TEXTILE AND CLOTHING IN EAST ASIA AND PACIFIC

Comparative Analysis of the Textile Industry: A Focus on China and Vietnam

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INTRODUCTION

Today countries have been trading goods and services to meet the growing population's demand and maximize their resources. In this perspective, Textile industry holds a crucial role in the history of trade and economic development. The textile industry has been providing both goods and jobs to human around the world. Due to countries producing and trading textile goods since the early 2000s, it has become one of the highly competitive global markets. The top five largest textile dominating countries are China, Germany, Bangladesh, Vietnam, and India (Fashinza). This Report will analyze the textile industry of two East Asia and Pacific countries: China and Vietnam.

IMPORTANCE OF TEXTILE INDUSTRY

Vietnam and China have been two of most dominating textile countries in the world. Textile Industry has been a driving force for labor employment and increasing trade between countries, etc. For over 8500 years, Textile industry has been contributing to economic development. Every industry is related to Textile such as food, building, transportation, health etc. where farmers, construction workers, driver, and doctors require special clothes and suits.

REPORT'S KEY INSIGHT

In this report we will conduct comparative analysis about the textile industry trade of China and Vietnam. Our objective is to gain insight about trade components such as firm level analysis, challenges, taxes and tariffs, and international trade patterns between Vietnam and China. Moreover, we will make interpretation about how international trade models such as Ricardian, Specific Trade, Hecksher Ohlin, Standard Trade, and Gravity Model fit on the two countries.

EMPIRICAL EVIDENCE

Our analysis and figures are based on the data obtained from UN Comtrade, World Trade Map, WITS, Statista, World Bank, and other website articles, Research papers, and annual reports. Our graphs are obtained from different websites and illustrated on excel from the datasets. **The data for textile Industry of China and Vietnam at most forums was till 2022.**

POLICY RECOMMENDATIONS

After all the analysis, we will be deciding whether China and Vietnam should implement free trade or protectionist policies in textile industry. For fair evaluation, we have split our group in two sub-groups: Free trade (F) backed policies and Protectionism (P) backed policies in two countries to come up with well-informed policy recommendations.

CHINA

China, one of the largest economies located in East Asia, is one of the largest textiles dominating countries. The country's ability to adopt advanced technology and innovation, green strategies, access to the World Trade Organization, and lifting of trade restriction by US resulted in unprecedented growth levels. It employed more than 8 million people and contributes to annual share of GDP of 7 percent (Asia Garment Hub, 2023). Moreover, China produced 58 million tons a year in fiber categories which is more than 50 percent of world's supply. The Retail scale is more than $672 billion along with online retail of $298.9 billion. Due to thousand-year history of textile production, China is the largest producer of cotton. The sales in apparel are $355.8 billion and expected to exceed $415 billion by 2025 (Textile World at G&F, 2023) along with exports hit $293.6 billion in 2023 (The State Council Information Office The People's Republic of China, 2024). China's ability to gain higher profits and get advantage over cheap prices has resulted in economic stability and development.

VIETNAM

Vietnam is a country with rich heritage of textile craftmanship along with strategic location in Southeast Asia due to which it has emerged as a rising star in textile and clothing industry resulting in becoming World's key players. The trade agreements: Trans-pacific partnership (CPTPP) and EU-Vietnam free trade agreement (EVFTA), competitive productivity and production costs, and sustainable practices created new opportunities for textile exports in Vietnam (Rajput, 2024).It has uplifted the Vietnam's economic status and livelihood due to which over 2.5 million people (Somani, 2023) are employed and over $40.3 billion exports. Moreover, textiles alone contribute up to 16% of GDP (BetterWork, 2023). Furthermore, the output was $19.44 billion in 2023 and projected to increase to $21.12 billion in 2024 and $29.42 billion by 2028 (Statista Market Insights, 2023). Moreover, Vietnam has a rich heritage in silk weaving and most exported product is knitwear accounting for 42.5% of total textile exports in 2022.

INDUSTRY ANALYSIS

FIRM-LEVEL ANALYSIS

China

The noteworthy decrease observed from 2011 onwards, with the industry's contribution settling around 9.99% in the late 2010s and 2020, can be attributed to government initiatives emphasizing industrial upgrades and economic diversification. Notably, the Chinese government's 12th Five-Year Plan (2011-2015) highlighted a deliberate shift towards high-tech industries and services. Initiatives like "Made in China 2025" aimed to position China as a leader in advanced industries, including robotics, new energy vehicles, and biotechnology.

