textile industrial park.	■/7	■/6	■/6	■/6	■/5
3	Creating incentive theme for different best upgrading enterprises.	■/7	■/6	■/7	■/7	■/6
<i>Meso-Level</i>						
4	Improve Association' Institutional Capacity	■/9	■/5	■/4	■/4	■/5
5	Improve Association's Organizational and Individual Capacity	■/8	■/6	■/4	■/4	■/8
<i>Micro Level</i>						
6	Strengthen National Productivity Program	■/8	■/6	■/5	■/4	■/6
7	Facilitate Upgrading of Enterprises' absorptive capacity	■/8	■/8	■/5	■/5	■/6

## 8. STAKEHOLDER COMMUNICATION PLAN

**Who to talk to Stakeholder Analysis:** the following is the brief summary of our stakeholder analysis and communication plan: key messages, possible reasons for their resistance and support, as well as their degree of power to significantly influence the recommended course of action.

<b>Stakeholder Group</b>	<b>What to ask them</b>	<b>Reasons for Resistance</b>	<b>Reasons for Support</b>	<b>Level of Power</b>
Prime Minister Office	<ul style="list-style-type: none"> <li>- Establish National Productivity Committee</li> <li>- Make industrial upgrading and labor productivity growth as priority of development plan</li> <li>- Coordinate inter-ministerial collaboration</li> </ul>	<ul style="list-style-type: none"> <li>- Low priority placed on strategic and long-term issues</li> <li>- Avoid higher accountability and commitment for the challenging tasks</li> </ul>	<ul style="list-style-type: none"> <li>- Productivity improvement is crucial to sustain economic growth</li> <li>- Growth generated by labor and capital expansion, structural change is depleting</li> </ul>	<b>High</b>
Ministry of Planning and Investment	<ul style="list-style-type: none"> <li>- Allocate land to investors who invest in the high value-added apparel business.</li> </ul>	<ul style="list-style-type: none"> <li>- Demand more active participation in a more complicated coordination activities</li> </ul>	<ul style="list-style-type: none"> <li>- Support SMEs development</li> </ul>	<b>Medium</b>
Ministry of Industry and Trade	<ul style="list-style-type: none"> <li>- Make export quota more equitable among all apparel exporters.</li> </ul>	<ul style="list-style-type: none"> <li>- Demand more active participation in a more complicated coordination activities</li> </ul>	<ul style="list-style-type: none"> <li>- Facilitate industrial upgrading (the ministry's central mission)</li> </ul>	<b>Medium</b>
Ministry of Education and Training Ministry of Science and Technology	<ul style="list-style-type: none"> <li>- Encourage closer collaboration between education and training institutions with industry associations</li> <li>- Deepen research on textile and apparel products development</li> </ul>	<ul style="list-style-type: none"> <li>- Relinquish their control of distribution subsidy program (e.g. subsidy through consultancy service)</li> <li>- Demand higher capability of MOST to lead the national movement</li> </ul>	<ul style="list-style-type: none"> <li>- Command higher leadership with strong mandate to drive the national movement</li> <li>- Opportunities to receive more funding and resources</li> </ul>	<b>Medium</b>

