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Free Trade Agreement on the Vietnamese Apparel
Industry*

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Ms. Doan Thi Thu Thuy

Abstract

The Trans- Pacific Partnership Agreement (TPP) was signed by twelve countries, namely Chile, New Zealand, Brunei, Singapore, the United States, Peru, Malaysia, Canada, Australia, Japan, Mexico and Vietnam. It is the first comprehensive “new generation” free trade agreement of the 21st century, covering various fields such as trade in goods and services, intellectual property rights, technical barriers, government procurement, rules of origin, standards on environment labor and state owned enterprises, etc. The Rules of origin is a very complicated issue under the framework of TPP agreement, but one that is integral to the textile and apparel industry. Therefore, this study aims to analyze if the Vietnamese apparel industry can capitalize under the Trans Pacific Partnership (TPP) agreement. In this study, findings were based on published information as well as qualitative interviews with apparel firms in Vietnam. The Vietnamese apparel industry, with great dependence of imported materials (yarns and fabrics) from Republic of Korea and China, faces many potential challenges in complying with the rules of origin in the TPP agreement. Furthermore, if it is narrowed down to the level of firms, state-owned enterprises and foreign-owned companies would be the main beneficiaries from the agreements, whereas small and medium locally owned companies would be unlikely to capitalize on the export opportunities offered. Additionally, most of the products that are in major export categories would not be under free trade from year ten on.

Keywords: Trans- Pacific Partnership Agreement, TPP agreement, rules of origin, Vietnam apparel industry

1. Overview of the Trans Pacific Partnership Agreement

The Trans Pacific Strategic Economic Partnership Agreement (TPP) was firstly signed by four countries namely Chile, New Zealand, Brunei and Singapore in 2005. The TPP agreement, nevertheless, was extended in 2008 with the participation of eight more countries, The United States of America, Peru, Malaysia, Canada, Australia, Japan, Mexico and Vietnam. As a result, the total number of countries joining in the TPP negotiations has increased to twelve since then. This agreement will have a market of 790 million consumers, accounting for nearly 40% of global GDP and approximately one third of global trade. The TPP agreement was officially started its negotiations in 2010. After seven years of bilateral and multilateral negotiations, it was finally signed on the 4th of February 2016 in Auckland, New Zealand. It, however, is currently still waiting to be ratified before it can be enforced.

The TPP agreement is the first comprehensive “new generation” free trade agreement of the 21st century, covering various fields such as trade in goods and services, intellectual property rights, technical barriers, government procurement, rule of origin, standards on environment labor and state owned enterprises, etc. In addition, TPP is a regional agreement, in which state members must be unanimous in uniform tariffs as well as general rules of origin. Enterprises, therefore, can easily make the most of this agreement. This regional approach will promote the whole regional trade network, improve competitiveness, and encourage the use of material inputs from TPP member states.

Under the TPP agreement, commercial regulations emerged throughout the establishment of the TPP framework agreement and must be coherent with environmental policies of each country. This agreement helps to increase the state member’s competitiveness and create favorable conditions for businesses amongst themselves as well as committing to solve the difficulties of small and medium enterprises so that they can take full advantage of this free trade agreement.

Furthermore, TPP agreement implements an open mechanism which helps interested countries participate in accession negotiations in the future in order to form a free trade

zone in the Pacific region. Openness of the TPP can also help a member country to have other FTAs with many countries at the same time.

2. The Structure of the Vietnamese Apparel Industry

As shown in Table 1, in total there were 7599 textile and apparel firms in Vietnam in 2013. Most firms in the industry are small-to-medium scale. Classified by capitals, there are about 89.2% enterprises under US\$2.24 billion dollars and the firms with capitals over US\$2.24 billion dollars accounting for a low proportion. At the small scale, firms will have difficulty in finding large orders and establishing modern machines as well as retaining their employees. It is one of reasons explain why Vietnamese enterprises have lower competitiveness than FDI firms.

Table 1. Size of the Vietnamese textile and apparel industry

Index	Textiles	Apparel
Number of enterprise (2013)	2,432	5,167
By capitals		
Under 2.24 million dollars	2,078	4,699
From 2.24 to 8.96 million dollars	231	346
From 8.96 to 22.4 million dollars	69	93
From 22.4 million and over	54	40
By employee		
Under 50	1,831	3,269
From 51 to 299	472	1,114
From 300 to 499	51	233
From 500	78	551
Number of employees (2013)	202,330	1,130,819

Source: General Statistic Office

If classified by category, garment enterprises account for 70% of total number of firms in the sector, spinning is only 6%, weaving is 17%, dying is 4% and ancillary industry is 3%.

The state own enterprises only made up 1% of the overall number, foreign direct invested firms are 15% and the largest proportion is the private sector with 84%. This company structure has been so far contributed to foster the industry itself. Since with the state-own

enterprises, the decision making processes are often very slow due to their large size and complex hierarchies. In contrast, the private sector has the faster decision making process thanks to their decentralization and comparatively flatter hierarchy. Numbers of foreign direct invested (FDI) firms are projected to grow up in coming years because of proliferation of FTAS. The FDI firms account for 60 percent of Vietnam's total garment and textile export revenue (Vietnam Briefing, 2014).

Currently, garment firms export products mainly based on the Cut-Make-Trim (CMT) method (85%). In fact, the garment producers have to use imported inputs and machinery. Angie (2012) has conducted interviews with the 16 textile and garments and representatives from Vietnam Textile and Apparel Association (VITAS). It was found that most Vietnam producers are mainly subcontractors and dependent on imported inputs delivered by brand holders and suppliers. In addition, the low value-added garment assembly for export still dominated exports from Vietnam. With this engagement, the garment manufacturers can use less skilled workers without large capital for establishment. However, the value added income from assembled products is very low.

