

The Trans-Pacific Partnership Agreement: Opportunities and Challenges to Vietnam's Apparel Exported to the US Market

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ABSTRACT

The Trans-Pacific Partnership Agreement (TPP) is negotiated among eleven countries from three continents: Brunei Darussalam, Chile, New Zealand, Singapore, Australia, Canada, Malaysia, Mexico, Peru, the USA and Vietnam. It is considered as a 21st century trade agreement because it deals with various fields, from trade in goods and services to intellectual property, labor and environmental issues. TPP therefore offers both opportunities and challenges to Vietnamese economy, especially opportunity to export goods to member markets, including the US one - a potential market for various goods from Vietnam, such as apparel, footwear and aquatic products, etc. This paper aims at presenting an overview on TPP, and estimating opportunities and challenges to Vietnamese apparel industry when exporting its output to the USA in the future as influenced by the TPP.

Keywords: agreement, TPP, export, Vietnam's apparel, US market.

1. AN OVERVIEW

While the Doha Round showed no end in sight after 12 years and negotiations seemed to end in failure, the birth of TPP is an important contribution to a greater effort to remove trade barriers than any existing FTA and it will help promote the world trade.

Reuters says that if ratified, TPP will cover a market that is some 40% larger than the EU. Its governing scope will be broader in comparison with all existing bilateral and multilateral FTAs. TPP is considered a trade agreement of the 21st century and a new development in quality of commitment. It not only supports liberation of trade in goods and services and investment but also imposes strict standards on such issues as environment, labor and intellectual property. Moreover, TPP also suggests criteria for running state-owned companies in order to create a level playing field for both state-owned and private companies. Each member country may gain different benefits joining TPP.

Concerning developed economies such as the USA and Australia, TPP serves as a basis for a free trade area that covers the whole APEC. Small and developing economies like Vietnam's may find in TPP a gateway to vast markets (in the USA and Australia for example) and chance to cooperate to develop infrastructure or establish a foothold in the global supply chain. TPP will affect various industries in Vietnam. This paper, however, only examines opportunities and challenges to the Vietnam's apparel industry when it enters the US market and suggest measures to gain opportunities and cope with challenges after TPP is ratified. Principal methods used in the research are descriptive statistics and dialectical logic.

Table 1: Export Value of Vietnam's Apparel in 2006-2011 (US\$ billion)

Market	2006		2007		2008		2009		2010		2011	
	Value	As %	Value	As %	Value	As %	Value	As %	Value	As %	Value	As %
USA	3.39	58.65%	4.46	57.55%	5.1	55.92%	4.995	55.13%	6.12	54.60%	6.92	49.29%
EU	1.24	21.45%	1.49	19.23%	1.7	18.64%	1.651	18.22%	1.92	17.13%	2.57	18.30%
Japan	0.623	10.77%	0.697	8.99%	0.820	8.99%	0.954	10.53%	1.15	10.26%	1.69	12.04%
Total Value	5.78		7.75		9.12		9.06		11.21		14.04	

Source: <http://www.customs.gov.vn/Lists/TinHoatDong>

2. EXPORT IN 2006-2011

In the years 2006-2011, the USA was the biggest export market for Vietnam’s apparel. Export earnings from this market for the apparel industry rose steadily, from US\$4.46 billion in 2007 - increasing by 131.56% over 2006 and equaling 58.65% of total export value of the industry - to US\$5.1 billion in 2008 (increasing by 143.5% and accounting for 55.92% of total export earnings). In 2009, the export value fell slightly, equaling to 97.94% of 2008 earning, gaining US\$4.995 billion representing 55.13% of total export earnings. The export value rose to US\$6.12 billion in 2010 making an increase of 122.52% and equaling 54.6% of the total earnings. The three figures in 2011 were US\$6.92 billion, 113.07%, and 49.29% respectively.

The US imports roughly US\$80 billion worth of apparel every year on average. With current export value, Vietnam becomes the second largest supplier of apparel in this market after China, accounting for some 7% of US import value for apparel. Common apparel items that Vietnam exports to the USA include garment, fiber/filament, cloth, curtain, towel, etc. Garments account for roughly 95% of export value [1].

