



ISSN: 0975-833X

RESEARCH ARTICLE

STRATEGIES FOR ENHANCING THE VIETNAM TEXTILE AND GARMENT EXPORT AND INDICATORS MEASURING THE GROWTH OF THIS SECTOR

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ARTICLE INFO

Article History:

Received 18th November, 2015
Received in revised form
17th December, 2015
Accepted 23rd January, 2016
Published online 14th February, 2016

Key words:

Textile and garment exports,
Export growth,
The supply of raw materials,
Competition, value-added,
economic integration.

ABSTRACT

TPP Agreement has finalized negotiations and will deploy next year; outlook for export of Vietnam textile products is expected to increase breakthrough to the market of Member States of TPP. To be not out of the development, have competence to compete, stand and expand market share in international markets, the requirements set out for the economic sector in general and textile sector in particular is very high. However, to increase export value and profit from the global market, it is essential to take appropriate measures to promote the growth in the textile industry in the country with the tools and criteria to quantifier the results of the implementation; on that basis, identify ways to achieve better results. This article analyzes, clarifies the situation of the textile exports in recent years, offers some specific solutions and introduces the tools to measure growth in exports of textile products in conditions of international integration.

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Citation: Hong-Le Doan, 2016. "Strategies for enhancing the vietnam textile and garment export and indicators measuring the growth of this sector", *International Journal of Current Research*, 8, (02), 26349-26356.

INTRODUCTION

Textile and garment industry has a long history and important contributions in the development of economy, society in Vietnam (Nadvi *et al.*, 2004). Since it helps to resolve annual employment, especially female workers and to position Vietnam's export on the international trade map (Nghia, 2014). Currently, textile and garment remain the leading export products and has high growth rate over the years. Textile products of Vietnam have established its position in fastidious markets like the EU, US, South Korea and (Schaumburg-Müller, 2009). However, in the context of globalization and intense competition of nations, especially the competition between consumer products which have high labor intensive such as textiles pose some big questions for Vietnam textiles. How will Vietnam textile exports be when Vietnam officially joins the The Trans-Pacific Partnership (TPP)? How to improve the competence of Vietnam textile exports? What are the methods to assess the capacity and results of textile export

growth? So many authors shift their focus on the export of textile industry. This paper aims to investigate textile industry in Vietnam to propose suitable strategies to support textile export and also suggest indicators to measure the growth of textile export in the context of international integration. Promoting textile exports are efforts of stakeholders to promote export growth both in width and depth. (i) Growth in width is the increase of exports of scale; specifically, the scale of production, categories commodities, markets. (ii) Export growth in depth is the increase in export efficiency, sustainability for socio - economic development. (Le Thi Tuyet Nhung, 2012) The efforts of all stakeholders in promoting exports often comes from the main viewpoint on socio - economic development of country.

The stakeholders include: Enterprises (exporters), foreign partners (importers), transport companies, independent inspection companies, banks, insurance and state administrative agencies such as customs and tariff authorities. Currently, the promotion of textile exports have put in globalization trends with the participation of the value chain (see Figure 1). Global textile value chain is divided into 5 basic stages: (i) Provision of raw products, including natural cotton,

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fibers, ...; (ii) Production of the input products; product of this stage is thread and yarn, fabric undertaken by weaving, dyeing companies; (iii) Design of product samples; production of finished products undertaken by apparel companies; (iv) Export made by commercial intermediaries; (v) Marketing and distribution (Agola and Hoai, 2015). The efforts here are usually to promote supply capacity of exports; expand export markets; create a favorable and ventilate environment for export activities.

Overview vietnam textile and garment industry

Advantages of Vietnam textile and garment industry

So far, the textile industry of Vietnam has flourished and become one of the leading exporters in the world market (Table 1). In the period of 2007 to 2009, Vietnam ranked in the list TOP 10 countries in world's largest textile exports, in 2010 stood at No. 7 with a market share of nearly 3% (Ministry of Industry and Trade, 2013). In 2013, Vietnam textile products exported to over 180 countries and territories with export value reached \$17.9 billion; gained 13.6% of total exports and 10.5% of GDP in the country. In the period of 2008 – 2013, growth rate of textile hit 14.5% / year made Vietnam become one of the countries whose the growth of textile exports is fastest in the world (Agola and Hoai, 2015). In 2014, Vietnam textile export value reached \$20.95 billion US, increasing by 16.8% compared with the previous year (Figure 2) and it is expected export value reached \$ 30 billion in 2015 (The FPT Securities Joint Stock Company, 2014). To get such achievements, the government and enterprises has had to overcome many difficulties and challenges to face stiff competition from the big competitors in the region and in the world. Moreover, the textile enterprises are always looking for their own direction by improving product quality, diversifying of products, reducing costs and seeking new markets besides the current market to share market share and the risk of fluctuations. At that time, the role of the state administration, associations and the local government is very important. Recently, the State and local governments have enacted policies that effectively support the development of the sector and the textile enterprises in promoting trade, diplomacy, seeking markets...