Figure 1: China Textile % of Value-added in Manufacturing

From 2017 to 2022 indicates a sustained and consistent rise in labor productivity. Starting at 112,000 RMB/Person in 2017, the values increased to 155,000 RMB/Person in 2022. This continuous upward trajectory signifies ongoing efforts to optimize production processes, embrace automation, and invest in workforce training. Specific government policies, such as the "Made in China 2025" initiative, likely played a role in encouraging the adoption of Industry 4.0 technologies, fostering connectivity and automation in manufacturing processes. Specific drivers behind this trend include increased automation, such as the integration of robotic systems for material handling and assembly, and the adoption of advanced manufacturing technologies like Internet of Things (IoT) devices to monitor and optimize production efficiency (The World Bank, 2023).
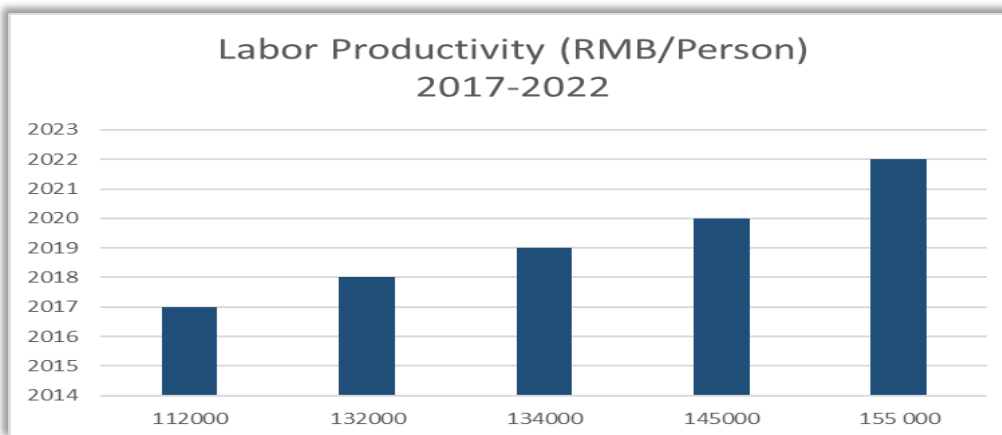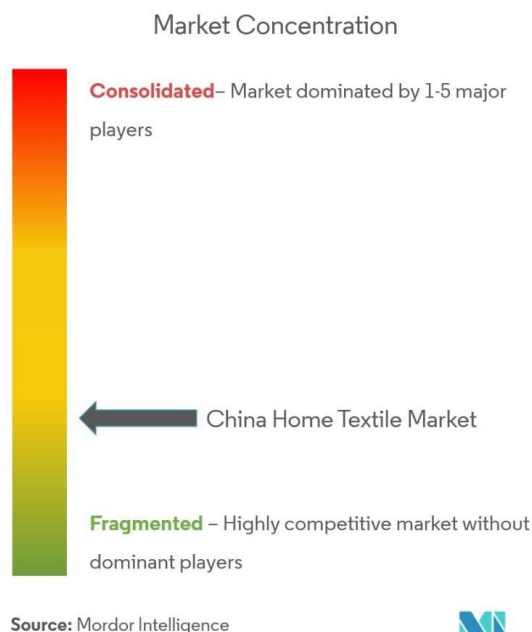

Figure 2: China Textile Labor Productivity

Market Concentration

Consolidated– Market dominated by 1-5 major players

China Home Textile Market

Fragmented – Highly competitive market without dominant players

Source: Mordor Intelligence

This market concentration positioning reflects a moderately fragmented market with some level of competition but lacking dominance by a few major players Historically, the industry has been characterized by numerous small-scale producers and workshops, contributing to a fragmented market structure. While consolidation has occurred in certain segments, particularly in export-oriented manufacturing, the home textile market may still mirror the legacy of this fragmentation (Mordor Intelligence, 2024).