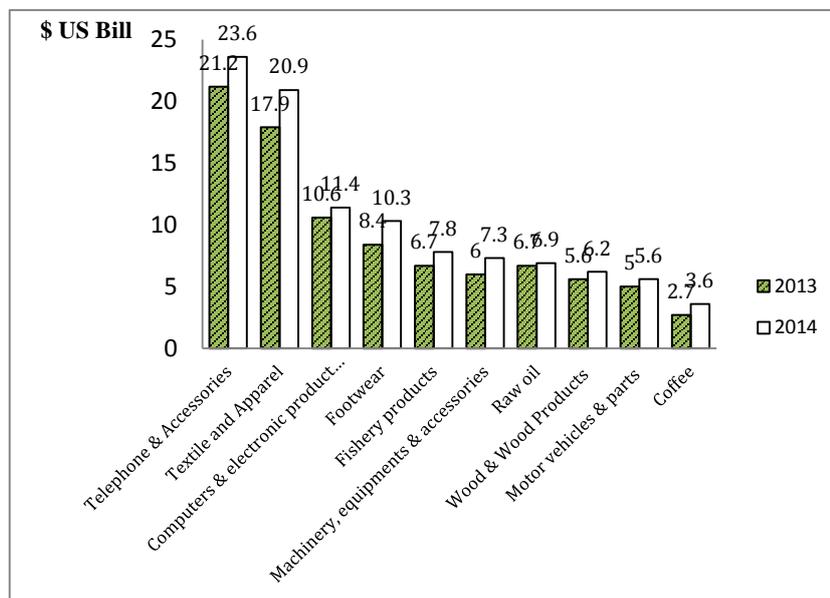
About 15% of apparel firms with export products employ the FOB (Free on Board) method mostly at level 1 with only 2% using the ODM (Original Design Manufacturing) method. The FOB firms in Vietnam are at an early development stage so that the values added are not significant. The reason why export products with FOB or ODM and OBM (Original Brand Manufacturing) are still very low due to that Vietnam textile and apparel industry is not active in terms of searching sourcing inputs, poor management and low capital.

3. The Competitiveness of Vietnam Apparel Industry

The textile and apparel industry has become one of the pivot sectors in the Vietnam's economic development strategy. The export value of textile and apparel products in the last two decades has seen annual growth of 15% and has become one of the leading export industries of Vietnam. The industry has become a major source of foreign exchange and contribute approximately 10% to 15% of Vietnam's GDP annually (Vu, 2014). According to the Vietnam Custom Offices, export turnover of Vietnam textile and apparel industry was estimated to have reached US\$ 20.9 billion in 2014, representing about 13.6% of the total

exports. Vietnam now is one of the fastest growing countries in textile and apparel export with the global market share of about 4%-5%. Vietnam is also a second largest apparel exporter to the United States of America, with an export share of 48.6% compared to the turnover export of apparel. In addition, the European Union, Republic of Korea, and Japan are also the main clothing importers of Vietnam, accounting for 16.4%, 10%, and 12.9% of the total apparel's import of country, respectively.

Figure 1. Export Turnover of Ten Main Commodities in Vietnam in 2014



Source: Vietnam Custom Office.

On the other hand, with the nature of the industry is labor intensive, it plays an essential role in job creation. The apparel industry has been so far attracted the largest number of employments among manufacturing industries. According to Ministry of Labor, every US\$1 billion of apparel export could create jobs for 150-200 thousand employees, of which there are 100 thousand labors in the apparel businesses. According to General Statistics Office of Vietnam, there are 1,333,149 employees officially registered in the textile and apparel industry. In the period between 2009 and 2013, the total number of employees in the Textile and Apparel Industry was continuously increasing from only 953,793 to 1,333,149 people.

Furthermore, Vietnam still have a lower labor cost than other countries in the area. As of Jan 2014, the minimum wages in Vietnam range from US\$ 90 to US\$ 128 depending on each

region. Compared to countries in Asia-Pacific region, this rate is relatively higher than Cambodia, however, much lower than Indonesia (US\$ 74-219), Kingdom of Thailand (US\$237), People's Republic of China (US\$156-266) and Malaysia (US\$244-275) (ILO, 2014). Although Vietnam has competitive salary for workers, the labor productivity is quite low in the region. In a study in 2013, International Labor Organization (ILO) pointed out that the productivity in Vietnam was lower than 15 times, 11 times and 10 times in Singapore, Japan, Republic of Korean, respectively. Compared with other medium income ASEAN countries, the rate is only one fifth and two fifth of the rate in in Malaysia and Kingdom of Thailand, respectively. One of the main reasons for low productivity, according to the result of author's fieldwork, is that the labors cannot meet fully jobs' requirements, which also leads to the lack of skilled workers in the field of dying and weaving. Therefore, the labor productivity is considered as the biggest weakness of the textile and apparel industry in particular and the labor-intensive manufacturing industries of Vietnam in general. In ILO experts' opinion, Vietnam should develop policies to boost its labor productive. This will help Vietnam enhance its competitiveness based on high productive rather than on low labor cost.

According to the General Statistic Office of Vietnam, exports value of foreign direct investment (FDI) enterprises has a higher turnover than that of domestic enterprises. In 2005, export of apparel of FDI enterprises reached only US\$2.14 billion, accounting for 44% of the total apparel export in the country. Export of this product group of FDI enterprises continuously increase and have exceeded export of domestic enterprises since 2007. In 2013, export turnover of FDI enterprises reached US\$10.7 billion, an increase by 18.5% compared with the same period and accounting for 59.4% of total apparel export turnover. The export value of domestic enterprises stood at US\$7.3 billion; US\$3.4 billion lower than that of FDI enterprises.

From VISTA's report in 2014, the export value of yarn and fibers and fabric without weaving increased from US\$ 2,149 million, US\$ 400 million in 2013 to US\$ 2,543 million and US\$ 456 million in 2014. However, the export value of both these products lightly dropped to US\$ 2,524 million and US\$ 440 million in 2015, a decrease of 0.75% and 3.51% compared with 2014. The export value of fabrics and auxiliary material are US\$ 987 million and US\$ 1,427million, increasing by 23.08% and 91.8 % compared with 2014. Besides, People's

Republic of China is the largest imported yarn and fibers from Vietnam, then Turkey and Republic of Korea are the second and third country imported raw input in Vietnam.

