THE TRANS-PACIFIC PARTNERSHIP AGREEMENT: OPPORTUNITIES AND CHALLENGES FOR VIETNAM'S TEXTILE AND APPAREL INDUSTRY

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1.Introduction

The Trans-Pacific Partnership Agreement (TPP), which is considered "a 21st-century trade agreement" (USTR, 2011), is a regional free trade agreement (FTA) currently being negotiated by 12 Asia-Pacific countries. Its ambition is to shape a building block for Asia-Pacific area which not only reduces tariff and other barriers for market access of goods and services, but establishes high standards on a series of key issues hugely affecting competitiveness. Among contentious and unresolved issues discussed, provisions related to textile and apparel have received major attention from countries in which this industry amounts to a considerable contribution to their GDP, including Vietnam.

TPP would be a pathway for Vietnamese exporters, especially textile and apparels ones to tap into global supply chains and obtain tariff benefits. In recent years, Vietnam's textile and apparel industry has ranked number 1 among foreign currency earners, so if this deal is reached, it would provide this crucial industry with golden opportunities for development and growth, turning Vietnam into the world's biggest garment centre in the coming years. The industry, however, now faces countless challenges, mainly environment and labor standards to qualify for tariff reductions under TPP deal. This paper examines both opportunities and challenges for the textile and apparel industry when Vietnam joins the TPP agreement in order to see if the value of this deal is worthwhile for Vietnam to pursue this pact.

2.Negotiations of TPP relating to Textile and Apparel industry

2.1. Zero tariff provision

Out of 29 chapters, market access for goods, services, and agriculture, which includes tariff and non-tariff measures, is still under negotiations among TPP countries. Since

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the TPP is a proposed regional free trade agreement FTA, its members have to commit to eliminates most tariffs and quotas on goods traded among them.

In the past, the original P-4 countries including Brunei, Singapore, Chile, New Zealand have already negotiated FTA provisions among themselves, and one of those was a reduction by 90 percent of all tariffs between member countries by 1 January 2006, and reduction of all trade tariffs to zero by the year 2015 (NZMFAT, 2013). When more negotiations were launched to expand the agreement beyond its original four members, and the TPP was formed, TPP partners have discussed about tariff phase-out schedules that are composed of more than 11,000 commodity categories for each of the partner countries. In which, tariffs on many products will be phased out immediately when the agreement enters into force, and tariffs on more sensitive products will be phased out over several time periods. Currently, all of the current TPP countries are in the process of some tariff elimination as each has an FTA with one or more of the other TPP partners. For example, since the United States has free trade agreements with Australia, Canada, Chile, Mexico, Peru, and Singapore, it has already had tariff cut on exports to those countries However, TPP countries have various tariff rates on goods, particularly textiles and apparel. For instance, a TPP country may have already reduced tariffs to zero under a past bilateral trade deal with another TPP partner, but then still apply tariffs on exports from other TPP partners because it does not have pre-existing deals in place with them. In this case, there is an incentive for companies located in a country facing higher tariffs on its exports to a particular market to ship to the TPP country facing a lower tariff in that same export destination market, and then ship the product from there in order to avoid the higher duties. TPP partners, like other members in most FTAs, use the system of rules of origin to avoid tariff evasion through re-exportation. Only partners meet “a requirement for the minimum extent of local material inputs and local transformations adding value to the goods” can benefit special treatment envisioned in the TPP. (Desai, 2012)

When it comes to textiles and apparel, in most FTAs, the U.S. often builds on a full “package” of measures including a rule of origin, actual tariff concessions, special safeguards for textiles and apparel imports, and customs cooperation measures on textiles and apparel. Since Vietnam joined the TPP in late 2010 with a view to promoting its exports to the U.S and other TPP markets thanks to zero tariff provision, it has faced strong objections from U.S. apparel producers such as The American

Manufacturing Trade Action Coalition (AMTAC), the National Council of Textile Organizations (NCTO) because textiles and apparel – one of key exports of Vietnam are considered U.S. sensitive-import products. Hence, the U.S. has included its FTA long tariff phaseouts to protect its market against a flood of imports from Vietnam. In addition, given that Vietnam's textile and apparel industry largely uses yarns and fabrics from China – a non-TPP member, the U.S. requires Vietnam to meet the strict rule of origin along with other parts of the "package" in order to qualify for tariff cuts under the TPP negotiations.

2.2. Yarn-forward rule

As mentioned above, the active participation of Vietnam in the TPP agreement in November 2010 sparked oppositions among the U.S. textile and apparel groups. They urged USTR to pay "special attention" to the apparel sector during negotiations because Vietnam's textile and garment export could harm the U.S. domestic producers if the TPP is implemented. Thus, the first and foremost issue likely to come to the forefront on Vietnamese textiles and apparel would be the rule of origin. Particularly, the U.S would like to apply the "yarn-forward" rule of origin to textile and apparel, which means that Vietnam could source yarn and fabric only from other TPP countries to benefit from tariff cuts. This is considered a tough rule for Vietnam which does not have a lot of domestic textile production and heavily relies on China for yarns and fabrics.

Most of the bilateral and multilateral FTAs include rules of origin (ROOs), which specify how much of the content of products must come from the region in order for them to qualify for duty-free access. For textile and apparel industry, ROOs requirements are usually based on the production process as shown in figure 1.