Figure 3: China Home Textile Market Concentration

Vietnam

Vietnam ranked as the third largest exporter of textile and clothing goods with knitwear exports leading their industry growth as it contributes 42.5% of total Vietnam's textile exports (Somani, 2023). It has a diversified portfolio of women apparels, footwear, and bags resulting in growing demand for apparel products. Moreover, the largest revenue generating textile companies in Vietnam are Daiwabo holdings, Far Eastern New Century, and Indorama Ventures followed by other companies. The exports of apparels heavily rely on the production of foreign owned companies and local private subcontractors. Vietnam produces goods locally but major quantity of raw materials such as fiber, cotton, yarn, textiles, and garments are imported to meet the growing demand for apparel products. Figure 1 shows the production volume of all types of clothes: Cotton, fiber, knitwear etc. from 2011 – 2022 (Statista, 2024)
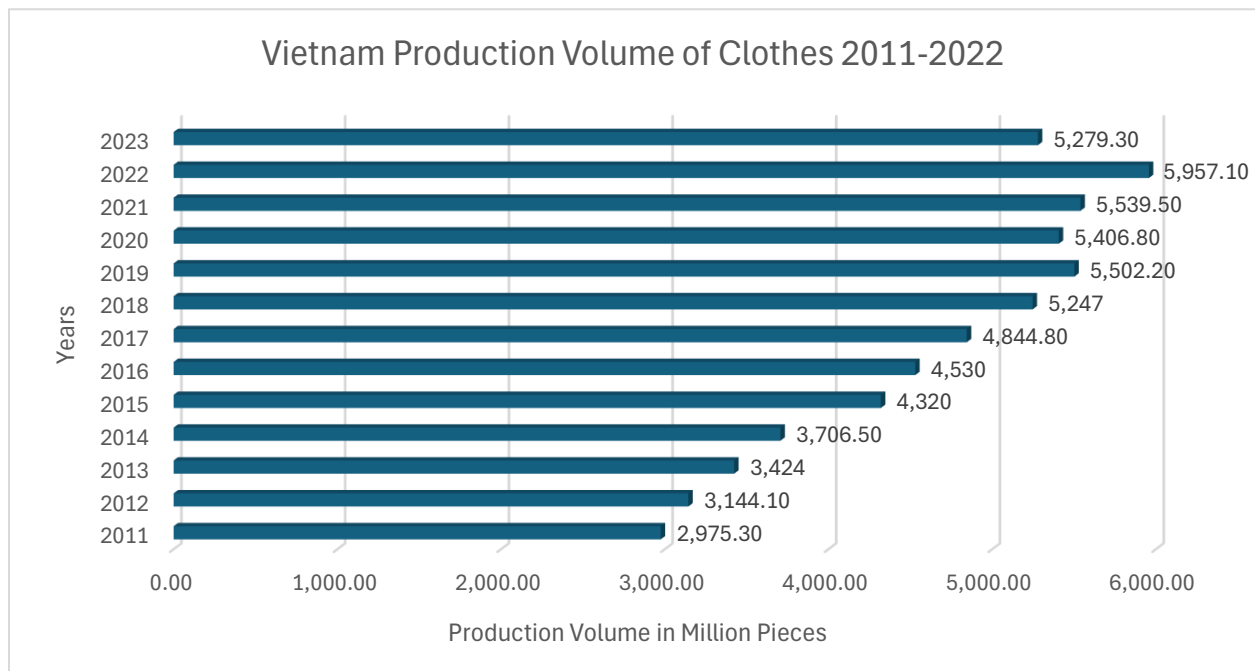
Figure 4: Vietnam Production Volume of Clothes 2011-2022

The production volume of clothes increased from 2975.30 to 5,502.20 million pieces from 2011 to 2019 which showed an 84.9 percent increase in the overall output. This major increase was attributed to the development of textile enterprises which resulted in economic stability, export capital rise and economic protection against the shocks. As per WTO, Vietnam was ranked third among the top 5 largest textile and clothing exporting countries in the world resulting in growing demand from potential markets like Korea and Japan (Tran Thi Van Anh, Tran Minh Tuan, & Ngyyen Xuan Tung, 2022). Due to Covid-19, the Production decreased to 5,406.80 million pieces but it increased to 5,957.10 million pieces in 2022 due to adoption of sustainable practices and establishing local supply chain resulting in increase in global trading. This amounted to 7.4 percent increase. However, in 2023, it decreased to 5,279.30 million pieces due to inflation when major importers of Vietnamese textile such as UK and Europe decreased their demand and the imported raw material prices increased due to which production decreased (Statista, 2024).
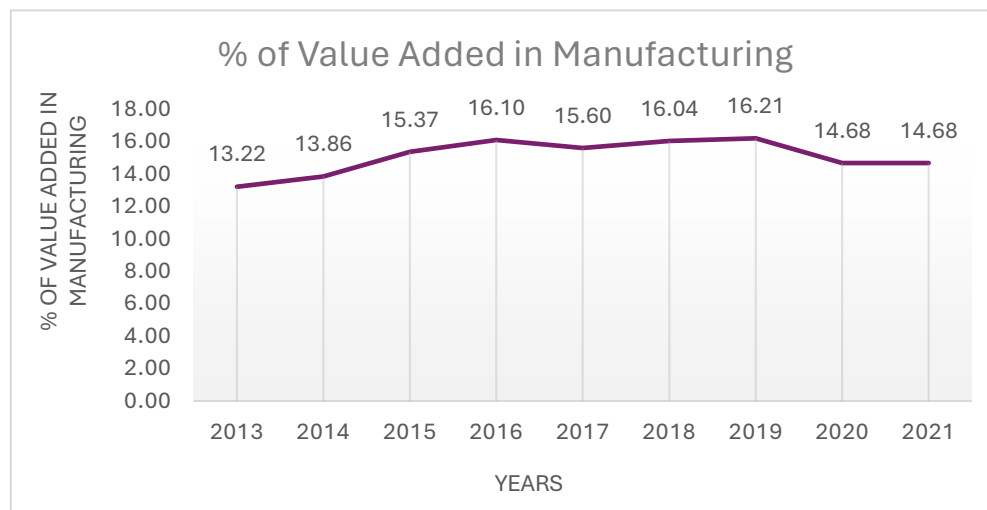
Figure 5: Vietnam Textile % of Value-Added in Manufacturing