Ministry of National Resource and Environment	<ul style="list-style-type: none"> <li>- Strengthen fairness in environment law enforcement</li> <li>- Provide technical support on textile waste treatment</li> </ul>	<ul style="list-style-type: none"> <li>- Expertise is not available</li> <li>- Sensitive to pollution created by apparel industry</li> </ul>	<ul style="list-style-type: none"> <li>- Waste-treatment technology is introduced to apparel industry and spill over to other industries</li> <li>- Ensure quality of waste-treatment is complied with environment standard.</li> </ul>	<i>Medium</i>
International Organizations (UNIDO, APO, World Bank)	<ul style="list-style-type: none"> <li>- Support projects and policies on upgrading enterprise or productivity of workers.</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of funding &amp; resources</li> <li>- Vietnam has become a middle-income country</li> </ul>	<ul style="list-style-type: none"> <li>- Deliver their mission (e.g. industrial upgrading, productivity improvement, private sector development)</li> </ul>	<i>Low</i>
<b>Private Sector</b>				
VINATEX	<ul style="list-style-type: none"> <li>- Continue to privatize subsidiaries to enhance governance effectiveness</li> <li>- Focus on upgrading efforts</li> <li>- Develop value chain linkage with SMEs</li> </ul>	<ul style="list-style-type: none"> <li>- Enjoy benefit from current arrangement</li> <li>- Lack of direct benefit</li> <li>- Channel away government's subsidy to SOEs</li> <li>- Wary of competitor is threat</li> </ul>	<ul style="list-style-type: none"> <li>- Develop their value chain's sub-contractors</li> <li>- Improving the industry's competitiveness will indirectly benefit market leader</li> </ul>	<i>High</i>
SMEs	<ul style="list-style-type: none"> <li>- Participate in the policy making process and associations</li> <li>- Focus on accumulate absorptive capacity</li> </ul>	<ul style="list-style-type: none"> <li>- Negative perception about government agencies and SOEs</li> <li>- Skeptical about government's real commitment</li> </ul>	<ul style="list-style-type: none"> <li>- Provide essential supports to break away from the vicious cycle</li> <li>- Participate in dialogue and deliberation in the policy marking process</li> </ul>	<i>Medium</i>
FIEs	<ul style="list-style-type: none"> <li>- Participate in collective actions</li> <li>- Develop value chain</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of direct benefit</li> <li>- Loose out competitive advantage</li> </ul>	<ul style="list-style-type: none"> <li>- Improve their input factor's conditions</li> </ul>	<i>Medium</i>

VITAS	<ul style="list-style-type: none"> <li>- Create event/forum to bring together business in apparel value chain.</li> <li>- Collect and disseminate information on apparel sectors.</li> </ul>	<ul style="list-style-type: none"> <li>- Domination of large enterprises with lack of interest to enable small players</li> <li>- Lack of capability and resources</li> </ul>	<ul style="list-style-type: none"> <li>- Essential for the industry's competitiveness</li> <li>- Position Vietnam as the global manufacturing hub</li> </ul>	<b>Medium</b>
Academic, Research Institute, Training Institute, and	<ul style="list-style-type: none"> <li>- Give more attention to research/training related to apparel sector.</li> </ul>	<ul style="list-style-type: none"> <li>- Skeptical about government's real commitment</li> <li>- Limited experienced and well-trained industry experts to collaborate with the industry</li> </ul>	<ul style="list-style-type: none"> <li>- Participate more actively in the policy-making process</li> <li>- Generate more demand for high-quality research, academia &amp; industry collaboration</li> </ul>	<b>Low</b>

## 9. CONCLUSION

Given findings of many major Free Trade Agreements that Vietnam is a member, Vietnam's T&A industry has a great potential to maintain its impressive growth. However, the middle-income trap is becoming a real threat for Vietnam's sustained growth. The sole reliance on cheap labor cost as the primary source of competitive advantage is not sustainable in the medium term. Vietnam needs to continue its institutional reform to liberate new sources of growth. Besides, chain upgrading, productivity-led growth requires a continuous process, product, functional upgrading within each industry. This research has analyzed key upgrading challenges for T&A enterprises in Vietnam and laid out the comprehensive policy priority framework and summarize in the table below:

**Table 15 Summar Problems and Recommendations**

N	Challenges	Recommendation
<i>Industry Level</i>		
1	Insufficient availability of apparel-skilled workforce	Reforming the existing apparel-training Institute with public-private partnership (PPP) model.
2	Underdeveloped textile industry	Creating a specialized textile industrial park.
3	Local context discourages enterprises	Creating incentive theme for different best upgrading enterprises.
<i>Meso Level</i>		
4	Poor Inter-Enterprises Linkage	Providing association more independence and autonomy and engaging industry associations and think-tank in the policy-making process.
5	Absence of collective actions	Improving association's individual and organizational capacity.
<i>Micro Level</i>		
6	Enterprises' weak absorptive capacity to learn and upgrade	Facilitating the accumulation of Enterprises' absorptive capacity.
7		Implementing National Productivity Program.