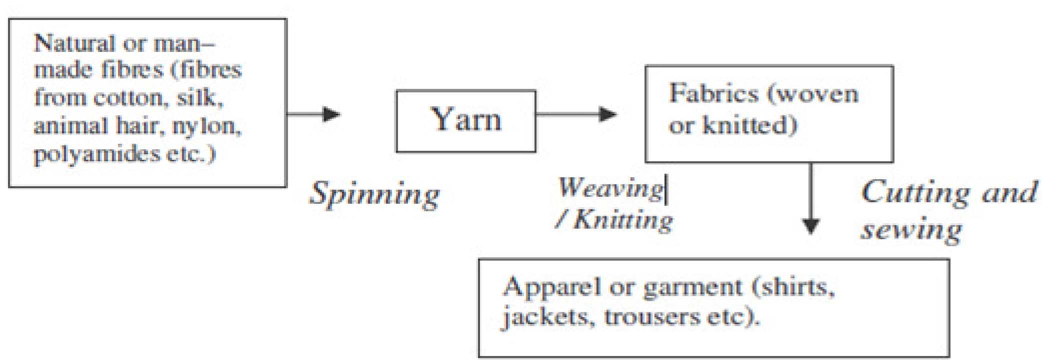

Figure 1: General Production Chain of Textiles and Apparel

Source: (*Almed, 2006*)

In all recent FTAs, from the North American Free Trade Agreement to the U.S.-Korea FTA, the U.S. often applied the "yarn forward" rule for textiles and apparel aiming to encourage regional trade integration and the creation of vertical supply chains. However, the previous pacts include varying degrees of exceptions allowing limited quantities of fibers, yarns, and fabrics to be sourced from outside the FTA partner countries under certain conditions. For instance, the U.S.-Peru FTA had fewer exemptions than the Central American Free Trade Agreement from the yarn forward rule of origin. In addition, there have been two exceptions to the yarn forward rule, namely the African Growth and Opportunity Act's third-country rule and the Jordan Free Trade Agreement/Egypt Qualifying Industrial Zone. These are essentially single transformation rules which were put into place in recognition of the severe development problems present in Africa and portions of the Middle East.

Table 2: Free Trade & Preference Programs with a "Yarn Forward" Rule of Origin

Free Trade & Preference Programs with a "Yarn Forward" Rule of Origin		
Country	Year	Rule of Origin
807A Program CBI (Costa Rica, Dominican Republic, Guatemala, El Salvador, Guatemala, Honduras, Nicaragua)	1988	U.S. Yarn Forward
Mexico Special Regime Program	1988	U.S. Yarn Forward
Andean Trade Preference Program (Colombia, Peru, Ecuador)	1991	U.S. Yarn Forward
NAFTA FTA (Mexico & Canada)	1993	Yarn Forward
CBTPA Program (Costa Rica, Dominican Republic, Guatemala, El Salvador, Guatemala, Honduras, Nicaragua)	2000	U.S. Yarn Forward
Chile FTA	2003	Yarn Forward

Singapore FTA	2003	Yarn Forward
Australia FTA	2004	Yarn Forward
Bahrain FTA	2004	Yarn Forward
DR-CAFTA (Costa Rica, Dominican Republic, Guatemala, El Salvador, Guatemala, Honduras, Nicaragua)	2004	Yarn Forward
Morocco FTA	2004	Yarn Forward
Oman FTA	2005	Yarn Forward
Peru FTA	2007	Yarn Forward
Korea FTA	2011	Yarn Forward
Colombia FTA	2011	Yarn Forward
Panama FTA	2011	Yarn Forward

Source: (NCTO, 2012)

Since the U.S. joined the TPP negotiations, it has tabled the "yarn forward" rule for textiles and apparel, with few exemptions for certain items. This rule is of paramount importance for Vietnam's textiles and apparel industry, for Vietnam is a major, competitive apparel producer whose exports to the U.S. have grown dramatically in recent years. In the TPP context, this could mean that Vietnamese apparel could not be shipped to the United States under TPP preferences unless essentially all steps in making the garment, from the spinning of the yarn forward, take place in the TPP region. That would greatly limit Vietnam's ability to ship apparel under preferential tariffs to the U.S. or other TPP markets because it has little indigenous textile production and does a fair amount of sourcing for inputs from China, which is not party to the TPP talks. When being discussed in the TPP negotiations, this issue is controversial because it has received strong support from U.S. administration and textile producers and opposition from U.S. retailers and apparel importers, who want a more liberal rule of origin. The administration's support for the yarn-forward rule of origin comes from not only demands from the U.S. textile industry but also the fact that it does not want to give Vietnam a priority over other countries with which the U.S. has free trade agreements, such as Peru and the Central American countries, which already had a yarn forward rule. Other supporters like U.S. textiles manufacturers and organizations also argue that “this approach would help ensure that non-TPP members, such as China, do not benefit from the agreement”, and that Vietnam’s textiles would "put our jobs, our factories and our companies in jeopardy" (Inside U.S. Trade, 2012). Meanwhile, the opponents are demanding that the administration would revisit its yarn-forward proposal because it “will be too trade restrictive and will fail to generate increase in textile and apparel trade in the TPP to the detriment of U.S. consumers” (Inside U.S. Trade, 2011). Instead, they advocate a more “flexible” rule of origin for textiles and apparel or so-called “cut and sew” rule, which would allow Vietnam to enjoy preferential access for apparel items that have been cut and sewn from Chinese fabric or fabric from any other destinations like Taiwan and South Korea. Nonetheless, until August 2013, the U.S. was still sticking its position of a yarn-forward rule of origin with limited exceptions for certain items. Specifically, U.S. Trade Representative Michael Froman reaffirmed that the yarn-forward rule is “at the core” of the U.S. approach in a letter to House lawmakers (Inside U.S. Trade , 2013). The real issue, thus, would become the extent of those exceptions, which have been much more cautiously discussed since the twelfth round of the TPP negotiations in Dallas, U.S.

2.3. Custom enforcement rules

In addition to yarn-forward rule of origin, another issue that could arise regarding textile and apparel is customs verification procedures. “The U.S. may push Vietnam to agree to tough procedures due to its proximity to China, and this could prove contentious” (Inside U.S. Trade, 2010).