Export value of Vietnam textile and garment to the US has risen to 38% since 2010 even the tax accounts for 1/3 of the cost (Kenta, 2012). Peterson Institute for International Economic models predict that textile exports from Vietnam to the US will rise to 46% in 2025, while exports from Mexico, China and India will decline. Currently the share of China apparel in the US is reduced to below 37% in the middle of 2014 from over 39% in 2000, while the share of Vietnam garments increased over 10%. The rules from TPP will force Vietnam to find alternative partners for yarns and fabrics imported from China, while promoting the development of the textile industry as well as finding more supplies from Malaysia or American countries in the TPP (Hot News, 2014). Along with the export of finished products, some Vietnam textile businesses has invested in manufacturing products and raw material for the textile industry. Thus, the domestic raw materials production have been positive signs, it is able to export a quantity of orders into neighboring markets such as

Myanmar, Cambodia, Bangladesh. According to statistics of Vietnam Textile and Apparel Association (VITAS), in 2013, Vietnam textile has exported \$564 million USD of products such as buttons, labels, thread ...; \$2.12 billion USD of fibers and yarns, up 15.1% compared to 2012. Compared to the total export value of over 20 billion dollars of the whole textile industry, this is not a big number, but in terms of textile missing domestic materials sources, this is a remarkable result from the enhanced localization of materials (Nguyen, 2014).

Limitation of Vietnam textile and garment industry

On the mode of production

There are four main types of methods implemented in Vietnam textile and garment industry to produce export products: CMT, OEM, ODM and OBM. Most of enterprises focus on CMT (Cut-Make-Trim), accounting for 70%. This is the simplest method of export of textile industry and brings lowest added value. OEM (Original Equipment manufacturing) account for 20%, ODM (Original Design manufacturing) gain about 10%. The proportion of OBM of Vietnam enterprises is very small (Figure 3).

According to statistics, in terms of the revenue structure of the domestic businesses, only processing enterprises account for 85%, enterprise working in the form of purchase of raw materials and sale of products account for 13%; the rest belongs to enterprises which finishes products from design and development to production and delivery. This situation makes the added value of the textile industry not high, because in the composition of the total value of products, raw materials accounted for 60% - 70%. In the meantime, outsourcing highest price can only gains 20% - 25% of the product value (Ái Vân, 2015).

On production places and resources

By early 2014, Vietnam Textile industry has about 6,000 businesses and concentrate in all 3 regions. However, businesses unevenly distribute between regions. In the Southern region, number of enterprises account for 62% of the whole industry but they mainly concentrate in Ho Chi Minh City. In the North, there are 30% of enterprises; the enterprises are mainly based in the capital, Hanoi. But the central region accounts for 8% but also most businesses station in the coastal cities. However, besides the advantages due to centralization, too high concentration of enterprises of different ownership interests on the same territory, lead to fierce competition among textile enterprises in order, labor and wages... and among the textile business with other industrial business. In addition, centralized production makes production costs higher (due to the average growth rate of GDP in these cities take a lead in the country). On the other hand, land source increasingly limited, the textile industry is one of the sectors which has high environmental sensitivity, so its requirement of the Law on Environmental Protection is the increasingly stringent. They are limitations and challenges for Vietnam textile industry today (Vietnam Textile & Apparel Report, 2014)