This topic is highly relevant other light manufacturing industries in Vietnam and many developing countries, who aspire to integrate into and climb the global value chain

Additionally, a key achievement of this PAE is developing the analytical framework that helps policy makers and scholars to analyze the challenges of enterprise upgrading

and to identify solutions to overcome. This framework broke down into three levels: macro level (industry level), meso level (stakeholders' linkages), and micro level (enterprise level). It helps us to structure our problem and guide our reasoning systematically.

## **10. LIMITATIONS**

Due to constraints in time and response rate, we could not reach wider pools of enterprises. Therefore, we focused primarily on qualitative analysis and lack of quantitative analysis. We also chose to study a broad topic ranging from industry policy to meso and then firm's level issues. It gives us a broad overview, initial systematic diagnosis. However, we were unable to go greater details. Therefore, we hope future research can take up from need and study a specific topic (e.g. skilled workforce development, textile industry development, etc.) at a deeper level.

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## APPENDIX 1 : DIFFERENT TYPES OF APPAREL CONTRACTUAL ARRANGEMENT

Source: Bui Van Tot. "Textile and apparel industry report." FPT Securities (2014)

- **FOB (Free-On-Board):** suppliers need to take charge of sourcing necessary material inputs instead of being supplied directly from their buyers (under CMT arrangement). Therefore, FOB suppliers can earn higher value compared to CMT; There are two types of FOB
  - FOB I: suppliers purchase inputs from a group of suppliers specified by buyers. This method requires apparel enterprises to bear the financial responsibility for the procurement and transportation of materials. The difference between this and CMT is thus very small.
  - FOB II: suppliers receive product designs from foreign buyers and take full responsibility for sources of raw materials, production, and transportation of raw materials and finished goods to ports specified by buyers. The bottom line is that businesses must find the material suppliers with capability of providing special materials, and having confidence in the quality and delivery time. Risks from this method are higher but manufacturing companies also receive higher added value.
- **ODM (Original Design Manufacturing):** suppliers take responsibility for the design and production process of purchasing fabric and materials, cutting, sewing, finishing, packaging and shipping products. The ability to design reflects the higher level of knowledge of the providers and therefore will bring higher added value for products. ODM businesses create designs, finish products and sell them to buyers
- **OBM (Original Brand Manufacturing):** suppliers are responsible for their own designs, and sign domestic and foreign goods' supply contracts for their own brands. Manufacturers in developing economies following OBM method mainly distribute products in their domestic market and markets of neighboring countries.

## APPENDIX 2: PROPOSED TRAINING PROGRAM

Type of Upgrading	Function	Position	A) Type of training B) Trainer/Training Institution C) Targeted trainee
<b>Process Upgrading</b>	CMT	- Hand Sewers - Sewing machine operator - Apparel pressers	- A: On-job training - B: Workers with experience, buyers' trainers, or equipment suppliers - C: No educational requirement
<b>Product Upgrading</b>		- Cutting machine operators - Line leaders	- A: 3-month apprenticeship - B: Apparel training institute and apparel factory - C: High school graduate
		- Production flow supervisors	- A: 6-month apprenticeship - B: Apparel training institute and apparel factory - C: University graduate
<b>Function Upgrading</b>	CMT to OEM	- Quality Control	- A: 6-month apprenticeship - B: Apparel training institute and apparel factory - C: High school graduate
		- Sourcing, Purchasing, and Supply Chain Management	- A: 6-month Apprenticeship - B: Apparel training institute and apparel company - C: University graduate
	OEM to ODM	- Fabric and apparel patternmakers - Tailors, dressmakers, custom sewers	- A: 1-year technical education in apparel - B: Apparel training institute - C: High school graduate
		- Designers	- A: 2-4 years technical training in apparel and fashion design - B: Apparel training institute - C: High school graduate
	OEM to OBM	- Branding and marketing executives - General Managers	- A: 1) 3-month training in apparel business and 2) Part-time executive education in apparel business - B: University and apparel experts - C: Experienced managers from other sector for 1) and 2) Current apparel managers.