When taking part in any FTA, each partner country is required to conform to the standardized procedures for verification to track the origin of the inputs so that the third parties, who are not FTA- member, cannot take advantage of the final agreement. The customs cooperation, especially on textiles and apparel has "always been an element" of U.S. trade deals over many years. For example, it was used in the Central American Free Trade Agreement (CAFTA) and duplicated in the U.S.-Singapore FTA and the U.S.-Korea FTA. In which, the U.S. negotiated tougher customs procedures for textiles and apparel than for other goods due to the close proximity of these two countries to China and the possibility that Chinese exporters would find a way to transship their goods to get duty-free benefits under the FTAs. Importers are required to certify on a shipment-by-shipment basis, ensuring that the components are made in the region in order to receive duty-free treatment. Additionally, detailed information on textiles and apparel producers, including a general description of the textile or apparel goods the person produces, the number and types of machines used, and the identity of suppliers to that producer was sent from South Korea to the U.S. government each year. Moreover, any suspected unlawful activity under the FTA related to textiles and apparel can be investigated by the U.S. without notification to Korean authorities. However, this search appears “time-consuming and fruitless” because members of Congress representing textile interests argue that U.S. textile industry is left “vulnerable to large-scale fraud”. (Inside U.S. Trade, 2010)

The enforcement custom system is also deemed another part of the overall “package” signalized by the U.S in the TPP talks with a view to guarding against fraud and transshipment. A possible rationale behind this initiative could be the fact that the textile and apparel sector in Vietnam is dominated and subsidized by the state and the fear that Chinese manufacturers will use Vietnam as a point of transshipment. Thus, the existing custom rules should be turned into a new system that would electronically track the origin of yarn and fabric components along with the origin of the apparel down the supply chain in a given shipment. According to Customs and Border Protection (CBP), “with an electronic system, it would be possible to show a surge in yarn and fabric from a given supplier, enabling CBP to assess if that level of production is within the company's capacity” (Inside U.S. Trade, 2011). In addition, there would be a feasibility of including provisions set forth by CBP for "jump teams", who “would conduct unannounced inspections in factories to investigate production capacity for goods to ensure that exports from a given country that has preferential access to the U.S. are not coming transshipped” in future FTAs to guard against transshipments from third countries and other fraudulent activities (Inside U.S. Trade, 2011). In August 2013, the U.S. Trade Representative Michael Froman reaffirmed in a letter to House lawmakers that the U.S. is seeking special customs verification procedures for textiles “to ensure the proper enforcement of those rules and other related commitments” (Inside U.S. Trade , 2013)

2.4. Short-supply provision

After Vietnam's commitment to fully participating in the TPP, the textile industry supporters continuously urged USTR to include tough provisions such as yarn-forward rule of origin and improved customs enforcement in the final TPP deal to ensure that the U.S does not face a flood of apparel items from Vietnam. However, those conditions were strongly criticized by a coalition of U.S retailers and apparel importers, who favors a more liberal rule of origin for Vietnam's textile and apparel products. Under pressure from both sides, the U.S appeared to stick to its so-called "yarn-forward" rule with only one exemption for bras during many TPP rounds and bilateral market access discussions between the U.S. and Vietnam, but recently, it has tabled a "short-supply" list with new exemptions to the general rule, showing its initial concession on Vietnamese textile and apparel.

A short-supply list is an initiative put forth by the U.S. to identify inputs, such as yarns and fabrics, which are not produced in the TPP region but can be used in certain apparel items that would still qualify for TPP tariff benefits. The list proposed would contain items not readily found in the TPP region or for which there is little manufacturing capacity. It could be considered a possible solution to the controversial issue of rules of origin for textiles and apparel among the U.S, Vietnam and other partner countries whose apparel items are key exports. The U.S. driving force behind such a list is that, "by identifying inputs not currently available in the region upfront, it may encourage companies in the region to enter the market and begin production" (Inside U.S. Trade , 2012). After announcing its short-supply idea at the fifteenth round of the TPP talks, the U.S. started collecting suggestions for the lists from many stakeholders including U.S. apparel importers and retailers as well as textile manufacturers through a complicated submission and vetting process on a White House website.

Concerning the issue of short supply, the U.S. envisions two possible types: temporary and permanent, "in cases of insufficient production of inputs in the TPP countries" Froman said (Inside U.S. Trade , 2013). In which, a temporary list would stay in place for a specified period, perhaps after three years while a permanent one would stay in place forever, as their names imply. In the past, the permanent short-supply process was included in the Central American Free Trade Agreement (CAFTA), under which "new items can be added to a short supply list upon request if no company from the region raises an objection within a specified period of time" (Inside U.S. Trade , 2012). But the U.S are now considering introducing a new one because "it would be much harder logistically to implement such a process among the nine TPP countries, in part because the region has a less integrated supply chain than in Central America" (Inside U.S. Trade , 2012). Another reason is that "TPP partners like Vietnam [which has not joined any FTA with the U.S] may be less willing to simply allow the U.S. to administer the short supply list, as is the case under CAFTA. Under that deal, the U.S. Committee for the Implementation of Textile Agreements (CITA) administers the list" (Inside U.S. Trade , 2012). Until now, the U.S has only tabled a permanent exception for bras from the yarn-forward rule of origin. In other words, bras would be subject to a cut-and-sew rule, which means all components of a garment would qualify for preferential market access provided they are cut and assembled into an apparel item in a TPP country. This also means that Vietnam could use Chinese inputs to produce bras and still benefit from preference programs under the TPP deal. In addition, unlike the previous FTAs, the yarn-forward rule proposed by the U.S. in the TPP negotiations does not include an exception for so-called gimped yarn, which is a stretchy type of yarn used in products such as pantyhose (Inside U.S. Trade , 2012). This could create a much more restrictive yarn-forward rule than ever, according to U.S. apparel importers.