Table 1. Overview of Vietnam's textile sector

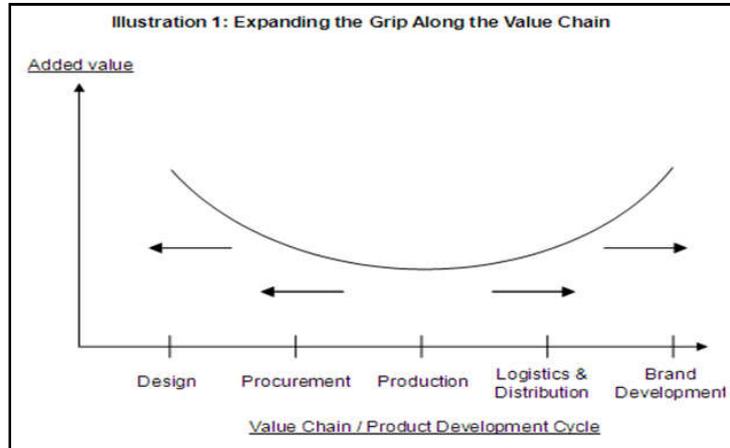
Indicator	Unit	Value
Number of companies	Company	6,000
Scale of companies	Person	SME 200 - 500 + large share
Structure of the company in the form of ownership		Privacy (84%), FDI (15%), State (1%)
Structure of the company in the form of operation		Sewing (70%), spinning (6%), weaving/knitting (17%), dying (4%), auxiliary industry (3%)
Distribution of company		North (30%), Central and Plateau (8%), South (62%).
Number of employees	Person	2.5 million
Average income of employee	VND	4.5 million
Number of working days/week	Day	6
Number of working hours/week	Hour	48
Number of shifts/day	Shift	2
Textile export value in 2013 (excluding fiber)	USD	17.9 billion
Textile import value in 2013	USD	13.5 billion
Main export markets		United States, EU, Japan, South Korea
Main import markets		China, South Korea, Taiwan
Mainly export products		Jackets, shirts, pants, shirts
Production method		CMT (85%); others (15%)
Lead time	Day	90 – 100

(Source: Vietnam Textile & Apparel Report,2014)

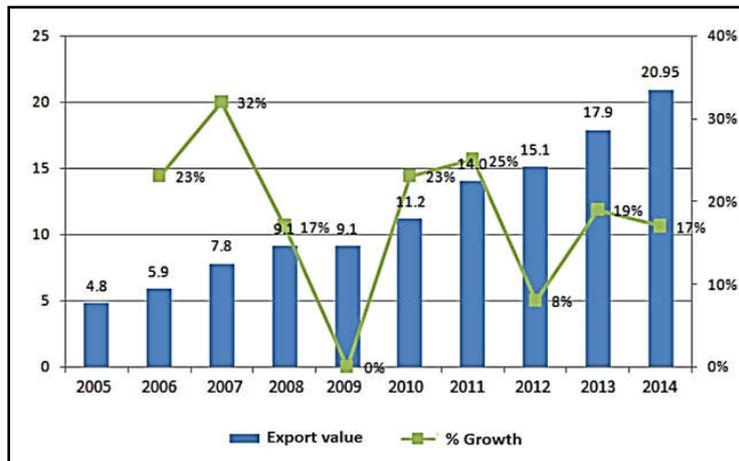
Table 2. Top 10 largest textile export Enterprises

No.	Enterprise	8M/2014	Nationality
1	Viet Tien Garment Joint Stock Corporation	250	Vietnam
2	Regent Garment Factory Ltd	182	Hongkong
3	Hansae Vietnam Co., Ltd	160	South Korea
4	Hanesbrands Vietnam Hue	156	United States
5	Eins Vina Co., Ltd	143	South Korea
6	Garment 10 Corporation - Joint Stock Company	135	Vietnam
7	Sakurai Vietnam	128	Japan
8	Bac Giang Garment Joint Stock Company	113	Vietnam
9	Nobland Viet Nam Co.,Ltd	112	South Korea
10	Hansae TN Co., Ltd	112	South Korea

(Source: Vietnam Textile & Apparel Association-VITAS, Unit: USD Million, 2014)

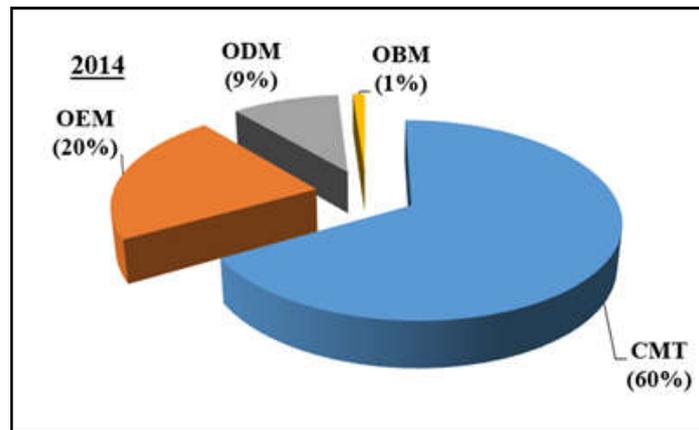


(Source: Study on OEM, ODM and OBM: Extending the Supply Chain with Added)