The percentage of value added in manufacturing is the percentage of value that a manufacturing process contributes to the final product as compared to the total value of the product. From 2013 to 2021, Vietnam's textile industry showed an upward trend in % value addition in manufacturing. The % increased from 13.22 to 16.10% from 2013 to 2016 mainly due to low labor costs and competitive manufacturing costs. During Covid-19, the percentage decreased from 16.21 to 14.68 % and remained stagnant in 2021 because at this time, the raw materials supply decreased due to restrictions on imports (The World Bank, 2023).
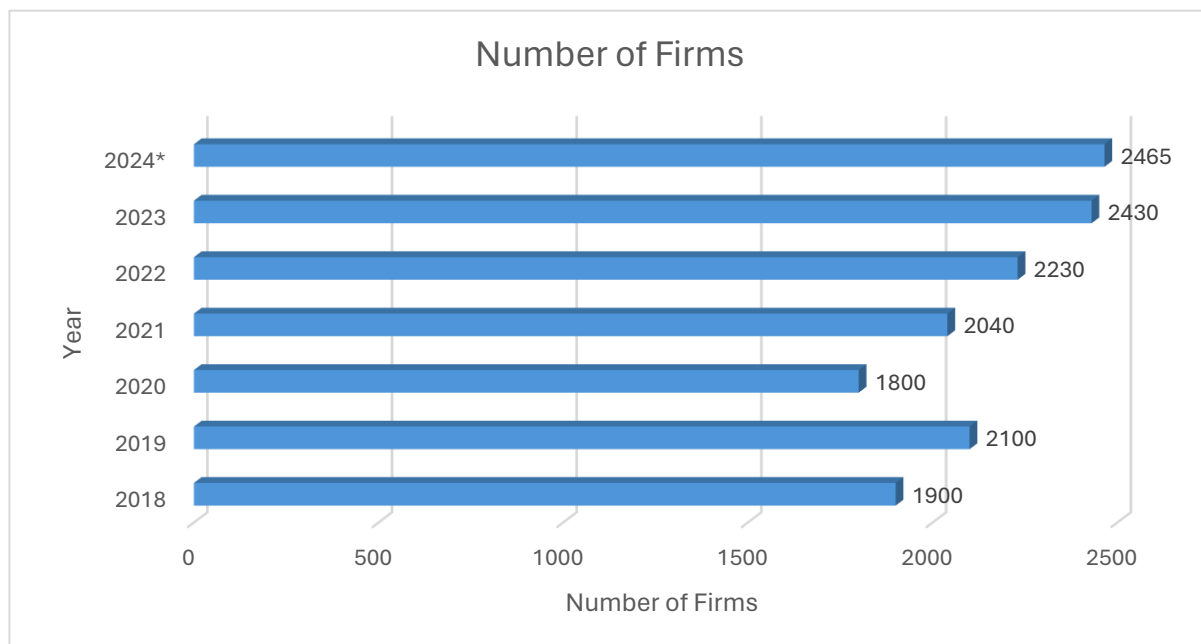
Figure 6: Vietnam Textile Number of Firms

The number of textile firms in Vietnam increased from 2018 to 2019 from 1900 to 2100 but there was a gradual decrease in 2020 when the number of firms decreased to 1800 which amounted to 16.67% decrease because of Covid-19. The restrictions on imports and deficiency in supply chain along with high costs and production halt, many firms exited the industry. From 2021, the number of firms entered the industry when they saw the potential as in 2021, Vietnam began to become one of export leading textile country, so the number of firms increased to 2040 and then to 2430 in 2023 amounting to 35% increase since 2019. It is also expected* that it will increase to 2465 in 2024 (Statista, 2023).

Market Concentration

Consolidated- Market dominated by 1-5 major players

Vietnam Home Textile Market

Fragmented - Highly competitive market without dominant players

Source: Mordor Intelligence
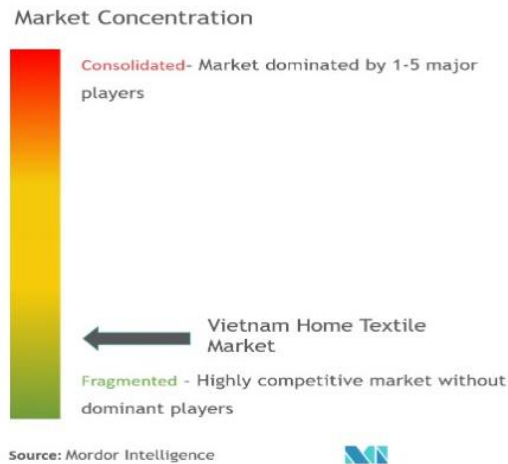
Vietnam's home textile industry is dominated by major players such as Damsan yarntexJSC, Everpia JSC, Gilimex and is a highly competitive market. With technological advancement, small firms are entering the market (Mordor Intelligence, 2024).