Although the short-supply list would serve as an exception to the strict yarn-forward rule of origin for apparel, the amount of the exception has still been discussed by TPP members before the TPP enters into force. In addition to the U.S. and Vietnam, other countries such as Mexico, Malaysia, Peru, Canada and Australia may engage in the process of evaluating the short-supply list and potentially proposing changes. While the U.S. wants to ensure that only members involved are eligible for the TPP benefits, meaning it wants to limit the proportion of exceptions to the yarn-forward rule, Vietnam demands for additional "flexibility" for market access, which would greatly facilitate Vietnamese apparel products to qualify for tariff cuts under TPP. Due to different calculation approaches associated with market access issue, there was a huge gap in the amount of exceptions allowed between the U.S and Vietnam. In a July closed-door briefing for U.S. apparel importers and retailers, the U.S said that the current proposed list contained 75 percent of U.S.-Vietnam apparel trade, but Vietnam argued that this initial list just covered only 5 percent (Inside U.S. Trade, 2013). Prior to the start of the eighteenth round of the TPP negotiations taking place in Malaysia, the U.S. informed that the short-supply list proposal consists of 173 items as a basis for the negotiations, but 13 more items could be added if requested. They were posted on a confidential Office of Management and Budget (OMB) website, which was created so that U.S. domestic apparel producers could vet industry proposals for items to be included on the list. After review by domestic manufacturers, other TPP partners could discuss their proposals on what should be added or removed from the short-supply list. Until August 28, 2013, the list on the OMB website included 215 items, which were deemed proposed additions from other participating members. According to an informed source, "at least nine of the newest additions to the OMB list involve certain types of wool fabric or yarn, indicating that they are likely submissions from Australia" (Inside U.S. Trade, 2013). Although the U.S. now appears favoring the inclusion of many items in the permanent type to appease Vietnam, Mexico is opposed to this idea, arguing that several proposed inputs should be listed on a temporary rather than permanent basis. One source acknowledged that "Mexico has identified roughly 70 items on the proposed list that it initially wanted to remove because it believes they are produced in Mexico", which would create obstacles for Mexico's domestic industry in some certain instances (Inside U.S. Trade, 2014).

Due to conflicting proposals for defining and modifying the short-supply provision occurring during the TPP talks, U.S apparel retailers and importers indicate that the short-supply list alone will be not enough to address the demands of TPP members involved; therefore, other exceptions from the yarn-forward rule are needed. They outlined briefly several exceptions to the yarn-forward rule that have been used in previous U.S. free trade agreements, such as "a cut-and-sew rule, regional value content rule, or fabric-forward rule to certain apparel products […]tariff preference levels, short supply, export matching programs and cumulation" (Inside U.S. Trade, 2013). However, the U.S is still sticking to the short-supply provisions because they are deemed commercially significant for businesses in the TPP region.

2.5. Three-basket approach

While the U.S is pursuing the short-supply proposal in an attempt to appease Vietnam, it has tabled another market access offer to Vietnam, or also known as a three-basket approach for apparel items, including a novel "x basket" regarding tariff phaseouts on the most sensitive apparel items. Depending on the level of sensitivity, all textiles and apparel products, by tariff line, are categorized into three baskets as follows:

- A Basket – Least sensitive products whose tariffs would go to zero immediately
- B Basket – More slightly sensitive products subject to a 5-year linear duty phase-out, "meaning they would decrease by 20 percent upon entry into force and 20 percent each year thereafter" (Inside U.S. Trade, 2014).
- X Basket – Most sensitive products whose tariffs would be phased out over a longer period of time, in which an initial duty reduction will be followed by further tariff reduction between 10 and 15 years later.

Some past U.S. free trade agreement, such as the North American Free Trade Agreement and Korea FTA, used the same two baskets included in the U.S. TPP offer for less sensitive items. In addition, goods duty stayed in place for an extended period of time, often more than 10 years, if products like textiles and apparel were import-sensitive, either because of remarkable production or due to government subsidies. To date, the U.S. has tabled a market access offer, which is known as "x basket" to Vietnam in the TPP talks in order to backload tariff reductions. The rationale behind this so-called "x basket" initiative is "the ability of Vietnam to rapidly surge into the U.S. market along with the depth and range of the Government of Vietnam's support for its textile and apparel sector" (NCTO, 2014). Different rates of initial duty cuts, in the range between 35 percent and 50 percent, would be applied to apparel items in the "x basket". However, the list of certain items that would be included in the "x basket" under the U.S. offer has not yet been finalized. Sources speculated that "the "x basket" would likely include the items that "are of the most interest to Vietnam because they are the tariff lines where most trade occurs" (Inside U.S. Trade, 2014). Out of Vietnam's top 100 exports to the U.S., there are "mainly apparel and footwear items including shirts, sweaters and pants made from cotton and synthetic fibers" (Inside U.S. Trade, 2014). For the U.S. textile industry, these same items are export-sensitive because they are inputs for Western Hemisphere countries' apparel producers to make the same products. If tariffs on those textiles and apparel items are lowered under the "x basket" program, U.S producers fear that this "would massively hurt their export business" (Inside U.S. Trade, 2014). This approach, therefore, appears to be unacceptable to Vietnam, but it would create favorable conditions for U.S. domestic manufacturers to adjust upon the TPP implementation. According to National Council of Textile Organizations Chairman William Jasper, “the textile industry's biggest worry is that the U.S. will make a last-minute concession to Vietnam in order to get the deal done”, so it seems to be hard to predict which provisions would be included when the final TPP agreement is reached (Inside U.S. Trade, 2014).

3. Opportunities and Challenges for Textiles and Apparel Industry in Vietnam

3.1. Opportunities

3.1.1. Significant increase in Vietnam’s textiles and apparel exports

It is forecast that once Vietnam joins the TPP agreement, Vietnamese textiles and apparel will benefit from preferential export tariffs, thereby boosting the export value of the entire industry, especially exports to major markets such as the U.S. and Japan.

it was one of the fastest growing textile and apparel producers with growth in textile and apparel exports from 2005-2012 of 28.1 percent for textile and 17 percent for apparel (WTO, 2013). Among the TPP members except for the U.S, Vietnam is the one with significant textile and apparel industry, with total exports of textiles and apparel of US$18,184.8 million in 2012. Currently, 60 percent of Vietnamese textile and garment exports go to markets which are members of the TPP in which roughly 50 percent of those go to the U.S (VietnamPlus, 2014).