Source: Authors' synthesis with input from field interviews and Renny and Ghada (2011)

### APPENDIX 3.1: POLICY ASSESSMENT: MACRO LEVEL

<b>Criteria</b>	<b>PPP Model for Apparel Training</b>	<b>Specialized Textile Industrial Park</b>	<b>Incentives for Apparel Industry Champions</b>
<i>Impact</i>	(+) The robust mechanism can overcome the chronic weaknesses of skill labor supply (+) Capable workforce is instrumental to upgrading	(+) Enhance competitive of local apparel enterprises (lead time, cost, productivity) (+) Increase domestic value-added in the T&G industry significantly	(+) Provide incentives to stimulate upgrading
<b>Assessment</b>	■/8	■/7	■/7
<i>Political Feasibility</i>	(+) Support from the business community	(-) Environmentalist resist against polluted industry (+) Better approach to control waste treatment	(-) Resistance from SOEs against move to withdraw their benefit (-) Prone to rent-seeking activities
<b>Assessment</b>	■/9	■/6	■/6
<i>Organizational and Administrative Feasibility</i>	(-) Getting to lead the PPP effectively is not easy (-) Public institutions are rigid and reactive (+) Private institutions are proactive in managing these programs (-) Limited supply of experienced trainer	(-)Lack of expertise in managing high-tech infrastructure (+) Private sector can provide response quickly to demand	(-) The Committee need to improve capability to design comprehensive, and targeted programs require industry understanding
<b>Assessment</b>	■/7	■/6	■/7
<i>Resources</i>	(-) Government subsidy can cost government on a recurring basis	(-) Government may provide subsidy at affordable level	- Budget can be redistributed
<b>Assessment</b>	■/6	■/6	■/7
<i>Social context</i>	- Students/workers have less interest in apparel industry	- People concerns about pollutions	- Government Incentive has the negative reputation
<b>Assessment</b>	■/7	■/5	■/6

## APPENDIX 3.2: POLICY ASSESSMENT: MESO LEVEL

Criteria	Improve Association's Institutional Capacity	Improve Association's Organizational and Individual Capacity
<i>Impact</i>	(+) Empower associations to become a truly representative of the business communities and function as an effective coordinating vehicle for the industry. (+) Improve capability to address the industry challenges much more effectively	(+) Enhance association's capability and efficiency in carrying out its mission (+) Select the right leadership and acquire capable people (+) Transform association to become more result-oriented
<b>Assessment</b>	■/9	■/8
<i>Political Feasibility</i>	(-) Conservatives in the Party leadership resist the change due to potential loss of control (-) Interest group resists against more inclusive policy-making process (+) Support by progressive people under the government and business community	(-) Resistance by Vinatex due to loss of their dominance in VITAS  (+) Support by private sector and Fes
<b>Assessment</b>	■/5	■/6
<i>Organizational and Administrative Feasibility</i>	(-) Public sector is currently lacking the capacity to engage business community	(+) Participation of private sector, especially FIEs, can bring more dynamic and drive into association, less reliance on public bureaucracy (-) Unfamiliar with new model of association
<b>Assessment</b>	■/4	■/6
<i>Resources</i>	(-) Demand higher budget committed for more engaged policy making process	(-) Require initial injection of funding to move to the higher level of management (+) Stimulate growth and generate more tax revenue stream in the future
<b>Assessment</b>	■/4	■/4
<i>Social context</i>	(-) Take a time to change relation between government and business community (+) TPP push for more reform	(+) Increasing the FDI can be a positive pressure on the association to facilitate to introduce more efficiency. (-) Low social trust and lack of collaborative mindset among the old generation
<b>Assessment</b>	■/5	■/8