Table 2. Export of Textile Product in Vietnam, 2013-2015

Unit: Million USD

	2013	2014	Compare with 2013 (%)	2015*	Compare with 2014 (%)
Fabrics	710	800	12.68	987	23.08
Yarn and Fiber	2,149	2,543	18.33	2,524	-0.75
Fabrics without weaving	400	456	14.00	440	-3.51
Auxiliary Textile	596	744	24.83	1,427	91.80

*: Estimate Source: VISTA

The United States of America, European Union, Japan and Republic of Korea are four biggest partners of Vietnam in apparel export. In 2014, total apparel export turnover to these four markets reached US\$23.6 billion, accounting for 85.5% of total apparel export value. Major exported products are Jacket, T-shirt, Trousers, Skirts, Children Clothes, Dress shirt, etc. In particular, exports to the U.S. market have continuously increased over the years, accounting for 48.6% of total apparel export value of Vietnam in 2014. Following is European with 16.4%, Japan with 12.9% and Republic of Korea with 10%.

At present, Vietnam is the second largest garment supplier to the United States of America after People's Republic of China, with exports turnover in 2013 accounted for 48% of total export value of the textile and apparel industry. According to statistics from OTEXA, compared to 2012, the imported apparel products to The United States of America from Vietnam in 2013 had a dramatic increase by 14.59 in value and 13.74 in volume. In particular, Vietnamese export products to the United States of America market reached US\$8.77 billion, accounting for 8.38 % market share in the US. Meanwhile, the growth rate of market share of other suppliers in US market is much lower than that of Vietnam. Compared to 2012, market share of Chinese apparel in 2013 was 39.79%, increased by 2.69% of the export value. Similarly, Indonesia's garment market share (4.99%), Cambodia (2:47%) rose by 0.63% and 0.72%.

The price of the apparel products imported from Vietnam to the United States of America is always same or higher than other competitive suppliers such as People's Republic of China and Bangladesh. However, the growth rate of Vietnamese apparel production in US market is the highest amongst 10 largest suppliers in this market in 2013.

Additionally, TPP agreement was signed and entered into force, the position of Vietnamese apparel production is expected to be enhanced. The export turnover from Vietnam to The United States of America is also projected to increase significantly. Nevertheless, Vietnam garment production will also have to face strict requirements on technical barriers, trade-related social responsibility, ecological labeling, and environmental protection and so on.

4. Rules of Origin for the Textile and Apparel Sector under the TPP Agreement

Textile and apparel sector has its own regulations as stated in Chapter 4 of the TPP. Typically, according to the WTO rules and other free trade agreements, rules of origin are based on the tariff shift rules. It means that a garment product is considered as an originating good if it was sewed completely or partly in a FTA member country. While the fabrics and auxiliaries can be imported from a non-member country. This rule of origin is called the "cutting and sewing" regulation. The rule of origin under TPP agreement, conversely, is stricter than the current mechanism of WTO. It forces member states have to stiffen the control mechanism on originating issues of imported goods.

The main rule of origin for textile and apparel products under this agreement is the "yarn forward" or "three stages" rule. In other words, all the apparel products granted the preferential tax must use originating yarn and fabrics and be assembled by member states of the agreement. It means the process of yarn spinning, weaving-dyeing and finishing and sewing must be managed in the territory of one or more parties. The textile and apparel product specific rules of origin for textile and apparel products are stipulated at the Annex 4A of TPP agreement. The apparel products in Chapter 61 through chapter 63 of the Harmonized System of Tariffs are originating products if they are produced entirely in one or more TPP member states using material goods of heading 51.06 through 51.13, 52.04 through 52.12 or 54.01 through 54.02, subheading 5403.33 through 5403.39 or 5403.42

through 5403.49, or Heading 54.04 through 54.08, 55.08 through 55.16, 56.06 or 60.01 through 60.06.

On the other hand, Chapter IV of the TPP agreement also provides some exceptions to yarn forward rule for textile and apparel products. The first is the “cutting and sewing” rule is applied for three groups of apparel products including luggage, handbags, women's bras and children's clothing baby made from synthetic fibers. The second is the *de minimis* rule for non-originating textile and apparel products in Annex 4-A, classified outside Chapters 61 through 63, will be regarded as originating goods if the total weight of all such materials is not more than ten percent of the total weight of the goods. In addition, textile and apparel products of Chapter 61 through 63 in Annex 4-A are not originating goods because fibers or yarns used in the production of the component of the products cannot meet the tariff shift rules, can still be regarded as an originating good if the total weight of all such fibers or yarns is not more than ten per cent of the total weight of that component. Third is the short supply list of products classified in the Appendix 1 of Annex 4-A. In this list, there are 194 inputs (yarns, fibers and fabrics) can be imported from non TPP member countries, of which 186 items will be applied permanently and 8 items will temporarily applied for 5 years. Four is the exchange mechanism is imposed to Vietnamese firms exporting bottoms made from cotton fabrics to the United States of America under an Earned Import Allowance Program (EIAP). In this program, Vietnamese exporting firms would receive the duty free treatment immediately for using non-TPP cotton fabrics as the same amount as they purchase US originating cotton fabric in order to assemble bottoms. The exchange ratios under EIAP between US originating fabrics and non US fabrics are 0.75- for-1 for women's bottoms and 1.3- for-1 for men's bottoms.