Table 3: Textile and Apparel Patterns of TPP Members in 2012

	Textile exports ($million)	Textile imports ($million)	Apparel exports ($million)	Apparel imports ($million)	Textile export/import ratio (%)	Apparel export/import Ratio (%)
Australia	256.6	2587.3	264.0	6080.0	9.9	4.3
Brunei	0.8	52.9	7.0	44.4	1.5	15.8
Canada	2018.3	4591.3	1279.7	9365.4	44.0	13.7
Chile	193.1	1197.9	403.5	2706.0	16.1	14.9
Japan	7818.6	9013.0	557.2	33942.0	86.7	1.6
Malaysia	1786.4	1368.5	4562.8	856.4	130.5	532.8
Mexico	2235.5	6003.2	4448.9	2964.7	37.2	150.1
New Zealand	266.5	602.7	186.3	1146.7	44.2	16.2
Peru	488.0	971.0	1617.0	583.0	50.3	277.4
Singapore	800.9	1081.4	1334.7	2388.7	74.1	55.9
United States	13485.3	25956.0	5613.7	87957.0	52.0	6.4
Viet Nam	4116.5	9195.3	14068.3	603.4	44.8	2331.4

Source: Compiled from WTO (2013a) cited in (Lu, 2014)

Since the U.S. - Vietnam Bilateral Trade Agreement (BTA) entered into force in 2001, and then Vietnam became a member of the World Trade Organization (WTO) in 2007, trade between the two countries has grown rapidly (AmCham Vietnam, 2013).

Vietnam is the second biggest apparel and garment supplier to the U.S. with a market share of nearly 8 percent, after China, Vietnam's textiles and apparel exports to the U.S are still limited (VITAS, 2013). In addition, Vietnam's primary apparel exports to the U.S focus on two chapters 61 and 62 of the Harmonized Tariff System (HTS) with tariffs up to 32 percent (Inside U.S. Trade , 2010). Thus, if the TPP agreement is enacted, Vietnam's textiles and apparel industry could expect greatest benefits given tax barrier removals. Its exports to the TPP members, especially the U.S., will likely increase exponentially with zero percent tax rate. According to Vietnam Textile and Apparel Association (VITAS, 2013), Vietnam's textile & apparel exports to the U.S. could increase from the current 7 percent to 12-13 percent per year, even maintain at 15%–20% over the 2014–2017 period. With this healthy growth rate, Vietnamese apparel exports to the U.S. would reach US$ 22 billion in 2020 before soaring to US$ 30 billion in 2025.

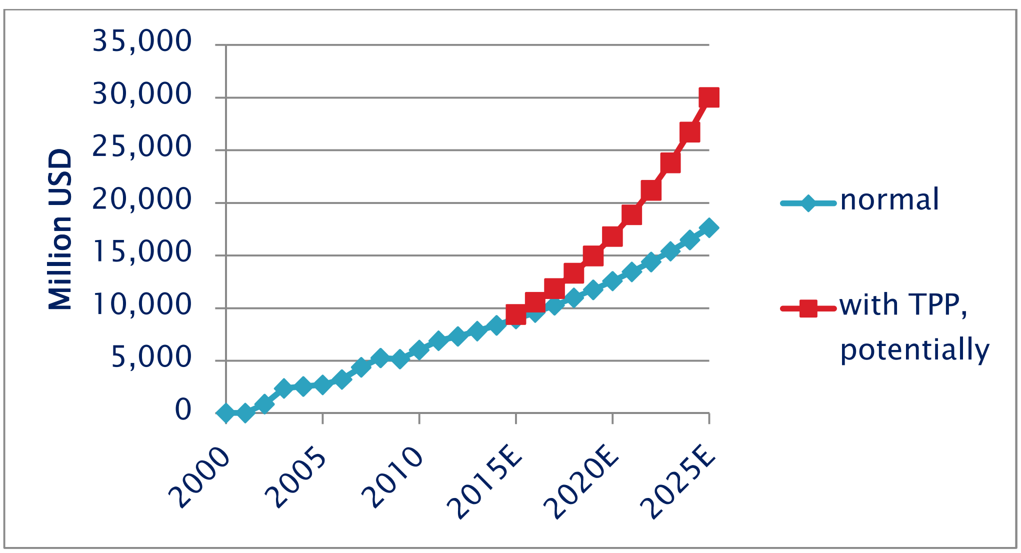

Figure 2: Vietnam textile and apparel exports to the U.S. under TPP impact (US$ million)

Source: VITAS, 2013

It also predicted that the U.S. market would account for 55 percent of Vietnam's total textile and apparel exports, instead of the current 49 percent (VITAS, 2013). Moreover, Vietnam would capture a 10 percent points share from China, as Vietnamese textiles and apparels would then enjoy greater benefits than ones from China, which is not party to the TPP agreement (Fibre2fashion, 2013). Hence, "Vietnam's share of the U.S. apparel import market could go from 10% to 35% very quickly" (AmCham Vietnam, 2013). Those changes would drive Vietnam's annual GDP growth to 13.6% in 2025, and annual export growth to 37.3%, considerably reducing its trade deficit in the coming years, said Professor Robert Z Lawrence from Harvard Kennedy School (BusinessTimes, 2014).

3.1.2. Significant increase in investment in Vietnam's Textile and Apparel Industry

Substantial benefits from the proposed TPP agreement, which is likely to be finalized this year, would stimulate huge investments in Vietnam's textiles and apparel industry, especially in yarns and fabrics production, dyeing and weaving from both domestic and foreign businesses.

For domestic businesses, the ultimate goal of investment increase is "to create and improve the connection among enterprises of the group, secure a closed process of yarn-textile-dyeing-finishing [which would] help enterprises shift their business from subcontracting to original design manufacturer (ODM) production model" (Le, 2014)

The Vietnam National Textile and Garment Group, or VINATEX, is Vietnam's largest textile and apparel corporation, accounting for 40% of apparel production and 60% of textile production. The group includes nearly 120 subsidiary companies that produce textiles and garments and run commercial services. These companies also have their own distribution systems including wholesale and retail dealers. To serve that goal, VINATEX is speeding up its investment in raw material production by deploying "42 projects with the combined capital of over VND6.3 trillion, including 12 yarn projects, 9 textile projects, 17 garment projects and 4 others in such fields as infrastructure, supermarket, and cotton growing" (Le, 2014). Notably, in late 2013, the group commenced work on a textile complex full of spinning, weaving, dyeing and sewing facilities, sewage treatment plant and housing for workers in Haiphong, the third largest city in Vietnam, with the estimated export turnover of US$ 54 million in the first year of its operation. Furthermore, VINATEX is seeking additional funds from banks such as the Bank for Investment and Development of Vietnam (BIDV) to build more weaving and dyeing factories and upgrade their manufacturing technology in 2014. Those are part of VINATEX's strategy to reach US$ 5 billion in export turnover by 2016 instead of approximately US$ 3 billion in 2013.