Figure 7: Vietnam Home Textile Market Concentration

INDUSTRY TRENDS

China

China's textile industry reigns as the world's largest in terms of production, exports, and retail, with impressive figures including 58 million tons of fiber output annually, textile and garment exports totaling $316 billion, and a retail scale exceeding $672 billion, with significant online retailing. Despite this, recent reports indicate a marginal decline in operating revenue from 2022 and a decrease in textile and garment exports by 8.1% in 2023, although a positive upturn was observed in December 2023, suggesting potential recovery (F.N.Desk, 2024). Within the domestic market, women's wear holds the largest market share (~40%), followed by men's wear (23%) and sportswear (11%), with the sportswear segment showing the highest growth rate (19.5%), indicating substantial future development potential (Eacconsunsulting.de., 2021). These trends illustrate the dynamic landscape of China's textile industry, marked by both impressive achievements and ongoing challenges amidst evolving global economic dynamics.

Vietnam

Vietnam's textile industry is transitioning towards sustainable methods such as using eco-friendly materials and dyes due to international pressure. This concept of sustainable supply chain is still relatively new to the local Vietnamese enterprises (Nayak, Akbari, & Far).Moreover, the Vietnamese textile industry is collectively working towards adopting more advanced technology in their production processes in order to stay competitive in the global textile market (Huynh, 2022). Given the rising local demand of branded and fashionable products, some of the local garment enterprises are focusing on functional upgrading and hence differentiating their products than the rest in the textile market. Value-addition due to branding has allowed the local garment enterprises to charge more premium prices for their products (Goto, 2012).

INDUSTRY CHALLENGES

China

• China's textile industry faces a critical challenge with a shortage of cotton, which is intensified by volatile domestic production and restricted import quotas levied by the government.

• China's textile industry faces a critical labor shortage, notably in key manufacturing regions like Guangdong, impacting its global competitiveness. Factors include the attractiveness of the service sector, restrictive migration policies, and increased demand for labor in other industries (Fiber2Fashion, 2009).

• China also faces challenges due to land scarcity, hindering expansion and competitiveness globally. Environmental concerns, including pollution and resource depletion, necessitate government action and industry restructuring to achieve sustainable growth and mitigate health and environmental risks.

• China also confronts a critical challenge in technological upgrading, marked by low R&D intensity, slow patent conversion, and inadequate investment in informatics inputs. This hampers efficiency gains, prolongs product development cycles, and threatens China's global competitiveness in the textile and clothing trade (Lu, 2015).

Vietnam

China serves as a direct threat to Vietnam's textile industry due to multiple reasons. Since China is one of the largest manufacturing countries in the world, its manufacturing costs are lower than that in Vietnam. Moreover, China benefits from a greater economy of scale in its textile industry compared to Vietnam.

Vietnam's textile industry comprises small and medium enterprises which cannot easily make continuous investments in technology because of the high cost and low investments (Huynh, 2022).

In recent years, there has been a higher pressure from the global market regarding environmental and sustainability concerns and this requires them to put efforts to secure new orders (Nadvi, et al., 2010). The figure depicts the levels of challenges faced by Vietnam's textile industry internally where lack of skilled labor and high costs contributes as the most severe challenges (Nguyen, 2019).

Challenges to Vietnamese Textile and Garment Industry
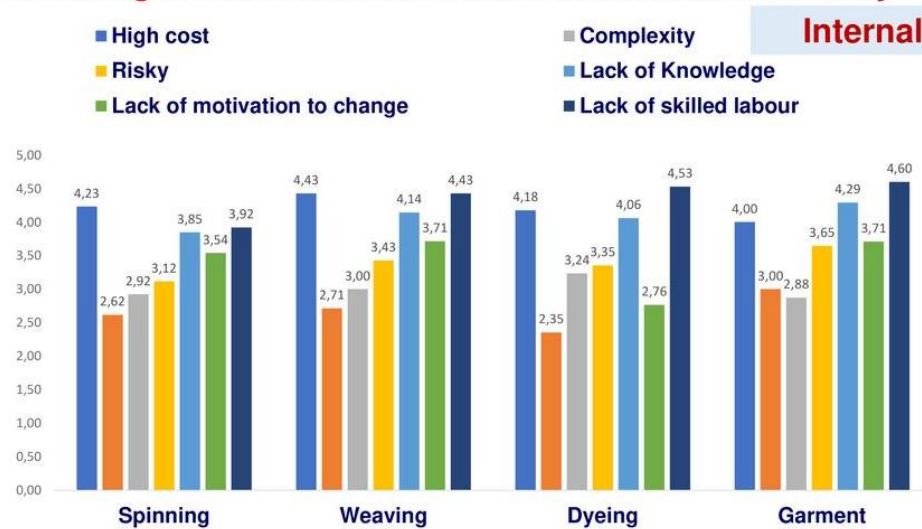
Figure 8: Challenges to Vietnamese Textile and Garment Industry