Besides the matter of rules of origin, Chapter IV also stipulates the rules of textile and apparel-specific safeguard mechanisms. According to Article 4.3 to Article 4.9 in Chapter 4 in the TPP agreement, import countries are allowed to apply textile and apparel- specific safeguard mechanisms, through which TPP member state can re-impose the MFN tariffs if increased imports of products under TPP preferential tax cause serious damage or threaten severe loss to the TPP domestic industry. However, if any importing country wants to apply this safeguard mechanism, it must pay compensation for the economic damage which exporters have to suffer when they cannot enjoy preferential tariffs under the TPP

agreement. In fact, the possibility of this mechanism for Vietnam is not high because Vietnam and The United States of America have different priorities for export products.

5. The Impact of the TPP Agreement on the Vietnamese Textile and Apparel Industry

The TPP agreement would be able to bring a significant opportunity for Vietnam's textile and apparel exporting products to TPP member markets, especially The United States of America. Vietnam, at present, has been the second largest exporter of apparel to the U.S after the People's Republic of China. Nevertheless, it is questionable whether the country can take advantage of the TPP agreement to foster its economy, particularly for the textile and apparel industry.

According to the TPP agreement, the tariff lines for textile and apparel products will be reduced to nearly 0%, either when this agreement comes into force, or following the tariff elimination schedule. For instance, The United States of America has imposed the tariff schedule on Vietnam for 1,605 tariff lines of textile and apparel products as below:

- A Basket: 1,161 tariff lines (72.3%) in staging category of EIF will be eliminated immediately after the agreement comes into force.
- B Basket: More than 134 tariff lines in the staging category of B5 will be removed after the year 5;
- X basket: 145 tariff lines classified at US6, US8 and US10 will be eliminated from the year 11, plus the rest of 165 tariff lines in the category of US7, US9 and US11 will be 0% from the year 13, and this time is also an end of the tariff elimination for textile and apparel products to Vietnam.

Details of each staging category is stated in the Annex 2-D of the Tariff Schedule of The United States of America under the TPP agreement. Table 2 describes the quantities of tariff lines in the Tariff Schedule of U.S to Vietnam.

Table 3: Detail of the tariff lines in the tariff schedule of U.S to Vietnam

Staging category	Tariff elimination schedule	Quantity of tariff lines	Share of tariff line in total
EIF	The custom duty will be eliminated entirely on the date of entry into force of TPP agreement.	1,161	72.3%
B5	customs duties shall be eliminated in five annual stages, and will be 0% from January 1 of year 5.	134	8.3%
US6	Tariff shall be reduced by 35 % of the base rate on the date of entry into force of TPP Agreement and shall remain at the resulting rates until December 31 of year 10. These goods shall be duty-free effective January 1 of year 11;	19	1.2%
US7	Tariff shall be reduced by 35 % of the base rate on the date of entry into force of TPP Agreement and shall remain at the resulting rates until December 31 of year 12. It shall be 0% from January 1 of year 13;	11	0.70%
US8	Tariff shall be reduced by 35 per cent of the base rate on the date of entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 5. On January 1 of year 6, these duties shall be reduced by an additional 15 % of the base rate, and they shall remain at the resulting rates until December 31 of year 10. Tariff shall be removed absolutely by January 1 of year 11;	14	0.9%
US9	customs duties shall be reduced by 35 % of the base rate on the date of entry into force	112	7.00%

Staging category	Tariff elimination schedule	Quantity of tariff lines	Share of tariff line in total
	of this Agreement and shall remain at the resulting rates until December 31 of year 6. On January 1 of year 7, these duties shall be reduced by an additional 15 % of the base rate, and they shall remain at the resulting rates until December 31 of year 12. These goods shall be duty-free effective January 1 of year 13;		
US10	customs duties shall be reduced by 50 % of the base rate on the date of entry into force of this Agreement for the United States and shall remain at the resulting rates until December 31 of year 10. These goods shall be duty-free effective January 1 of year 11;	140	8.70%
US11	customs duties shall be reduced by 50 % of the base rate on the date of entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 12. These goods shall be duty-free effective January 1 of year 13;		
Total		1,605	100%

Source: Annex 2-D Tariff Commitments (TPP agreement)

Even though more than 70% of tariff lines will be eliminated when TPP comes into force, the total products of this category only account for 40% of the total value of Vietnam's apparel exports to the United States recently (according to USITC). The reason is that Vietnam is still restricted from exporting many products of EIF category to United States, but at the same time Vietnam's most valuable and productive textile and apparel products exported to United States are classified in "the most sensitive" basket and will not be granted duty-free treatment during ten or twelve years since TPP takes effect. The table 3 presents the most competitive Vietnamese products exported to United States.

Table 4: Top 30 Vietnam apparel export categories to the USA in 2014

Unit: Thousand USD

Description	Value of exports	Share in Vietnam apparel exports to US	Share in Vietnam apparel exports to world
Total value of Vietnam apparel exports to US ^(*)	9,208,700		
Total value of Vietnam apparel exports to World ^(**)	19,699,178		
Total value of Top 30 Vietnam apparel exports to US	6,787,579		
Share of Top 30 Vietnam apparel exports to US in the turnover of Vietnam apparel exports to US		73%	
Share of Top 30 Vietnam apparel exports to US in the turnover of Vietnam apparel exports to World			34%
A basket products of Top 30	3,356,373	36.45%	17.04%
B Basket products (no product) of Top 30	0	0	0
X basket of Top 30	3,431,207	37.26%	17%

Source: Author's calculation statistics from United State International Trade Commission (USITC), International Trade Centre (ITC)

(*) (**): Total apparel exports in Chapter 61 and Chapter 62

A Basket : Least sensitive products selected for immediate duty free treatment

B Basket: Moderately sensitive products will be removed after the year 5

X basket: Most sensitive products eliminated from the year 11 (US6, US8 and US10) and US7, US9 and US11 will be 0% from the year 13

The top 30 Vietnam apparel products accounted for 73.71% of total turnover in Vietnam's apparel exports to the United States and 34 % of total value of Vietnam's apparel exports to the world in 2014. Of these top 30 products, 13 tariff lines are listed in the A basket which will be granted duty free treatment when TPP agreement comes into force. These products in this basket were making up of 36.45% of total US imports from Vietnam and

17.04% of total Vietnam's apparel exports to the world in 2014. There is not any product of top 30 in B basket. Nevertheless, there are 27 tariff lines in X baskets which will have the liberalization of tariff schedule from year 11 and year 13 on ward. These tariff lines, in 2014, were accounting for 37.26% of total Vietnam apparel exports to The United States of America and 17% of total Vietnam apparel exports to the world.