Foreign direct investment (FDI) has played an important role in developing textile and garment industry although it is small percentage of total FDI in Vietnam. According to the Vietnam Cotton and Spinning Association (VCSA), "a new wave of foreign investments in the spinning, weaving, and dyeing sectors has been kicked off, since investors can see the profits they can gain from the TPP" (VietNamNet, 2012). Over the past two years, there have been at least four non-TPP countries coming to invest in textile and apparels production in Vietnam, namely China, Taiwan, South Korea, Hong Kong with a total planned investment of roughly US$ 2 billion, compared to US$ 3 billion during the 10-year period between 2010 and 2011 (Han, 2014). In the following years, the FDI flow is predicted to rise at a faster rate than domestic one.

Table 4: Foreign Direct Investment in Vietnam's Textile and Apparel Industry (US$ million)

Countries	Firms	Project	Investment value
China	Texhong Textile Group	Yarn plant in Mong Cai City, Quang Ninh Province	US$ 300 million for the first phase and US$ 400 million for the second phase
	Pacific Textiles and Crystal Group	Joint-venture garment facility in Hai Duong Province	US$ 229 million
	Jiangsu Yulun Textile Group	Yarn and fabric plant in Nam Dinh Province	US$ 68 million
	Gain Lucky Limited belonging to Shenzhou International Group	Center for designing and producing high-end products in Ho Chi Minh City	US$140 million
	TAL Group	Garment and textile project	US$ 200 million
	Huafa Company	Coloured spinning plant in Long An Province	US$136 million
Taiwan	Makalot Industrial	Acquiring and	US$ 8.99 million

	Co.	recapitalizing a Vietnamese textile unit	
	Forever Glorious Company belonging to Taiwanese corporation Sheico	Project of clothing and accessories for water sports in Ho Chi Minh City	US$ 50million
	Yulon Group	Textile plant in Dong Van II Industrial Park, Ha Nam Province	US$ 150 million
South Korea	Kyungbang Vietnam LLC	Yarn factory in Binh Duong Province	US $40 million
	Hyosung Corporation	Spandex plant	US$ 100 million

Source: AmCham Vietnam, 2013 (*Hong Kong is included with China*)

Those investments from both domestic and FDI businesses would have a huge impact on the industry. First of all, increased investments will likely help Vietnam achieve the target of 60-70% in the localization rate, "which means the amount of domestically produced materials used in making a final product", in the next three to five years (Fibre2fashion, 2014). According to Le Trung Hai, Vice President of VINATEX, the increase in localization rate would help the textile and apparel firms reduce their dependence on imported inputs. They will also facilitate Vietnamese apparel and textile firms to reach 50 percent of the Free on Board (FOB) rate by 2015 from 38 percent at present (Fibre2fashion, 2014). In addition, these firms could focus on improving the weakest phases, weaving and dyeing, which are capital –intensive and producing apparel items with high value added thanks to upgraded infrastructure and technology. Finally, investments would raise competitiveness of Vietnam's textile and apparel companies against those in many countries such as China, Bangladesh, and Pakistan, which are leading textile exporters but not members of the TPP.

3.1.3 Job creation

Among manufacturing sectors, textile and apparel industry plays a vital role in job creation in Vietnam. To prepare for the TPP, many businesses are gearing up their investment in this industry, leading to an increase in not only the number of jobs but the level of minimum wage per worker.

As mentioned above, in 2011, the number of workers, mainly women, employed in Vietnam's textiles and apparel industry was 2.5 million, accounting for only 10 percent of the industrial workforce. This figure is modest because 60 percent of 90 million

Vietnamese are in working age, which will be a substantial human resource supply to develop the textiles and apparels industry. In addition, during the period of ten years from 2001 to 2011, although Vietnam saw the positive change of 39.66 percent in the monthly real wage, Vietnam’s textile wage was still much lower than that in China, Mexico, Peru, Thailand, even Guatemala, Honduras in 2011.

However, to take advantage of the TPP agreement, many businesses from different countries are investing in the industry with important projects focusing on yarns and fabrics production. According to (VITAS, 2013), in order to generate US$ 1 billion worth of apparel exports, Vietnam would need 150,000-200,000 workers. As such, if Vietnam can export US$ 22 billion worth of products by 2020 as predicted, this means that millions of new jobs would be created (VietNamNet, 2012). Also, the minimum wage per month per worker would experience a steady increase in the coming years. For instance, Haiphong textile complex, one of VINATEX’s projects, is expected to employ nearly 5,000 workers in this area with an income of about 5 million dong per person per month (Fibre2fashion, 2013). Another leading textile company called Texhong Group from China promised to generate 4,000 jobs in the locality with its new plant in Quang Ninh Province. Since Vietnam’s textile and apparel industry is concentrating on producing high-quality, value-added products in order to compete with other exporting countries, a great number of skillful workers are needed, which mean that their minimum earnings will be raised at a faster pace than those in leather and footwear. Thus, their living conditions will be improved, thereby partly contributing to poverty reduction and society stabilization.

3.2. Challenges

3.2.1 Increased environmental pollution

Textile and apparel manufacturing has been identified as having significant environmental impact across their lifecycle. The more yarn and fabric plants are set up in Vietnam due to the expectation of the TPP deal, the more serious environmental problems need to be tackled in the long run.