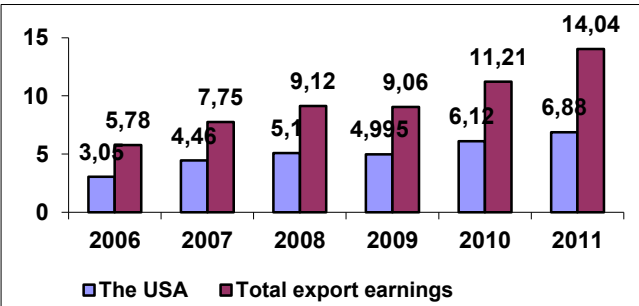


Figure 1: Apparel Export Earnings from US Market in 2006-2011 (US\$ billion)

During the first eight months of 2012, total apparel export value reached US\$9.8 billion increasing by 7.98% compared with the corresponding period in 2011. The USA was still the biggest market for Vietnam’s apparel industry. Apparel export earnings from this market in these eight months was US\$4.95 billion, increasing by 8.5% over the same period and representing 50.51% of total export earnings.

Among Vietnam’s exports to the US market since 2009, the apparel is the largest dollar earner accounting for some 40% of the total export value [2]. In the first eight months of 2012, it represents some 38% of total export earnings from the US market.

T-shirt, trousers, dress, shorts and jacket have the largest shares in structure of Vietnam's exports to the USA.

Table 2: Apparel Export Earnings in the First Eight Months in the Past Few Years (US\$ billion)

Market	First Eight Months 2009		First Eight Months 2010		First Eight Months 2011		First Eight Months 2012	
	Value	As %	Value	As %	Value	As %	Value	As %
The USA	3.25	55.18%	3.94	56.29%	4.58	50.27%	4.95	50.51%
EU	1.1	18.68%	1.18	16.86%	1.73	18.99%	1.65	16.84%
Japan	0.605	10.27%	0.691	9.87%	1.04	11.42%	1.27	12.96%
Total	5.89		7		9.11		9.8	

Source: <http://www.customs.gov.vn/Lists/TinHoatDong>

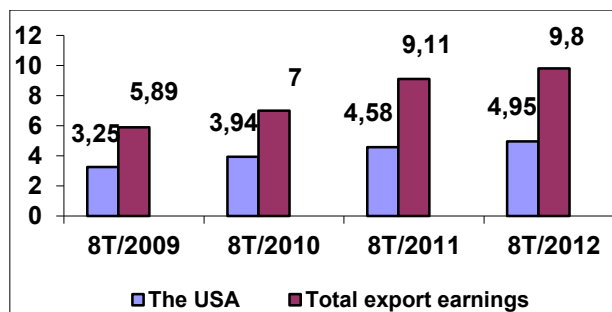


Figure 2: Apparel Export Earnings from US Market in First-8-month Periods in 2009-2012 (US\$ billion)

Source: <http://www.customs.gov.vn/Lists/TinHoatDong>

In the past few years, Vietnam's apparel enjoys several favorable conditions for its export to the USA. Firstly, the US economy, although not fully recovered, started showing signs of revival; and disposable income became more stable, allowing consumers to spend more for themselves and their families. This is one of the main conditions that increase Vietnam apparel exports to the USA. Secondly, As a multicultural and multiracial society, the USA market is less demanding than the EU in terms of quality and style and accepts various kinds of products and prices. Most

apparel products from Vietnam satisfy importers in this market. Thirdly, China, the leading supplier of apparel in this market, is losing some market shares and American retailers are looking for new suppliers, including Vietnam. Finally, US consumers feel content with apparel from Vietnam. At present, Vietnam is among suppliers of apparel of high prices in the US market.

Prices for apparel imported from Vietnam to the USA increase compared with the same period last year but Vietnam's market share is improved. This may help Vietnam apparel strengthen and expand its foothold in this market in the future when the market demand recover fully [4].