Nevertheless, in order to get tariff granted under TPP agreement, Vietnam apparel products must meet the rules of origin requirements. Appendix 1 of Annex 4-A (Chapter 4, TPP agreement) lists all the 194 short supply list of textile and apparel products. There are 186 items will be applied permanently and 8 items will temporarily applied for 5 years. Nevertheless, each short supply item has its own end use requirement. Even though Vietnam can use temporary short supply lists for 5 years, it is still difficult to take advantage of them for exporting to The United States of America' market. With a reason, the temporary 8 items are mostly woven and polyester fabric products which are restricted to have end use for woven bottoms of heading 6203 and 6204; or men's trousers excluding water resistant products of subheading 6203.43; or men's and women's water resistant clothing of chapter 61; or women's and girls' water resister overcoat of subheading 6202.13 or 6202.93; or clothing and accessories of chapter 61 except baby socks and booties of heading 6111 and legging of heading 6115; or woven swimming suit of subheading 6211.11 and 6211.12. Most of these end use products are not listed in the A basket, while B and X baskets have tariff reduction schedule from year 5 or year 11 on ward. In the permanent short supply list, there is only woven fabric item applied for men's and boys' dress shirts of subheading 6205.20 and women's and girls' blouses of subheading 6206.30, which will be valuable a lot for Vietnam apparel export industry. For instance, HS 6205.20.20-men's or boys' shirts to The United States of America is one of top 30 Vietnam apparel export to The United States of America, which was US\$ 251,857.90 thousand dollars in 2014 and listed in the A basket that will be eliminated at the first day of TPP agreement's enforcement.

In terms of the Earned Import Allowance Program be in Appendix E of Annex 2-D (Chapter 2, TPP agreement), Vietnam can exchange one credit of US cotton fabrics with one credit of non-TPP cotton fabrics for the men's and women's bottom products. However, Vietnamese main imports from United States of America are only cotton products. US fabrics, in general, are expensive. Therefore, Vietnam actually get little benefit from this program since Vietnam

still imports more than 70% fabrics from the Republic of Korea and the People's Republic of China (non -TPP members).

In general, the Vietnamese apparel export industry might have difficulty in complying with the rules of origin in the TPP agreement. Even though the US liberalization tariff reduction schedule will immediately help the US imports of apparel product from Vietnam increase more than 36.45%, Vietnam still cannot take advantage of the temporary short list products for its thirty leading apparel export products. The only item in the short supply list Vietnam can make use of is cotton fabrics for men's and boys' dress shirts of subheading 6205.20 and women's and girls' blouses of subheading 6206.30, which also have the tariff line of top 30 products granted immediate duty-free treatment.

6. TPP Impact on Enterprises in Vietnam

This section of analysis will be divided into two categories, namely foreign-owned companies and domestic enterprises. State-owned enterprises only made up of 1% of overall number, foreign direct invested firms are 15% and the largest proportion is the private sector with 84%. It is seen that Vietnam generally has to overcome many challenges in order to meet the requirement of TPP free trade agreement. However, if it is narrow down to firm scales, in author's point of view, the state owned enterprises and the FDI will be the most beneficiaries while small and medium companies might face up with many difficulties after the TPP comes into force. Below will be the explanations.

6.1. Foreign Direct Investment Enterprises in Vietnam (FDI firms)

The export turnover of FDI enterprises achieved US\$10.7 billion in 2013, an increase of 18.5% compared with the same period of 2012 and making up for approximately 59.4% of total apparel export turnover. Up to 2015, the total capital of FDI flows into textile and apparel industry has reached US\$ 10 billion and it keeps increasing. According to statistics from the Foreign Investment Department of Ministry of Planning and Investment, most of the FDI big projects during the first six month of 2015 are for textile and apparel sector. The Republic of Korea, Japan, and the People's Republic of China are the leading countries investing in the Vietnamese textile and apparel industry.

A conclusion can be withdrawn from author's fieldwork is that FDI firms have an opportunity to utilize the TPP agreement. This is because they are usually large firms with strong capacities of big capital investment and well-management. Additionally, they are vertically integrated firms including both upstream and downstream of the industry. FDI firms' export products are mainly to The United States of America, European countries, Japan and the People's Republic of China. Each FDI firms all it takes to capitalize on the agreement once it comes into enforce. According to fieldwork interview, these companies have been researched about how to capitalize the agreement. By establishing a research unit to study carefully all the provisions of TPP agreement as well as searches the strategic partnerships and coordination among their factory branches for the supply of product inputs.

In short, FDI companies will be one of the beneficiaries of the TPP agreement. First, they are acknowledge of TPP agreement and well-prepared for it. Second, they can control the whole supply chain of textile and apparel industry. Third, their apparel products have high value added and competitive goods due to their developed R&D sections as well as technology secrets. Last, large capital investment and well-management, FDI firms can invest to both upstream and downstream in order to control the whole supply chain of textile and apparel industry. Besides, they can attract enough quantity of labors for their factories and meet the labor standards requirements.