Currently, cut-and-sew is the primary phase of the supply chain in Vietnam’s textile and apparel industry before the completion of many factories producing, weaving and dyeing yarns and fabrics in 2015 – 2016. This phase is considered labor-intensive, which requires minimal technology or skilled-based input; therefore, its impact on the environment is not as considerable as other phases of the manufacturing process such as textile dyeing and finishing. However, with the expectation that the TPP agreement can be signed at the end of this year, not only Vietnam but also other countries are speeding up their investments in upstream and downstream production processes within Vietnam – including raw materials manufacturing and textile production in order to qualify for tariff benefits. But textile dyeing and finishing could be the most problematic due to its highly polluting substances. Without proper regulations, manufacturing standards, and appropriate fines and punishments, untreated wastewater from this phase is often pumped into rivers. One of the most obvious cases of negative impacts on the environment due to uncontrolled textile manufacturing is in China, whose textile industry produces nearly 2.5 billion tons of wastewater and other pollutants each year (Zimmer, 2012). The Institute of Public and Environmental Affairs, a Chinese-based environmental non-government organization in China has published "more than 6,000 environmental violations by Chinese textile firms since its debut in 2006 [such as] wastewater out of secret underground pipes, discharging untreated wastewater directly into rivers, exceeding permissible levels of discharged pollutants" (Zimmer, 2012). In Vietnam, the government has struggled to control its industrial pollution over years. Recent research shows that up to 70 percent of industrial wastewater in the Red River Delta region around Hanoi City has not been treated (Hook, 2014). And now, given the burgeoning textile industry, an effective environmental regulatory system is needed to deal with upcoming threats. The Vietnam's Law on Environment (2005) includes a number of amendments introducing environmental regulation of private sector industries. In which, there is an intervention to adopt fees for wastewater pollution from the most polluting industries that do not comply with discharge standards. The implementation, however, has been slow, raising concern about if Vietnam can address new environmental threats posed by the textile industry and meet environmental standards under the TPP deal in the near future. Vietnamese Deputy Minister of Trade and Industry Nguyen Cam Tu said that "these standards will likely be tougher than the standards on labor and environmental protections contained in the U.S.-Peru free trade agreement" (Inside U.S. Trade , 2010) Being aware of environment as one of the most challenging issues, Vietnam government should manage environmental risks at a faster pace and at a much larger scale than ever for sustainable development.

3.2.2 Materials shortage in the textile and apparel industry

Big deficiency in raw materials over years would make the industry have difficulty in meeting the yarn-forward rule of origin, thereby failing to benefit from tariff cuts once the TPP is enacted. It could reduce the competitiveness of domestic businesses in the international market in the long run as well.

Vietnam's textile and apparel industry is young with the engagement of almost all medium and small enterprises (SMEs) because it has developed over the past two decades. To date, it has not yet developed a totally vertical textile supply chain like its footwear industry; hence, it has to import 80 percent of the fibers, fabrics, and yarns mainly from the non-TPP members. "The industry uses 820,000 tonnes of materials every year, which include 420,000 tonnes of cotton and 400,000 tonnes of fiber. However, "we had to import 415,000 tonnes of cotton, 99 percent of the total demand of the industry's production last year", said the Deputy General Secretary of VITAS Nguyen Van Tuan. He added "Last year, the garment industry used 6,8 billion meters of cloth, of which 88 percent was imported" (VietnamPlus, 2013). The majority of yarns and fabrics were imported from China and other Asian suppliers, while about 60% of the cotton used in Vietnamese textile mills is imported from the U.S (VITAS, 2013). Dependence on imported inputs means that a small change in the price of the material would lead to poor competition against rivals in the export market. This disadvantage would greatly limit Vietnam's ability to meet the TPP's "yarn forward" rule of origin, which requires participating nations to use a TPP member-produced yarn in textiles in order to receive duty-free access when this agreement is signed this year. Although the U.S has proposed "short supply provisions" to allow a certain amount of non-originating inputs in apparel assembly on a permanent or temporary basis, the number of apparel items included in the list is still very limited. In other words, if Vietnam does not pay attention to developing the supporting industry to raise the localization rate, the textile and apparel industry would still focus on the Cut-Make-Trim (CMT) phase, resulting in the possibility that it would not achieve the exports target under the TPP effect.

In recent years, investments in important projects related to raw materials production and weaving, dyeing and finishing stages of the whole manufacturing process have increased rapidly, but most of them come from FDI businesses. Although domestic businesses started to invest in those phases, the amount of investments is still limited due to lack of funds. One of the biggest reasons for a fund shortage is that many textile and apparel businesses find it difficult to get access to bank loans, especially long-term and medium-term loans for intensive investment and production expansion because most of them are SMEs, which could not meet the interest rates set by banks. Banks often lend large companies and corporations such as VINATEX, No.10 Garment, Nha Be at appropriate interest rates, leaving SMEs with poorer reputation at the capital shortage. Although interest rates on bank loans have been recently softened to be around 10 percent a year, SMEs are expecting for lower rates. According to Dang Phuong Dung, the Former Vice Chairman and Secretary General of VITAS, interest rate in foreign-currency loans in Vietnam is 6-8 percent per year, which is much higher than interest rate of those in many other countries with 0.5-2 percent (Viet Nam News, 2012). As a result, domestic textile companies, even reputable ones cannot raise enough funds to invest in capital-intensive phases such as raw materials production, weaving and dyeing, extending the materials shortage in the coming years. Meanwhile, with better preparation of fund and high technology, FDI businesses can invest in all phases of the textile manufacturing in Vietnam. This investment could be considered a double-edged sword for domestic businesses. On the one hand, domestic ones want to attract more foreign partners to develop the supporting industry and expand their production scale. On the other hand, given that FDI businesses can create their own raw material production areas, they will possibly tend to take advantage of ongoing materials shortage, thereby forcing domestic businesses to import their materials at a higher price. This would lead to a considerable increase in production costs, boosting the price of final products which would reduce competitiveness of domestic businesses. As a result, many domestic companies, especially SMEs and other related businesses would be massively destroyed, leaving their market share for foreign competitors. Therefore, dependence on imported raw materials in the long run is considered one of the biggest challenges when Vietnam joins the TPP deal.

3.2.3 Satisfying labor conditions

Labor is one of twenty nine chapters that are being discussed during the TPP rounds. When Vietnam initially joined the TPP negotiations, it regarded labor as one of the most thorny issues along with environment protections due to the possibility of child labor and forced labor in several manufacturing sectors, including textile and apparel industry.