Beside aforementioned advantages, Vietnamese apparel exporters are facing many difficulties exporting their products to this market. Firstly, competition is very keen in the US market. Vietnam goods suffer fierce price competition from other suppliers such as India, China, Pakistan and Indonesia related to various items, like swimsuit, jacket and trousers. Additionally, Vietnam's apparel has not been granted preferential tariffs, resulting in higher price than similar products from countries provided with such tariffs.

Secondly, most raw materials for the apparel industry are imports, and increases in prices of imports, fuel and transport service, therefore, make Vietnam's apparel less competitive. Unstable supply of raw materials hinders Vietnamese apparel companies from filling orders from foreign partners. Additionally, Vietnam also faces technical barriers, investigation for chemicals, and other trade protectionist measures imposed by US authorities. When the USA has not recovered fully from the economic crisis, such measures will be constantly stringent.

Despite such difficulties, volume and value of Vietnam's apparel export to the USA increase over years. Regarding the size of US market and apparel export earnings for Vietnam, we could see that Vietnam only accounted for a small segment of this market. This implies that opportunities for Vietnam's apparel industry in this market are abundant.

3. BASICS OF TPP

TPP with its 26 chapters that have been discussed by its members include issues existing in previous FTAs along with new and emerging trade issues and cross-cutting ones [5]. When ratified and implemented, TPP will exert great effects on economic development of Asia-Pacific region.

Concerning trade in apparel between the USA and Vietnam, rules agreed upon within TPP will affect not only apparel industries in the two countries but also exporters of apparel to the USA in NAFTA, CAFTA and Andean Community. Moreover, other regions with preferential trade agreements with the USA, especially Africa and Middle East are also affected. Taken together, some two million jobs in apparel business in the USA and signatories of FTAs and PTAs will be affected. Apparel-related issues in TPP, therefore, are discussed carefully between the USA and Vietnam - the second biggest exporters of apparel, after China, to the USA. Contents of main apparel-related issues under negotiation between Vietnam and the USA include:

- Tariff: The USA will agree to cut most tariffs on imported apparel. However, it will prolong the period in which apparel imports from Vietnam enjoy lower tariffs and apply other modifying measures including the ones to force Vietnam to stop subsidizing the apparel industry. According to US apparel industry authority, the Vietnam's apparel industry is large and benefits very much from governmental support. Rules and regulations introduced by TPP may have the strongest effect on jobs in this industry than any FTAs signed by Vietnam in the past 20 years.

Rule of origin: The Yarn Forward Rule will be introduced by the USA to negotiations. This is the standard rule for apparel business applied by the USA to all FTAs in the past 25 years. This rule requires that yarn, cloth and garments should be made in Vietnam and other TPP member countries to enjoy the TPP tariffs. From American viewpoint, this rule ensures benefit for producers in TPP signatories, creates and promotes economic development among partners, and for the USA, investment in production of expensive apparel will increase.

- Customs: The USA will require strong customs measures to control and eliminate illegal sources of apparel products. Specifically, customs should adopt electronic systems capable of eliminating possibilities of frauds and mistakes associated with paper documents. Electronic versions make it easy for producers and exporters to store documents and ensure that only apparel from partner countries, not illegal producers, enjoy benefits from TPP rules.

Additionally, technical barriers to trade, trade defense measures, intellectual property, labor, and environment under negotiation also affect Vietnam's apparel industry. Strict criteria for technological copyright, production process, style and

design, brand names, quality; working conditions; and production environment will be also applied to Vietnam apparel companies.

4. ESTIMATE OF OPPORTUNITIES AND CHALLENGES

Joining the TPP will provide the apparel industry with development opportunities in the future in the US market:

Firstly, the apparel industry can increase its export to, and market share in, the US market based on preferential tariffs to be agreed. At present, apparel products from Vietnam pay high tariffs of 26%-28% [6]. As suggested by TPP, the USA may impose very low rates, even a 0% one, on apparel from member countries. This is a great opportunity for Vietnam's apparel. Besides enjoying a 0% rate, Vietnam's apparel may compete successfully against similar products from other countries, such as China and India.