SALES DISTRIBUTION

China

➢ The fast-fashion market, valued at over 273 billion yuan in 2019, is experiencing rapid growth, with domestic brands competing effectively with international giants. The children's wear market is another bright spot, fueled by a significant rise in birth rates and a growing number of young parents willing to spend money on their kids' clothing. This sector is expected to reach nearly 386 billion yuan by 2023 (The State Council Information Office The People's Republic of China, 2024).
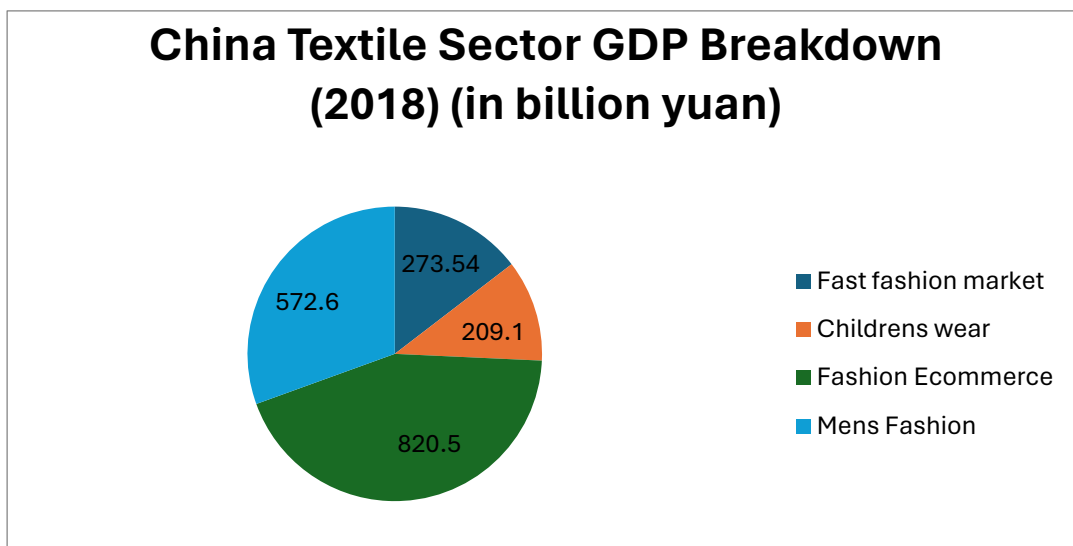

China Textile Sector GDP Breakdown (2018) (in billion yuan)

- Fast fashion market: 273.54
- Childrens wear: 209.1
- Fashion Ecommerce: 820.5
- Mens Fashion: 572.6

Figure 9: China textile Sector GDP share.

13

- The online fashion market surpassed 1 trillion yuan in 2019, showcasing consistent growth over the past few years. Meanwhile, the men's fashion market, though facing saturation, is still evolving with trends like streetwear and gender-neutral styles gaining traction.

Year	Projected Market Size (in US$ dollar)	Growth Rate
2021	268.4	25%
2022	302.4	25%
2023	336.8	25%