Becoming a TPP member means that Vietnam has to comply with international labor standards despite its current status as a developing country. In TPP, the U.S. is seeking “an enforceable labor obligation that would require countries to uphold international labor standards in their laws and practices, as reflected in the 1998 International Labor Organization (ILO) Declaration [which includes] the elimination of all forced or compulsory labor and the effective abolition of child labor” (Inside U.S. Trade , 2013) However, main findings from reputable labor organizations showed that both child labor and forced labor might exist in Vietnam.

For child labor, last year, after the U.S. Department of Labor (DOL) found out that Vietnam’s apparel industry violates the ILO convention when using forced child labor, it immediately added Vietnam and its product to an official list, which is set up under Executive Order 13126, also named "Prohibition of Acquisition of Products Produced by Forced or Indentured Child Labor." Until July 23, 2013, the total list consisted of 35 products from 26 countries, including other five products, namely cattle from South Sudan, dried fish from Bangladesh, fish from Ghana, and gold and wolframite from the Democratic Republic of Congo.

With respect to garment from Vietnam, in its Final Determination dated 15th July, DOL report cited “[T]here are more than isolated cases of forced child labor in garment production. These cases predominately occur in small, unregistered workplaces…

ILAB [Bureau of International Labor Affairs] research in 2008 and 2009 revealed a trend of forced child labor in the sector. Further ILAB research in 2011 and 2012 revealed additional recent and ongoing cases of forced child labor in the garment industry, confirming earlier research” (protectvietworkers, 2013). Furthermore, in March 2014, the first National Child Labour Survey carried out in 2012 showed that 9.6 percent or 1.75 million children aged 5-17 in Vietnam are child labourers. Notably, it indicated that “about one-third of the child labourers, or nearly 569,000 children, have to work an average of more than 42 hours per week”, which would be harmful to their health, schooling, and development (ILO, 2014). Due to necessity or high payment, they could work in some sectors that are labor-intensive, thus, Vietnam’s textile and apparel industry might be not an exception.

The addition of Vietnamese apparel to the revised list means that suppliers to the U.S have to stop supplying made-in-Vietnam garment unless they prove that such garment do not use forced child labor. Hence, unions and non-governmental organizations (NGOs) “called on President Obama to suspend Vietnam's participation in the Trans-Pacific Partnership (TPP) until it improves its record in that area” (Inside U.S. Trade , 2013)

In addition to child labor, there are some evidence presenting that forced labor is going on in Vietnam’s textile and apparel industry. Since the industry is attracting a huge wage of investments which leads to an impressive growth rate, more workers, especially skilled ones are needed. But only 15 percent of those are professionally trained through fulltime programs at vocational colleges or universities, while the remaining take part in short-term training programs in textile businesses, resulting in their lack of fundamental knowledge, professional skills and other characteristics (Việt, 2013). Also, workers are forced to work overtime but receive little or without extra pay in order to meet an increased number of orders. Additionally, many textile firms fail to provide enough wages, treatment, even good meals, fueling wildcat strikes, which are not organized by workplace unions, across the country over the past several years. According to VITAS, from 1995 to 2014, Vietnam has had 4,380 strikes, with an average of 243 strikes per year, of which the textiles and apparel industry account for 45% (Tuyết, 2014). For example, in July 2013, a strike of nearly 3,000 workers of Prex Vinh of South Korea and Nam Dan Hanosimex Garment Company took place in Nghe An Province due to low wages, long shifts, authoritarian methods, unreasonable firing, and other unsatisfactory issues (Duy, 2013). In May 2014, another strike by roughly 200 workers of Thai Lien Garment Company happened in Quang Nam Province with a view to demanding better meals, higher wages, less overtime work, and better working conditions (Thanh, 2014)

Therefore, in trying to satisfy international labor conditions, the Vietnamese government has to show a significant reduction or elimination of child labor and forced labor in the industry through initiatives enacted by the government and other organizations. In addition, other initiatives related to working conditions and work safety are also taken into consideration. One of these is Better Work Vietnam, which is part of a global joint program between the ILO and the International Finance Corporation IFC. By reaching roughly 300,000 workers in more than 200 apparel factories through a "coaching, training and assessing" package, the initiative shows many positive results, thereby expanding from the south to the north of Vietnam this year in order to "help bring businesses in line with Vietnam's laws and core international standards" (ILO, 2014). Moreover, recently, Vietnam has ratified Convention of ILO, showing Vietnam's efforts in making workplace safer. This means Vietnam would meet the one of minimum international labor standards, leading to better trades and competitiveness for Vietnamese businesses, including textile and apparel ones. The real effectiveness of those practices will be evaluated cautiously by many reputable organizations before the TPP implementation by the end of this year.

4. Conclusion

To date, the TPP agreement with twenty nine chapters is still under negotiations through nineteen official rounds. Once it enters into force, it will create both opportunities and difficulties for all participating countries, and its impact would become more significant toward a developing country like Vietnam. Despite its young history, Vietnam's textile and apparel industry has been growing sharply within a recent decade. The industry now plays an important role in the economic and social development as a whole along with other key industries; however, it has big weaknesses related to domestic businesses' production capacity and falls short of labor and environment standards proposed in the TPP. Joining the TPP agreement means that Vietnamese textile and apparel industry has to face a great deal of opportunities as well as challenges. On the one hand, tariff reductions under the TPP seems to be most beneficial to this key industry because the industry can expand its current export markets, and the garment export turnover will increase exponentially, leading to a considerable decline in trade deficit. In addition, the industry attracts a huge wave of foreign investments from mainly non-TPP members in Asia, contributing to raise the local content, quantity and quality of the products. This would help reduce Vietnam's dependence on imported raw materials and create jobs for hundreds of Vietnamese people in the coming years. On the other hand, the weaknesses contained in the industry become challenges that prevent it from qualifying for the tariff benefits if the TPP is enacted. New threats posed by the TPP such as environmental pollution, ongoing materials shortage, and labor right violations could be a barrier for the textile and apparel industry to achieve its ultimate goals in the short-term and long-term.

Therefore, strategic policies for the industry are needed in order to reap the TPP gains and prepare for upcoming challenges.

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