### APPENDIX 3.3: POLICY ASSESSMENT: MICRO LEVEL

<b>Criteria</b>	<b>Strengthen National Productivity Program</b>	<b>Facilitate Upgrading of Enterprises' absorptive capacity</b>
<i>Impact</i>	(+) Sustain the industry's competitiveness: Gradually transition from low labor cost to productivity-led growth	(+) Strong absorptive capacity enables firm to engage successfully in continuous capability upgrading
<b>Assessment</b>	■/8	■/8
<i>Political Feasibility</i>	(-) Relocation of current distribution of power and resources may trigger resistance from those who are benefiting from such arrangement (SOEs and MST)	(+) There is no obvious political resistance against this strategic direction
	(-) Reluctance by government gets accountable for challenging target (+) Rising pressure to sustain economic growth as the legitimacy for Party's leadership (+) Rising recognition of the importance of private sector development	
<b>Assessment</b>	■/6	■/8
<i>Organizational and Administrative Feasibility</i>	(-) The chronic weaknesses in inter-ministerial coordination and comprehensive policy design and implementation (-) Lack of government agencies' experience in engaging business in policy making process (-) Due to the bureaucratic nature, VITAS's capacity is weak and unable lack to organize collective actions to tackle strategic issues	
<b>Assessment</b>	■/5	■/5
<i>Resources</i>	(+) Tax-break can place less burden on government budget (-) Budget constraint to allocate sufficient resources for the complex tasks and subsidy provision	(+) Leveraging on private initiatives is more feasible (-) Government's funding is limited
<b>Assessment</b>	■/4	■/5
<i>Social context</i>	(-) Low trust of non-state sector for government-linked institutions (-) Low trust between SOEs and private enterprises (-) Majority of local firms focus on competition rather than cooperation (+) Young generation entrepreneurs are more proactive and cooperative (-) Lack of interest by enterprises to participate actively in the policy-making process	
<b>Overall Assessment</b>	■/5	■/5

## APPENDIX 4: LIST OF INTERVIEWS

**List of Interviewee:** 54 interviewees in 6 stakeholder groups from 6 countries (Vietnam, Cambodia, Sri Lanka, Taiwan, Singapore and Japan).

Stakeholder Group	N	Name	Position/ Department	Organization
<b>Associations</b>	1	Ms. Nguyen Thi Tuyet Mai	Chief of VITAS - HCMC Office	Vietnam Textile and Apparel Association (VITAS)
	2	Ms. Dang Phuong Dung	Vice Chairwoman	
	3	Khuu Thi Thanh Thuy	General Secretary	AGTEK
	4	Mr. Rohan Masakorala	CEO	Joint Apparel Association Forum (JAAF)
	5	Mr. Tuli Cooray	Secretary General	Joint Apparel Association Forum (JAAF)
	6	Mr. Kaing Monica	Deputy Secretary General	Apparel Manufacturer Association in Cambodia
<b>Industry Expert</b>	7	Mr. Le Quoc An	Former chairman of	VITAS and VINATEX
	8	Mr. Pham Xuan Hong	Chairman	Saigon 3 Apparel JSC
	9	Mr. Nguyen Minh Khang	Consultancy Manager	SMEDEC 2
	10	Mr. Nguyen Quoc Minh	CEO	Minh Quan International Corporation
	11	Mr. Mai Khac Minh	Senior Manager	Thank Cong T&G JSC
	12	Mr. Pham Thanh Dieu	Chairman/ CEO	ClIC
	13	Ms. Bui Kim Thuy	Deputy Head	Import and Export Department Ministry of Industry and Trade
	14	Mr. Dang Viet Hai	General Manger	Saigon River Factory
	15	Ms. Bui Kim Thuy	Deputy Head	Import and Export Department Ministry of Industry and Trade
<b>Enterprises</b>	16	Ms. Anh Tang	Vice General Director	
	17	Mr. Tran Van Quy	CEO	Trung QuyTextile JSC
	18	Mr. Nguyen Tri Nguyen	CEO	Tri Nguyen JSC
	19	Mr. Hoang Minh Tam	CEO	Cago Jean JSC
	20	Ms. Ngo Thi Manh	Vice President	Dong Tien Apparel JSC
	21	Mr. Nguyen Vu Hai	Director	Phuong Vy
	22	Pham Thi Thai	CEO	Thao Minh
	23	Ms. Pham Thi Du	General Director	Tien Tien Apparel JSC
	24	Ms. Le Thi Thuy	CEO	Tuan Thuy Apparel JSC
	25	Mr. Nguyen Binh Phuong	CEO	TVP Apparel JSC
	26	Ms. Nguyen Thi Ngoc Lan	Director	Dai Viet Apparel JSC
	27	Nguyen Hong Quang	Chairman	Truc Quang JSC
	28	Ms. Nguyen Thi Dien	General Director	An Phuoc Apparel JSC
	29	Le Quang Hung	Chairman	Garmex
	30	Mr. Dang Vu Hung	Chairman & CEO	Phong Phu International JSC
31	Mr. Peter Nguy	Business Development Director		
32	Mr. Tony Thang	Product Development Manager		
33	Mr. Hoang Hgoc Linh	Sales Manager		
<b>Domestic and Foreign Suppliers</b>	34	Mr. Alan Fogarty	Vice President/ Country Manager	MGF Sourcing
	35	Mr. Motoyuki Tanimizu	Deputy General Director	GUNZE (VIETNAM) CO., LTD
	36	Mr. Shingo Akieda	General Director	GUNZE (VIETNAM) CO., LTD