Secondly, although the Vietnam-US bilateral agreement was signed in 2001, many institutional and non-tariff barriers, such as strict agricultural and industrial standards, still exist and hinder Vietnamese companies, including apparel ones, from entering into the US market. If ratified, TPP rules will help remove unnecessary barriers, reduce constraints on imports and differences in regional standards, promote transparency, and implement institutional processes to facilitate international trade. Vietnam's apparel companies can employ TPP commitments on technical trade barriers to avoid disputes when entering into the US market.

Thirdly, when joining TPP, Vietnam's apparel industry will have opportunities to attract foreign investments needed for improvements in production capability and training skilled labor for spinning, weaving, and dyeing (they are the poorest stages in apparel industry), thereby building closed production chains. TPP also helps Vietnamese companies join regional and global value chains, which allows them to improve their competitiveness, meet high technical standards, develop reliable supplies of raw materials in order to reduce risks of being investigated for dumping, and encourage connectivity in the region to serve as a basis for satisfying US demand for origin.

When joining the TPP, Vietnam's apparel industry also faces various challenges entering the US market:

Firstly, Vietnam's apparel companies, to enjoy preferential tariffs according to the TPP, should comply the "yarn forward rule" - a strict principle of origin of goods.

At present, in the close production chain from growing cotton, spinning, weaving, dyeing, finishing cloth and making garments, Vietnam only does well the last stage while other stages are still very poor and cannot meet market demand. It is paradoxical that Vietnam can export 60% or 70% of its fiber output and import cloth of all kinds. In the first eight months of 2012, value of Vietnam's clothing import was US\$4.52 billion, rising by 0.8% compared with the same period last year. China is still the biggest supplier of clothing for Vietnam, earning US\$1.934 billion making an increase of 3% over the same period last year and accounting for 42.79% of import volume. Other suppliers are South Korea, Taiwan, Hong Kong and Thailand [7].

In such a situation, US origin requirement causes disadvantage for Vietnam because most raw materials for the apparel industry are from non-members of TPP. If this problem is not solved during negotiations, Vietnam's apparel industry benefits nothing from the TPP exporting its products to the USA.

Secondly, when tariffs are reduced or removed, non-tariff barriers and trade defense measures will be higher to protect domestic production. Assuming that Vietnam's apparel meets origin requirements and exempted from all tariffs and Vietnam's apparel exported to the USA increase remarkably, Vietnamese exporters may face anti-dumping or anti-subsidy lawsuits. This is a danger that can occur at any time. TPP cannot prevent the USA from taking trade defense measures or investigating Vietnam for violations, unless Vietnam meets standards of a market economy. At present, Vietnam is not considered as a market economy by American standards, resulting in difficulties for winning an anti-dumping or anti-subsidy lawsuits.

Thirdly, the fact the USA includes a level playing field for all local and foreign players in negotiation rounds forces the Vietnamese government to adjust its policies and supporting measures for the apparel industry. At present, US authorities point out that the Vietnamese apparel industry and especially state-owned companies in this field are receiving great supports from the government in terms of low-interest loans; official financial assistance; tax exemptions or cuts; and financial support for R&D activities, trade promotion and technology transfer. No one can predict for sure how apparel companies do their business without supports from the government and what role state-

owned companies can play in the future. These are insurmountable problems for the industry.

Fourthly, when joining the TPP, the apparel industry should comply with requirements for labor rights, such as rights of free association and collective bargaining, bans on use of forced labor and child labor, and bans on discrimination among labor force. Regarding labor as an advantage, Vietnam's apparel industry enjoys cheap labor, and this advantage may be examined closely according to labor commitments applied to labor-intensive industry. Violations of these requirements may occur at any time in the future because law enforcement in Vietnam is very weak.

Fifthly, the USA tends to emphasize requirements on environment and intellectual property. These issues may be agreed upon quickly by the other TPP members according to international treaties and conventions. Vietnam's apparel industry, with its poor conditions and capacity and within a short time, can hardly meet these requirements, such as technological copyright, software used for management, brand names, or geographical indication.