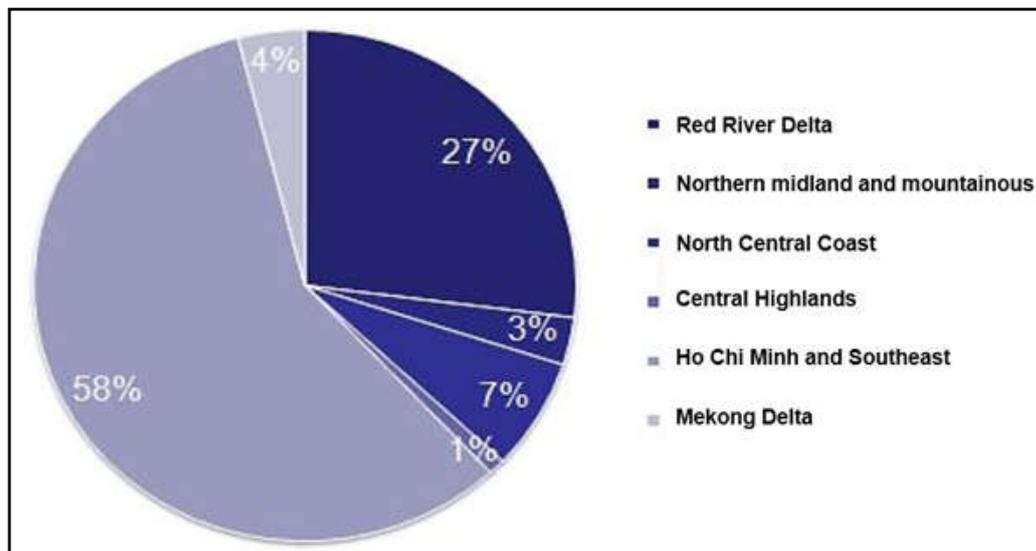
(Source: Vietnam Textile & Apparel Report, 2014)

Figure 2. Value of Vietnam's textile export period 2005-2014 (Billion USD)



Source: Vietnam Textile & Apparel Report,2014)

Figure 3. Textile and garment manufacturing structure (2014)



(Source: Vietnam Textile & Apparel Report,2014)

Figure 3. Distribution of textile enterprises

On auxiliary industries of textile sector

To solve raw materials for textile, it is necessary to invest in developing auxiliary industries. However, the auxiliary industry of textile has yet to be invested and developed as the target. Textile export value to this country reached more than 20 billion dollars, but this sector still has to spend more than \$ 10 billion to import raw materials such as fabric, zippers, fashion accessories for production. Vietnam can fully produce the material to provide for the textile industry, including the type with natural origin such as cotton, silk, hemp, jute, flax. But due to many factors, these materials are still not promoted and meet only 3-5% of demand of the industry. The artificial raw material, fibers - artificial fibers hardly produced in the country; synthetic fiber has started production, but output is low and do not meet the quality. So most today Vietnam's synthetic fiber still imported. Therefore, the value of the sector's revenues is small compared with export turnover annually. Prices of textile products cannot compete if raw materials are still imported such largely. The only way to create a breakthrough for Vietnam's garment sector is to develop auxiliary industries, firstly to meet the demand for garments

total annual production. However, the issue of auxiliary industrial development is accompanied with the construction of the industrial complex materials. But producing materials for textile industry, especially textile-dyeing, finishing and printing – wiping - washing having to respect technical standards and waste water treatment systems in the production process to ensure the environment safe. These barriers are not easily to overcome by very strict regulations of the Law on Environment and requirement increasing awareness of environmental protection of the public. (Nghia, 2014) (Thanh Hiền -2015)