	39	Mr. Hidekazu Takahashi	Chief Representative	Marubeni Vietnam Company Limited Marubeni Corporation Ho Chi Minh City Representative Office
	40	Mr. Suguru Kitagawa	General Director	Nomura Trading Co., Ltd
<b>Academia, Research</b>	41	Mr. Kenta Goto	Professor	Faculty of Economics, Kansai University
	42	Mr. Donald Low	Associate Dean (Research and Executive Education)	Lee Kuan Yew School of Public Policy
	43	Mr. Razeen Sally	Associate Professor	Lee Kuan Yew School of Public Policy
	44	Mr. Pham Binh An	Director	WTO Center (HCMC Research and Development Institute) (Vietnam)
	45	Mr. Dinh Cong Khai	Director	Institute of Public Policy (University of Economics HCMC) (Vietnam)
	46	Mr. Vu Thanh Tu Anh	Research Director	Fulbright Economic Teaching Program (Vietnam)
	47	Ms. Lee-in CHEN Chiu	Senior Researcher	Chung-hua Institution for Economic Research (Taiwan)
	48	Mr. Kai-Fang Cheng	Deputy Director of Business Information Section of TTRI	Taiwan Textile Research Institute
<b>International Organizations</b>	49	Ms. Huong Thu Ngo	Program Officer, Research & Planning Department	Asian Productivity Organization (APO)
	50	Mr. Patrick Gilabert	Representative of UNIDO Vietnam	UNIDO (Vietnam)
	51	Mr. Hong Mai, Van Anh	Officer	
	52	Ms. Florian Beranek	Lead Expert Societal Responsibility	
	53	Ms. Paramita Dasgupta	The Practice Manager	The World Bank Singapore Trade and Competitiveness Hub
	54	Ms. Roman Camilla	Deputy Program Manager	ILO (Cambodia)'s Better Factories Program

## APPENDIX 5: QUESTIONNAIRE

Đại học Quốc gia Singapore  
Trường Chính sách công Lý  
Quang Diệu

Đại học Kinh tế Thành phố Hồ  
Chí Minh  
Chương trình Giảng dạy Kinh  
tế Fulbright

### Nghiên cứu chính sách

## NÂNG CẤP DOANH NGHIỆP DỆT MAY VIỆT NAM TRONG BỐI CẢNH HỘI NHẬP

### Giới thiệu bảng hỏi

Dệt may được kỳ vọng hưởng lợi nhiều nhất từ các hiệp định thương mại tự do với những đối tác lớn như Mỹ, Châu Âu, Nhật Bản, Hàn Quốc. Nắm bắt thời cơ này cần doanh nghiệp phải có năng lực tối thiểu hóa chi phí, phát triển sản phẩm mới, hoặc chuyển nâng cấp từ gia công CMT, thành FOB, OBM, hoặc ODM. Mục đích nghiên cứu này muốn đánh giá quá trình chuẩn bị đón nhận thời cơ này của các doanh nghiệp Việt Nam, các tổ chức hỗ trợ, và các cơ quan chính sách hình thành một môi trường hỗ trợ, khuyến khích, thúc đẩy các doanh nghiệp Việt Nam nâng cấp năng lực.