FDI companies often have closed cycle production from step of yarn spinning to the step of assembling as well as the research and marketing department. The example can be drawn from an interview with a foreign company which has the factories in Myanmar, the People's Republic of China, and Indonesia and in Vietnam. Since 1993, this company has vertically integrated factories of spinning, weaving and dyeing and apparel production. It employs about 10,000 works. The R&D center of the company is quite developed with the logical process from identifying buyer needs to design collection. Therefore, company does not need to get the product orders through vendors. Most of the export of the company has been destined to The United States of America and the rest for European Union, Japan and Republic of Korea. Furthermore, the company has strategic division that in charge of developing the plan and strategy for TPP agreement. This division is leaded by the sales planning team who is in charge of analysis all the information about TPP and then preparing plans for it. These are the trade teams for researching and analysis the effect of TPP; buying

and planning team for studying all the suppliers in TPP area as well as establishment the strong partnerships with strategic partners; production team for examining the capacities as well as foster the Vietnamese factories' capacities or finding more sub-contractors; sub-sales team for finding the sales trends in TPP.

6.2. Domestic Firms in Vietnam

Domestic firms, divided into state own enterprises and locally private firms account for 85% of the total number of enterprises in the textile and apparel industry. Furthermore, garment enterprises account for 70% of total number of firms in the sector, spinning is only 6%, weaving is 17%, dying are 4% and ancillary industry is 3%. It implies that Vietnam is still at the early stage of the labor-intensive end for apparel products. For instance, according to the General Statistic Office of Vietnam, the country produced about 1.5 million ton of yarn in 2014 but exported 858.3 thousand tons which was nearly 60% of yarn it produced. Meanwhile, Vietnam also imported 739.9 thousand tons of yarn, while approximately 86.2 thousand tons were exported. In addition, the fabric production increased from 560.8 million square meters to 1,323.7 million square meters between 2005 and 2014. The capacity of dyeing and finishing in Vietnam can only produce about 0.8 billion square meters of fabric per year. Hence, approximately 40% of coarse fabrics produced are exported to the Republic of Korea and the People's Republic of China. After dying and finishing, they are imported back by Vietnam.

Table 5. Import and export of yarn and fabric in Vietnam in 2014

	2014
Yarn Production from cotton and polyester/rayon (Unit: million tons)	1.5
Yarns Exports (Unit: Thousand ton)	858.3
Yarns Imports (Unit: Thousand ton)	739.9
Fabric Production (million m ²)	1,323.7
Total value of fabrics import (billion USD)	9.4

Source: General Statistics Office Vietnam (GSO)

6.2.1. State-owned Enterprise in Vietnam

Although, state owned enterprises only account for 1% of total number apparel companies, they are large apparel firms. Conversely, the other 84% are private firms at medium and small scales. According to the fieldwork interviews, state owned firms normally have large and vertically integrated enterprises including numbers of textile factories and apparel corporations and companies; however, not all of them are efficient. Although the firms have invested both upstream and downstream of the textile and apparel industry, they still had to import 99.5% of the cotton fabrics mainly from People's Republic of China or Republic of Korea. All the state owned companies has been equitizing. The export turnover of the largest apparel firm contributed approximately about 14.2% total national export value in 2013. Some of big firms have already managed promoted fashion designs with high value added products with foreign buyers. The state owned enterprises are very acknowledged of TPP agreements. With the financial supports from government, they tried to utilize TPP agreement by cooperating with FDI firms. For instance, one state owned company has launched its joint project with a Japanese company with a total capital investment of US\$ 714 million dollars with the aim to set up a production based supply chain in order to capitalize on the TPP agreement.

6.2.2. Small Private Enterprise in Vietnam

Small private enterprises which are making up of 84% of total number enterprises in the country are sub-contractors. The major apparel export markets of domestic enterprises are developed countries such as the European Union, the United States of America, Japan, Hong Kong, the Republic of Korea, and Republic of China. Since almost private companies are only sub-contractors, therefore their capacities in general are weak and restricted. Private firms can hardly find their buyers by themselves. They are quite depending on the vendors for the product orders. Input materials are either bought by buyers or vendors. Thus, they are only able to earn little profit from the textile and apparel value chain. An example was drawn from fieldwork interview is that although an apparel product was assumed to sell in the market with the price of US\$100; its labor cost was around US\$2.

These small enterprises usually import mainly inputs from the People's Republic of China which is not a TPP member, the rest are from the rest are Japan, Malaysia, the Republic of Korea, Thailand, etc. In addition, most of enterprises are still producing for low end of apparel products. Furthermore, most of firms are not enthusiasm with TPP agreement, even some of them did not either know or unacknowledged about TPP. This is because they are just subcontracting for the CMT method and cannot capitalize for higher added value products in the textile and apparel value chain.

7. Conclusion

Although the TPP agreement was agreed upon by all the twelve participating countries, it is still on the process of ratification by each member. Especially, with the new elected president of the United States of America, TPP even might have been had premature death. If the TPP agreement officially comes into force, it will open many challenges and opportunities to member countries, particularly, for the developing countries as Vietnam. Joining TPP agreement, Vietnam will gain market access to one of its largest export markets for apparel, The United States of America, with the preferential tariff treatments. Nevertheless, the rule of origin as "Yarn forward" in TPP agreement might be an obstacle for Vietnam to foster its apparel products. For instance, Vietnam cannot take advantage of the temporary short list products for its 30 leading apparel export products to the United States of America. Since the industry has heavily dependent on imported raw materials from non TPP members, such the People's Republic of China or Republic of Korea, Vietnam might have might have difficulty in complying with the rules of origin requirements of the TPP agreement. Even though the US liberalization tariff reduction schedule will immediately help to increase the US imports of apparel product from Vietnam, there are only half of Vietnam's top 30 competitive apparel export products to US which would be liberalized tariffs for the first 10 years of the TPP. Thus, even if TPP would not have been ratified by the United States of America, Vietnam apparel industry would not have been lost that much. In this case, RCEP would not be a substitution for TPP. With a reason that, People's Republic of China is just only Vietnamese main input supplier but not one of the leading export markets for Vietnamese apparel products.