Challenges of Vietnam textile and garment industry

Firstly, the current bottleneck of this sector is limited supply of raw materials. In 2014, imported cloth hit \$ 9.5 billion, up 14%. Comparing with the total export value of garments, imported raw materials accounted for 45.2%. Domestic sources of raw materials accounts for 25% of export value, the localization rate of garment export value accounted for 35.7% the cost of the raw material. The present situation and development trend of the textile industry in next time show that Vietnam's garment sector must take the initiative in

producing materials and designs. Raw materials are mainly imported; the product designs also have external dependencies. That is actually threatening the growth of Vietnamese textile. At the moment, Vietnam participate in TPP for textiles preferential import tariffs, the products must meet the condition of "originating" under the terms of agreements such as meeting the standard of "rules starting from yarn" or of "rules begin from fabric". On the other hand, as mentioned above, the problem of source materials is even more difficult when the provisions of the Environmental Protection Act will not license or restrictively license for supporting factories producing source raw materials such as fibers, yarns, dyeing because of environmentally sensitive. Even it is difficult for the licensed factories to survive due to a lack of investment support for waste disposal. Therefore, it is essential to solve the vital "bottleneck" of textile industry. (Thuong Hue ,Lan Anh, 2015)

Second, the production method of textiles Vietnam still backward. The majority of enterprises are mainly implemented processing forms CMT (Cut-Make-Trim), accounting for 70%. This is the simplest method of export textile and garment industry and brings low added value. The method of OEM, ODM and OBM have a higher value, but are considered to be the weakest point of Vietnam textile and garment industry today. However, to fully implement the method of OEM, ODM and OBM, Vietnam enterprises face many difficulties in engineering, marketing, design, sewing patterns, browsing templates, branding, quality and timeline delivery. They are segments of the value chain which have higher value-added more than many times CMT but are dependent on outside. In particular, there is a lack of human resources to carry out such the high value - added production method. So, on the road to ODM and OBM, to obtain qualified staff, first of all, enterprises have to train, recruit then through the school, then, buy the best employees. (VietBao -2014)

Third, the TPP has finalized negotiations and will deploy next year with the prospect of Vietnam textile and garment products that will quickly increase in the market of members, especially the United States. However, in reality, who is the real beneficiaries of this Agreement, Vietnam enterprises or FDI ones; this question almost has its answers. Waiting in front for TPP, a big wave of Korean, Chinese, Japanese, Hong Kong, the US firms and some EU business seek to invest this sector in Vietnam. Up to now, total FDI into Vietnam textile industry has reached about \$10 billion. For projects that went into operation, FDI sector accounts for over 60% of total exports of textiles in the country. While TPP and FTA Vietnam - EU goes into the final stages, the wave of investment in the textile becomes stronger. In the first 9 months of 2015, total FDI in industrial parks and economic zones in the country reached more than \$ 8.7 billion, up 12% year over year (The Vinh, 2015). Particularly FDI in textile accounts for nearly 1/3 of this investment; of which, there are a number of projects with an large investment, such as the project of Hyosung Co. (Turkey) with the capital is \$ 660 million in Dong Nai, production and outsourcing of yarns such as yarn curtain fabric, spandex, nylon, polyester, fiber to produce carpet. The \$300-million-valued-project of Worldon Ltd. (Hong Kong) in HCM City specializes in producing high-grade garments; \$274-million-

project of Far Eastern Polytext Ltd (Taiwan) produce synthetic fibers, textile dyeing with an area of 99 ha in phase 1 and will continue to expand the plant in phase 2 with a capital estimated nearly one billion dollars. In particular, the trend of shifting production from China's textile and Hong Kong to Vietnam is very clear. By 2012, there were only 57 projects with a total registered capital of 191.2 million US dollars. Recently, Chinese investors' series of major projects of are deployed. In 2014, many Chinese textile group massively invest in Vietnam's garment sector despite incomplete TPP. Of these, there is Hai Ha Texhong Industrial Zone with the capital of 215 million of Texhong Group (China); Project to produce yarn, fabrics and garments in Dai An Industrial Zone in Hai Duong-TAL Group (Hong Kong) value \$ 600 million; Project of construction of textile-dyeing yarn-factory costs 68 million USD of Yulun Textile Group Jiangsu (China) and the project of 400 million US dollars into the textile industry in Nam Dinh, \$300-million- project of Texhong project in Quang Ninh and \$200-million-project of TAL in Hai Duong (Truong, 2015).