Bảng hỏi đánh giá quá trình chuẩn bị của những doanh nghiệp dệt may gồm bốn phần chính. Phần đầu tiên thảo luận một số thông tin cơ bản qua các thời kỳ phát triển. Phần thứ hai đánh giá quá trình phát triển năng lực doanh nghiệp cho đến hiện nay. Phần thứ ba thảo luận ảnh hưởng của chính sách đến doanh nghiệp. Phần cuối thảo luận một số chính sách tác động đến nâng cấp năng lực của doanh nghiệp.

Tùy vào từng doanh nghiệp, một số câu hỏi sẽ được loại bỏ nếu đã trả lời bằng thông tin truyền thông hoặc website.

### Cam kết bảo mật và sử dụng thông tin

Đảm bảo tính khách quan của nghiên cứu, và bảo vệ lợi ích của doanh nghiệp, toàn bộ thông tin chia sẻ trong bảng khảo sát này được tổng hợp dưới hình thức ẩn danh, trừ trường hợp doanh nghiệp được yêu cầu nêu tên. Toàn bộ thông tin **chỉ** sử dụng trong bài phân tích chính sách.

### Phần 1: Thông tin chung về doanh nghiệp

1. Đây là (những) lý do Anh/Chị thành lập doanh nghiệp?
2. Mô hình kinh doanh của doanh nghiệp là gì?
  - Khách hàng: nội địa, quốc tế;
  - Chức năng của công ty: CMT/FOB/ODM/OBM;
  - Mô hình: một thành viên, cổ phần, liên doanh;

- Khách hàng: nội địa, quốc tế;
- Chức năng của công ty: CMT/FOB/ODM/OBM;
- Mô hình: một thành viên, cổ phần, liên doanh;

3. **Lợi thế cạnh tranh:** Xin anh chị đánh giá lợi thế cạnh tranh của doanh nghiệp đối với khách hàng:

- Chất lượng sản phẩm: .....
- Giá thành: .....
- Quan hệ gần bó, thân thiết với khách hàng: .....
- Đổi mới sáng tạo/sản phẩm độc đáo: .....
- Dịch vụ khách hàng: Giao hàng nhanh, đúng hạn: .....
- Thương hiệu: .....
- Khác, xin chỉ ra: .....

4. **Lợi thế cạnh tranh:** Có nguồn giúp DN có lợi thế cạnh tranh nằm ở đâu?

- Nguồn nhân lực (Tay nghề, trung thành, nhiệt tâm): .....
- Độ tin cậy cán bộ quản lý giỏi: .....
- Máy móc thiết bị tốt: .....
- Vị trí chiến lược: .....
- Nỗ lực học hỏi và hội nhập quốc tế: .....
- Có khách hàng chiến lược: .....
- Khác, xin chỉ ra: .....

5. Đây là những thời điểm đánh dấu các giai đoạn phát triển của doanh nghiệp?

6. Trong ba năm tới, doanh nghiệp có kế hoạch phát triển, nâng cấp (mở rộng thị trường, nâng cao năng suất, phát triển sản phẩm, nâng cấp chức năng) hay không? Tại sao?

## Phần 2. Năng lực hấp thụ

7. Doanh nghiệp đã và đang thực hiện những hoạt động nâng cấp/cải tiến nào để nâng cao năng lực?

- Quy trình: những phương pháp cải tiến như Sản xuất tinh gọn, TQM, Kaizen, 6 Sigma, Balanced scorecard, vv...

- Sản phẩm: Mặt hàng sản xuất chính của công ty là gì? Đơn giá? Những cải tiến chính là gì?
- Chức năng: Công ty đã phát triển từ khâu chức năng từ đâu đến đâu nào? CMT/FOB/ODM/OBM

8. Đây là lý do chính của việc thực hiện các hoạt động cải tiến cho doanh nghiệp?