Figure 10: China's Textile Market Size and Growth Rate

- China's home textile market is still driven by the rapidly growing bed linen segment. This growth is fueled by promotional efforts and cultural traditions. Domestic players dominate the market and are actively expanding overseas through various means like setting up offices abroad and leveraging online platforms (Fung Business Intelligence, 2015).
- Bed Textiles Dominated the Home textile industry with 10.5% contribution to exports.
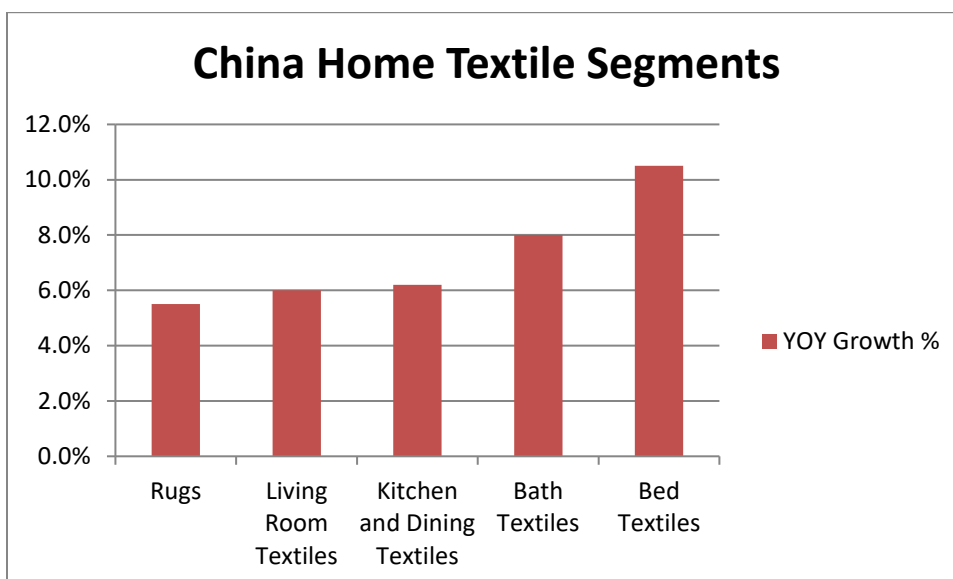
Figure 11: China Home Textile Segments

Vietnam

Vietnam's total value in the production sector has reached about $39.5 billion. Its textile products are exported to more than 180 countries (Statistica, 2024).

- Cotton: Cotton is imported from countries like USA, India, African countries, and Uzbekistan however the production can still only fulfill around 1.63% of the demand. VINATEX is making efforts to increase production of cotton locally.

- Synthetic Fiber: It has invested around US $125 million in polyester production to meet 20%-50% of its demand. As the locals could only meet around 4% of the demand.
- Silk: It has invested around US $125 million in polyester production to meet 20%-50% of its demand. As the locals could only meet around 4% of the demand (Somani, 2023).

Production volume of clothes in Vietnam from 2010 to 2023

(in million pieces)
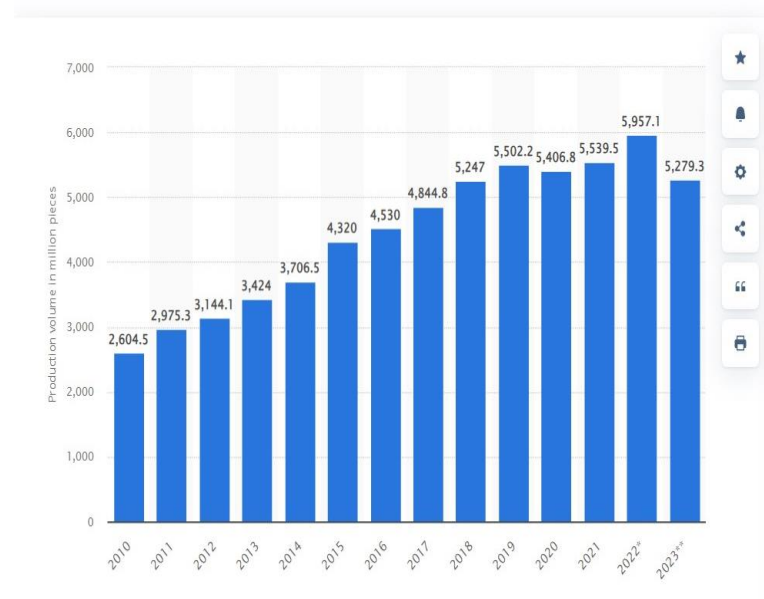
Figure 12: Vietnam Production of all types of clothes

Taxes and Tariffs

China

China implemented provisional import tariffs that are lower than the most-favored-nation (MFN) rates for over a thousand commodities, which includes textile materials. China has specific tariff rate quotas (TRQs) on imports like raw cotton and wool fiber. These TRQs set limits on quantities that can enter at a reduced tariff rate, beyond which higher duties are applied. The general VAT rate in China can be as high as 17%, depending on the product category. While not specific to textiles alone, businesses in China are generally subject to a corporate income tax rate of 25%.