Attracting investment is always one of the indicators measuring the appeal of an economy. However, looking at the nature of the investments in the textiles sector, people see economic power of the country. The most obvious challenge is that the foreign company with strengths in capital and technology make many Vietnamese small and medium enterprises not only difficultly access direct processing orders from abroad but also have the risk to get back processing from FDI. Even for new form of trade agreements as TPP, EVFTA. Vietnam would benefit from incentives under regulations but becomes a means for foreign textile and garment firms which "borrow" the incentives to export. In the same industry, there is still a competitive "war" to take advantage of opportunities and race on exports between FDI enterprises and domestic enterprises. Despite the large number of business and relatively strong scale of operations, Vietnam textile and garment sector's potential has a big gap with FDI. In the top 10 largest export textiles business in the first 8 months of 2014, there were 7 FDI enterprises, of which 4 companies from South Korea. Clearly, foreign businesses are gaining advantage over local businesses (Table 2) (Bach Duong, 2015).

Suggested strategies for enhancing vietnam textile and garment industry

Based on interpretation of the limitations, challenges and potential advantages, particularly enormous opportunities from the free trade agreement, Vietnam's garment sector should focus on implementing several following key measures to promote export growth in the coming years.

Promoting capacity supply of garment exports

To strengthen production capacity of textile and garment exports, as well as enhances the competitiveness of the sector in the market. It is essential to pay attention on following issues: (i) The scale of the sector: expanding the scale of the labor and the size of capital. (ii) The industry structure: the structure must be consistent with the general development trend of the domestic and worldwide economy. (iii) The

capacity of the sector: This is the key factor to determine the availability as well as the competitiveness of the sector, reflected in aspects: technology, inputs, labor, finance, management, R & D department. On the other hand, to benefit from the TPP, EVFTA, the products must meet the condition of "origin" in the standard "rules starting from yarn" or "rules start from fabric ". Therefore, the Vietnam textile industry should focus on strengthening the components of the supply chain (from yarn, fabric, garments) and create organic links among the production stages. This, at the same time, will create the impetus to upgrade the textile manufacturing methods from low to high level with high added value. To implement this solution, it is essential to synchronously implement the following solutions:

- Development of auxiliary sectors: to create sustainable and well-qualified input source in order to help enterprises in production and ensure the stably supply sources.
- Development of the fashion industry: to create the market for export products.
- Production development towards sustainability: standards of quality and safety of the products are very high, particularly environmental friendliness in goods is increasingly noticed. Association has repeatedly petitioned for building textile industry clusters to actively create source materials for production but this petition has yet been adopted.
- Improvement of the quality of human resources: qualified and stable workforce will certainly make products which meet the standard of market needs.
- Construction of textile and garment industrial clusters: This will help the enterprises link together more closely.

Expanding the export market

This content was conducted on aspects such as trade promotion activities; enterprises' marketing activities, capacity and capability of understanding of the business; bilateral and multilateral cooperation. To implement this solution, it is essential to implement the following synchronous solutions:

- Helping business study international market: get understanding of competitors and international consumer market.
- Enhancing trade promotion activities: support enterprises timely capture demand as well as volatility of the market.
- Strengthening market expansion for enterprises: develop new potential market instead of focusing on the current market only.
- Providing business information systems: understand the market information, new product, new technology and new consumer trends to help enterprises be more active in the manufacturing process and have intensive breakthroughs into new markets.
- Supporting the establishment of the textile and garment center: to provide information to enterprises.
- Creating and promoting brand products: A strong brand will help enterprises affirm its position on the international market.

- Improving the competitiveness of textile industry: improve manufacturing technology to produce quality products, competitive prices, as well as offering its own uniqueness.

Creating a comfortable and facilitated environment for export activities

To implement this solution, it is essential to implement the following synchronous solutions: (i) Helping enterprises understand and the way to overcome domestic and foreign barriers. (ii) Creating policies to promote export related to the exchange rate and institutional measures, export promotion:

- Training and advising enterprise: help them understand the barriers and how to overcome the barriers on each market.
- Providing information to enterprise related to regulations, laws and standards that importing countries to timely meet consumer demand and help export activities carry more convenient.
- Strengthening the role of the industry associations to support enterprises
- Perfecting the administrative environment, the relevant laws to create clear legal framework for business operations, promoting administrative reform which save time and costs for enterprises.
- Promoting the participation of lobbyists in negotiations with foreign partners to make consistent policies.