When joining the TPP, Vietnam should comply with its rules and requirements, lawsuits against violations committed by Vietnam's apparel companies may occur and increase, creating new barriers to the US market.

5. SOME SOLUTIONS

To prepare for entry into the US market after TPP takes effects, the apparel industry should employ measures to solve its own problems besides macroeconomic solutions for the industry adopted by the government. The followings are a few measures.

- Source of raw materials: There should be plans to develop supplies of raw materials based on existing conditions and attract foreign investment, especially from TPP member countries, to these plans in order to ensure a stable supply of raw materials of high quality and low cost, suitable to the US origin requirements. Additionally, apparel companies should find suppliers of raw materials in TPP member countries in order to establish connectivity. In doing so, they should pay attention to prices and costs to work out the most effective plans.

- Production: Apparel companies should avoid applying CMT (Cut-make-trim) subcontracts to foreign partners and move to OEM (Original equipment manufacturer) process in which companies can make decisions on sources of raw materials and control

production cost better, thereby increasing values of their exports and satisfying the yarn forward rules set by the US authorities.

This process also helps companies gather experiences before moving to ODM (Original design manufacturer) and OBM (Original brand manufacturer) processes. When their production capacity meets international standards, local companies can find partners in TPP member countries and join the regional supply chain. To conduct such a shift, Vietnamese companies should modernize their production processes, technologies and machinery, pay full attention to copyright and sources of raw materials of high quality and reasonable costs.

- Labor: To develop closed production chains or join regional or international supply chain, companies should develop programs to train skilled workers and competent managers to match foreign partners. Apparel companies should sign and implement labor contracts as required by law, enhance the position of trade unions, and comply with labor rules set by TPP.

- Finance: To implement aforementioned solutions, companies should have financial strengths. At present, most companies in Vietnam are facing shortage of capital. Apparel companies should review their development strategies and production processes in order to find measures to cut costs and inventory, and reduce debts. The capital should be placed in projects that have broad customer bases and high payback ratio in order to limit loan capital.

Moreover, to import modern machinery and facilities, companies should secure long- and medium loans and export supporting funds in both foreign and local banks, along with making effort to attract foreign investment.

Apparel companies need engage in TPP negotiations by giving opinions to Vietnam's delegates, presenting research papers at workshops and conferences held along with negotiation rounds. TPP is an open agreement, which means that all issues under negotiation should be agreed upon by member countries and participation is offered to representatives of companies, NGOs, trade associations and experts. If companies can make the best use of opportunities, they can influence progress of negotiations and make results of negotiations more favorable for Vietnam's apparel companies.

6. CONCLUSION

In sum, if Vietnam joins the TPP trade benefits for local companies only are materialized when results of negotiation are favorable for Vietnam. Unlike accession to the WTO in 2007 where Vietnam should comply with all existing rules and regulations, Vietnam now can participate in development of TPP rules. To help apparel industry to take opportunities and lessen challenges, Vietnam delegates should negotiate not only decreases in tariffs but also reduction in non-tariff barriers, especially the rule of origin applied to apparel exports.

From US viewpoint, there should be no two regimes in TPP. TPP procedure is identical for all members or in parallel with opening process stated in bilateral trade agreements the US signed before. This implies that Vietnam, as a developing country with poorer economic capacity in comparison with other members, is allowed no preferential treatment. To gain benefits for the apparel companies and other industries, in addition to successful negotiations, the government and companies should enhance their internal capability to meet TPP rules■

Notes

- [1] Office of Textiles and Apparel (OTEXA)
- [2] <http://www.customs.gov.vn/DocLib/Forms>
- [3] <http://www.agtek-hcm.com/index.php?Module=Content&Action=view&id=9238>
- [4] <http://www.tinhuongmai.vn/gpmaster.gp-media.tin-thuong-mai-viet-nam.gplist.163.gpopen.34454.gpside.1.nhap-khau-hang-det-may-cua-my-trong-chu-ky-tang-.asmx>
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