However, if it is narrow to the firm scales, only 16 percent of total apparel firms such as state-owned companies and FDI firms are expected to gain benefits from TPP agreement, whereas other 84 percent of locally owned medium and small companies might be left out. Since the state-owned companies and FDI enterprises are large firms with sufficient capacities, therefore, they are ready for the TPP. Nevertheless, there might an opportunity for domestic subcontractors to meet the requirements of rules of origin in the TPP agreement. International vendors, especially from The United States of America, might seeks the ways of utilizing TPP agreement's advantages and help the domestic subcontractors deal the problems of local or regional containment. These vendors might be able to control the whole supply chain of the apparel industry, for instance the input materials as US fabrics, or making used of the exchange mechanisms between the United States of America and Vietnam. It also would help Vietnam increase its foreign exchange earnings in the apparel export industry.

APPENDIX 1

Rules of origin in the TPP agreement

A good defined as “originating” will be entitled to the preferential tariff treatment. Conversely, a good which is produced by a non-TPP member is not considered as “originating” in TPP. According to Article 3.2 of this agreement, a commodity is considered to be originating if it is:

- a) wholly obtained or produced entirely in the territory of one or more of the Parties as established in Article 3.3 (Wholly Obtained or Produced Goods);
- b) produced entirely in the territory of one or more of the Parties, exclusively from originating materials; or
- c) Produced entirely in the territory of one or more of the Parties using non-originating materials provided the good satisfies all applicable requirements of Annex 3-D (Product-Specific Rules of Origin), and the good satisfies all other applicable requirements of this Chapter.

According to that, an originating good is considered to be "made in TPP" if it meet one of these requirements. The first is the case of a good produced, grown or harvested entirely in the territory of one or many member states. This good is granted the preferential tariff treatment under the TPP free trade agreement when being exported to member’s markets. This rule is referred as WO- wholly obtained, which is stated specifically under the Article 3.3 of the TPP agreement as follow:

- a) a plant or plant good, grown, cultivated, harvested, picked or gathered there;
- b) a live animal born and raised there;
- c) a good obtained from a live animal there;
- d) an animal obtained by hunting, trapping, fishing, gathering or capturing there;
- e) a good obtained from aquaculture there;
- f) a mineral or other naturally occurring substance, not included in subparagraphs (a) through (e), extracted or taken from there;
- g) fish, shellfish and other marine life taken from the sea, seabed or subsoil outside the territories of the Parties and, in accordance with international law,

- outside the territorial sea of non-Parties by vessels that are registered, listed or recorded with a Party and entitled to fly the flag of that Party;
- h) a good produced from goods referred to in subparagraph (g) on board a factory ship that is registered, listed or recorded with a Party and entitled to fly the flag of that Party;
 - i) a good other than fish, shellfish and other marine life taken by a Party or a person of a Party from the seabed or subsoil outside the territories of the Parties, and beyond areas over which non-Parties exercise jurisdiction provided that Party or person of that Party has the right to exploit that seabed or subsoil in accordance with international law;
 - j) a good that is:
 - (i) waste or scrap derived from production there; or
 - (ii) waste or scrap derived from used goods collected there, provided that those goods are fit only for the recovery of raw materials; andNothing in this Chapter shall prejudice the positions of the Parties with respect to matters relating to the law of the sea.

In generally, this “wholly obtained” rule is strictly regulated that there is any unidentified component of product; this good will lose its nature as a “whole obtained” product.

The second is the case of a good produced in one and more member states using the material from non- TPP members, can still be considered as an originating good if it meets either the rule of tariff shifts or the rule of regional value content, or both of those regulations, or other rules of origin in TPP agreement.

The rule of tariff shift is based on the digits of Harmonized System of Tariff Classification (HTS). The HTS uses from six to ten- digit in order to identify the goods. The tariff shift rule applies to chapters (2-digit HTS) as Change to chapter (CTC or CC for short), headings (4-digit HTS) as Change to heading (CTH for short), of subheadings (6-digit HTS) as Change to subheading (CTSH for short). The tariff rule commonly applies for the four HTS categories. The Change to Chapter is the most restrictive while Change to subheading is the least restrictive. For instance, in Annex 3D- Product- Specific Rules of Origin under TPP agreement, one of the tariff shift rule is that “A change to heading 19.02 through 19.05 from any other

chapter". With this rule, a product has HS classification from 19.02 to 19.05 is considered as a "originating" product if it is produced from raw materials with HS code outside of Chapter 19. The first assumption is that biscuits exported to U.S are produced in Vietnam with flour from China (HS code of flour is at Chapter 11), the rest of ingredients of those biscuits origin from Vietnam. Thus, when those biscuits are exported to U.S, they will be regarded as "originating" products and granted preferential tariff treatment under the TPP agreement. The reason is that if the tariff shift rule applies to HS 19.05, all the products under HS 19.05 are considered as "originating" and entitled to preferential tariff treatment under the TPP agreement, all non-originating raw materials must be in other HS chapter. The second assumption is that biscuits exported to U.S are produced in Vietnam with mixed dough from China (the HS of mixed dough is 1901.20), the remaining ingredients origin from Vietnam. Therefore, when those biscuits are exported to U.S, they will be considered as "non-originating" products and cannot be granted the preferential tariff treatment under the TPP agreement. The reason is that the raw material as mixed dough is from China (non TPP member) and its HS is in Chapter 19 as in the same HS chapter with biscuits.'

In addition, the TPP agreement also provides the rule of regional value content (RVC for short). An "originating" product produced in one or more Parties can meet the requirement of RCV of this product. This rule is rarely applied in particular but rather combined with tariff shift rule. The calculation of RVC is stated at Article 3.5 under Chapter 3 of TPP agreement. There are two methods to identify the RVC of a product. Build-up method, a direct calculation, is based on value of originating materials. Its formulation is $RVC = \frac{VOM}{AV} \times 100\%$. Build-down method, an indirect calculation, is based on value of non-originating materials. Its formulation is $RVC = \frac{AV - VNM}{AV} \times 100\%$. In those two formulations, RVC is the regional value content of a good, expressed as a percentage VNM is the value of non-originating materials, including materials of undetermined origin, used in the production of the good; AV is the value of good. The RVC of a good in TPP agreement is from 30% to 55% depends on each specific products listed in Annex 3D of this agreement.