Indicators for measuring the growth in exports of textiles and garments

The objective of provideing indicator to measure export growth is to find ways to know the impact of each factor in order to figure out solutions and specific policies stimulating textile export growth. This paper suggest the following indicators:

Annual growth rate of textile exports

$$\text{Formula: } g_t = \frac{XK_t - XK_{t-1}}{XK_{t-1}} \times 100\%$$

}	g _t : Growth rate in year t
	XK _t : Textile export turnover in year t
	XK _{t-1} : Textile export turnover in year t-1

This index reflects the relative increasing (decreasing) of export turnover in the following year compared to previous year. If growth in the next year compared to last year is positive and the cumulative growth rate gradually increases, export has even development trends and this is a good sign for export; and in contrast, the signs are not good for export.

Average textile export growth rate of textile exports of phase

$$\text{Formula: } \bar{g} = \left(\sqrt[n]{\frac{XK_t}{XK_0}} - 1 \right) \times 100\%$$

}	n: Number of study period
	XK _t : Textile export turnover in year t
	XK ₀ : Textile export turnover in first year
	\bar{g} : Average growth rate

This indicator illustrate how many percentage of export turnover grow on average. This indicator is as large as possible.

The proportion of textile export value over the total value of production (production value) in the whole industry

Formula: $\pi_t = \frac{XK_t}{GTSX_t} \times 100\%$

- tt: The proportion in year t
- XK: Textile export value in year t
- GTSX: Production value in year t

This indicator calculate percentage of export value in the total production value of whole industry. This indicator reflects the development trend of the industry whether foreign markets or domestic market are main. If this criterion is big, its products mainly serve for export.

The share of textile export value to total export value of whole industry

Formula: $\pi_t = \frac{XK_t}{XKCN_t} \times 100\%$

- tt: The proportion in year t
- XK: Textile export value in year t
- XKCN: Export value of whole industry in year t

This index points out the importance and position of textile export industry in the whole industry. The higher this index is the greater the role of textile industry exports becomes

The share of textile exports in the total export turnover in the local

Formula: $\pi_t = \frac{XK_t}{KNXX_t} \times 100\%$

- tt: The proportion in year t
- XK: Textile export value in year t
- KNXX: Total export turnover in the local in year t

This indicator shows the contribution of textile exports in total exports of the locality.

The share of textile export value of local versus total nationwide textile export turnover

Formula: $\pi_t = \frac{XK_t}{XKQG_t} \times 100\%$

- tt: The proportion in year t
- XK: Textile export value of local in year t
- XKQG: Total nationwide textile export turnover in year t

This index indicates the position of the textile industry of local exports compared to textile export of the country.

The proportion of textile production methods bringing high added value in comparison with the textile production methods which bring low added value the whole sector. Shift in production and business methods (CTM, OEM, ODM OBM) in accordance with Decision 3218/QĐ-BCT, the Ministry of Industry and Trade (2014)

$\pi_t = \frac{XK_t}{XKQG_t} \times 100\% \times (OBM_{tt})$

- tt: The proportion in year t
- XK: Textile export value in year t
- XKQG: Total nationwide textile export turnover in year t
- OBM_{tt}: Value of production method OBM in year t

$\pi_t = \frac{XK_t}{XKQG_t} \times 100\% \times (ODM_{tt})$

- tt: The proportion in year t
- XK: Textile export value in year t
- XKQG: Total nationwide textile export turnover in year t
- ODM_{tt}: Value of production method ODM in year t

$$\pi_t = \frac{XK_t}{XKQG_t} \times 100\% \times (OEM_{tt})$$

- tt: The proportion in year t
- XK: Textile export value in year t
- XKQG: Total nationwide textile export turnover in year t
- OEM_{tt}: Value of production method OEM in year t

$$\pi_t = \frac{XK_t}{XKQG_t} \times 100\% \times (CTM_{tt})$$

- tt: The proportion in year t
- XK: Textile export value in year t
- XKQG: Total nationwide textile export turnover in year t
- CTM_{tt}: Value of production method CTM in year t

Conclusion

Along with the development of the world, the domestic textile industry is increasingly establishing important position in the global textile system. Especially in conditions of forming new liberal trade with agreement many challenges and opportunities, it is necessity to focus on researching this key economic sector. Systematized rationale for promoting export of textile, situation analysis of Vietnam's garment sector, the proposed system solutions, while providing indicators to measure and determine the results of each factors of textile export growth to have policies and appropriate measures are very necessary and scientific. This article is a general and scientific basis that can help government agencies, businesses research and concretize itself to promote the textile industry's development in the country and in local. Accordingly we can reach the goals set out. Meanwhile, every business, every sector and every local needs to be fully aware of its conditions, specific characteristics in order to fit in the new conditions.

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