- Tầm nhìn lãnh đạo;
- Đề nghị của khách hàng/ đối tác mua;
- Nhà cung cấp nguyên vật liệu;
- Doanh nghiệp cùng ngành;
- Dịch vụ tư vấn;
- Các cơ sở nghiên cứu;
- Hiệp hội;
- Các tổ chức quốc tế;
- Bạn bè;

9. Mức độ thường xuyên Anh/Chị tham gia chương trình đào tạo/ hội thảo ngành như thông tin thị trường, năng lực quản lý?

10. Đây là những thách thức chính khi doanh nghiệp thực hiện nâng cấp? Anh/Chị đã giải quyết như thế nào?

- Tiếp cận thông tin (công cụ quản lý hiện đại, xu hướng nhu cầu thị trường, xây dựng chức năng mới, vv...)
- Tiếp cận thị trường/ khách hàng có nhu cầu nâng cấp (sản phẩm, chức năng)
- Tiếp cận với đơn vị tư vấn có năng lực
- Nguồn lực và tiếp cận tài chính để đầu tư nâng cấp
- Tổ chức triển khai nâng cấp (vd: Chi phí lớn hơn lợi ích)

11. Doanh nghiệp Anh/Chị tổ chức việc áp dụng cải tiến như thế nào?

- Những cải tiến thường được đề xuất từ cấp nào? *Người lãnh đạo; Cán bộ quản lý; Chuyên viên khu vực phi sản xuất; Công nhân; Khác.*
- Cách thức tổ chức đánh giá, triển khai công cụ, ý tưởng cải tiến của doanh nghiệp như thế nào? *Quy trình, thành viên tham gia, vv...*

- Mức độ đầu tư nguồn lực cho hoạt động cải tiến của doanh nghiệp (% Doanh thu, nhân lực phụ trách)?
- Đây là thách thức chính khi truyền thông hoặc tổ chức cải tiến (cả sản xuất và phi sản xuất) đến đội ngũ nhân viên? *Khả năng tiếp thu nhân viên; đặc thù doanh nghiệp so với lý thuyết; tâm lý ngại thay đổi của nhân viên; hoặc khác.*
- Mức độ thường xuyên của các hoạt động cải tiến năng suất? (1/3/6/12 tháng, hàng ngày/tuần/tháng)

12. Doanh nghiệp có từng gặp thất bại trong việc triển khai công cụ, ý tưởng mới? (vd: Chi phí lớn hơn lợi ích; phương thức không có giá trị thực tiễn, v.v...)

### Phần 3: Đánh giá thể chế hỗ trợ

13. Anh/Chị có thông tin về chính sách hoặc chương trình hỗ trợ về vấn đề nâng cấp từ Hiệp hội/ Cơ quan hỗ trợ chính phủ / Tư vấn/ Đại học hay không? Nếu có, Anh/Chị có tham gia không? Nếu có, Anh/Chị đánh giá mức độ hữu ích mang lại? Nếu không, tại sao?

- Cung cấp thông tin thị trường
- Cầu nối giữa các bộ phận của cụm ngành
- Kênh đối thoại chính sách
- Dịch vụ hỗ trợ

14. Anh/Chị có thấy hiệp hội đang đại diện quyền lợi của doanh nghiệp về mặt chính sách, hỗ trợ, liên kết doanh nghiệp? (Ví dụ: VITAS, AGTEK, VCCI, Viện năng suất, v.v...)

15. Theo Anh/Chị, đây là (những) chính sách nào đang cản trở nhất kế hoạch nâng cấp của doanh nghiệp? (Chính sách bảo hiểm thất nghiệp tự nguyện; chính sách thuế; chính sách hải quan, phát triển ngành sản xuất nguyên phụ liệu trong nước, chính sách tỷ giá)

16. Theo Anh/Chị, doanh nghiệp có nhu cầu hỗ trợ gì từ các thể chế hỗ trợ? (Ví dụ: hiệp hội, đại học, cơ quan hỗ trợ, cơ quan quản lý nhà nước)

- Hệ thống cơ sở dữ liệu và thông tin thị trường (quốc tế & nội địa)
- Các cầu nối hay đầu mối mua/nhập khẩu/cung ứng nguyên phụ liệu tập trung
- Cơ sở đào tạo nghề dệt may

- Cơ sở đào tạo đại học và cao đẳng

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