Besides the tariff shift rule and the RVC, the TPP agreement also provides other rules of origin in order to ensure the origin of a product, such as *de minimis* or manufactured goods as well as the custom procedures of originating products.

APPENDIX 2

Table 6: Detail of export categories of apparel for Vietnam under TPP

Unit: Thousand USD

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to word ^(**)
A Basket : Least sensitive products selected for immediate duty free treatment				
EIF	HS 6110.20.20-sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	1,106,570	12%	5.62%
EIF	HS 6110.30.30-sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	698,641	7.59%	3.55%
EIF	HS 6205.20.20-men's or boys' shirts, not knitted or crocheted, of cotton, nesoi	251,858	2.73%	1.28%
EIF	HS 6104.43.20-women's or girls' dresses, knitted or crocheted, of synthetic fibers, nesoi	226,310	2.46%	1.15%
EIF	HS 6201.93.30-men's or boys' anoraks, windbreakers and similar articles, not knitted or crocheted, of manmade fibers, nesoi, water resistant	217,368	2.36%	1.10%

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to world ^(**)
EIF	HS 6210.40.50-men's or boys' garm, nesoi, of fab of 5903/5906/5907, of mmf, other than w/outer sur. impreg/coated/etc. w/rub/plast, n k/c	138,060	1.50%	0.70%
EIF	HS 6204.43.40-women's or girls' dresses, not knitted or crocheted, of synthetic fibers, nesoi	133,373	1.45%	0.68%
EIF	HS 6202.93.45-women's/girls' anoraks, windbreakers, etc, nt knit/crochet, mm fibers, cont. 36% or more wool or fine animal hair, nesoi, o/than rec perf outwear	129,044	1.40%	0.66%
EIF	HS 6210.50.50-women's or girls' garm, nesoi, of fab of 5903/5906/5907, of mmf, other than w/outer sur. impreg/etc. w/rub/plast, n k/c	97,582	1.06%	0.50%
EIF	HS 6106.20.20-women's or girls' blouses and shirts, knitted or crocheted, of manmade fibers, nesoi	94,725	1.03%	0.48%

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to word ^(**)
EIF	HS 6104.44.20-women's or girls' dresses, knitted or crocheted, of artificial fibers, nesoi	83,083	0.90%	0.42%
EIF	HS 6108.31.00-women's or girls' nightdresses and pajamas, knitted or crocheted, of cotton	82,559	0.90%	0.42%
EIF	HS 6104.42.00- women's or girls' dresses, knitted or crocheted, of cotton	97,201	1.06%	0.49%
Total A basket products		3,356,373	36.45%	17.04%
B Basket products				
No Products				
X Basket products				
US10	HS 6104.62.20-women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	320,004	3.48%	2%
US10	HS 6106.10.00-women's or girls' blouses and shirts, knitted or crocheted, of cotton	109,530	1.19%	1%
US11	HS 6211.43.00-women's or girls' track suits or other garments nesoi, not knitted or crocheted, of manmade	125,527	1.36%	1%

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to world ^(**)
	fibers			
US11	HS 6206.40.30-women's or girls' blouses and shirts, not knitted or crocheted, of manmade fibers, nesoi	124,099	1.35%	1%
US6	HS 6107.11.00-men's or boys' underpants and briefs, knitted or crocheted, of cotton	278,103	3.02%	1%
US6	HS 6109.10.00-t-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	205,680	2.23%	1%
US6	HS 6103.43.15-men's or boys' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, nesoi	116,525	1.27%	1%
US6	HS 6109.90.10-t-shirts, singlets, tank tops and similar garments, knitted or crocheted, of manmade fibers	81,558	0.89%	0.41%
US6	HS 6114.20.00-garments nesoi, knitted or crocheted, of cotton	81,549	0.89%	0.41%
US7	HS 6204.62.40-women's or	501,221	5.44%	3%

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to world ^(**)
	girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi			
US7	HS 6203.42.40-men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	348,656	3.79%	2%
US7	HS 6203.43.40-men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	204,581	2.22%	1%
US8	HS 6105.20.20-men's or boys' shirts, knitted or crocheted, of manmade fibers, nesoi	226,131	2.46%	1%
US8	HS 6105.10.00-men's or boys' shirts, knitted or crocheted, of cotton	191,973	2.08%	1%
US8	HS 6102.30.20-women's or girls' overcoats, car coats, capes, windbreakers and similar articles, knitted or	97,029	1.05%	0.49%

Category	Description of Vietnam apparel exports to U.S	Value of exports	Share in Vietnam apparel exports to US ^(*)	Share in Vietnam apparel exports to word ^(**)
	crocheted, of manmade fibers, nesoi			
US9	HS 6204.63.35-women's or girls' trousers, breeches and shorts, not knitted or crocheted, of synthetic fibers, nesoi	185,479	2.01%	1%
US10	HS 6104.63.20- women's or girls' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, neso	233,562	2.54%	1%
Total export value of X basket		3,431,207	37.26%	17%

Source: Author's calculation statistics from the United States International Trade Commission (USITC), International Trade Centre (ITC)

(*) (**): Total apparel exports in Chapter 61 and Chapter 62

A Basket : Least sensitive products selected for immediate duty free treatment

B Basket: Moderately sensitive products will be removed after the year 5

X basket: Most sensitive products eliminated from the year 11 (US6, US8 and US10) and US7, US9 and US11 will be 0% from the year 13

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In line with the University wide restructuring, in 2015, the Institute underwent a major revamp to include 3 more area studies institutes namely Indian Studies Centre, Russian and CIS Studies Centre and ASEAN Studies Centre. With the consolidation of these 3 new area study centres, the institute therefore renames Thammasat Institute of Area Study (TIARA). The institute will continue what it do best, to continue producing high quality academic excellence and hope with the new restructuring, the institute will be able to achieve more in the coming years.

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