- There has been a decreasing trend in import tariff on textile industry in China from 2019 - 2023 as it decreased from 10% to 3%.
- The VAT rate had an increasing trend as it increased from 16% to 16.4% from 2019-2023 (Dezan Shira & Associates, 2024).
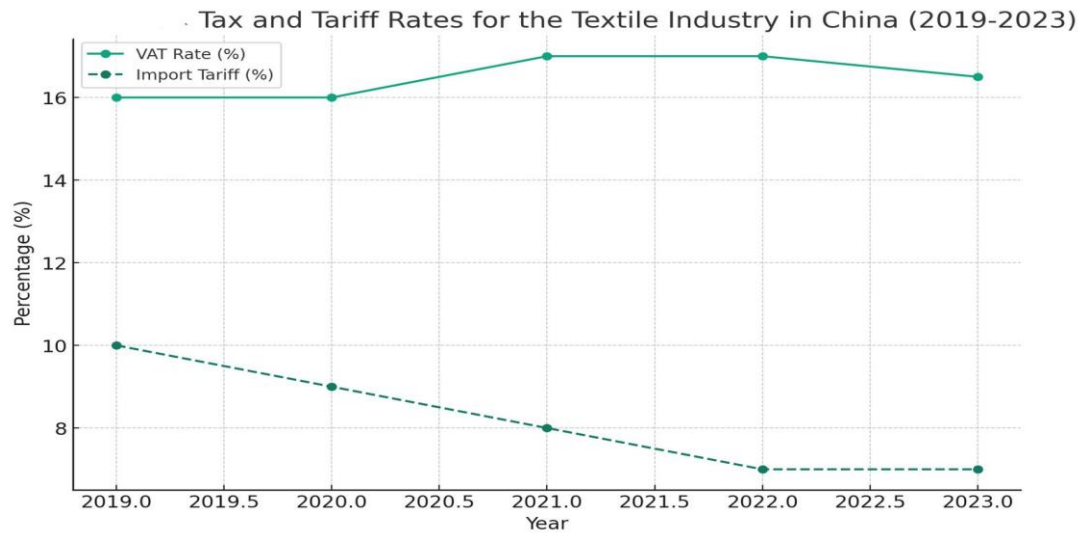
Figure 13: China Textile Taxes and Tariffs Trends

Vietnam

Vietnam's VAT has recently decreased to 8 to 10 percent in 2023 as per government's economic support measure. In recent years, Vietnam has decreased applied tariff rates on textile and other products. The figure shows the average bound and MFN tariff on major textile goods imported from China (TINA, 2022).
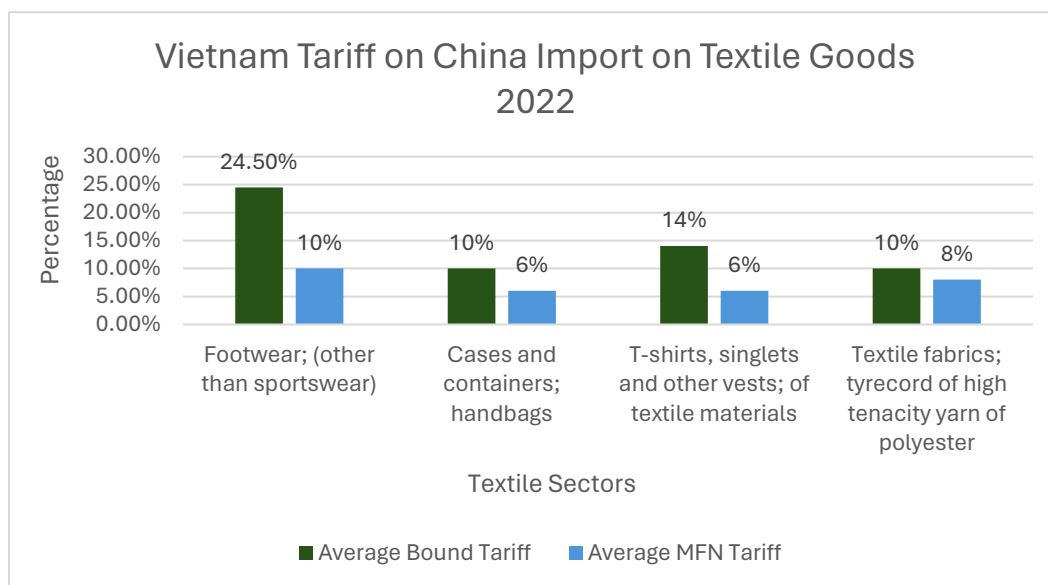
Figure 14: Vietnam Tariff on Chinese Imports of Textile Goods 2022

INTERNATIONAL TRADE

China

China was the world's leading textile exporter in 2020, with net exports of $280 billion. In terms of value, the country accounted for 43.5% of all textile exports globally. In December 2023, China manufactured around 2.77 billion meters of garment fabric. Textile output averaged 2.72 billion meters per month during the last year. As per the exports to the World, it has an increasing trend as the export rose from $257,399,074 to $266,228,192 thousands from 2017 to 2018 due to rise in the quality of Chinese clothes. However, the Covid-19 impacted the World's financial balances due to which demand for exports decreased to $260,341,791 in 2019. The major sectors impacted was home textiles as most of the businesses shut down. However, recovery was done through more designs, incorporating innovation in textile production and it increased to $303,000,000 thousands in 2022 (WITS, 2022).

Figure 15: China's Textile Exports to World

China's textile imports from world had a decreasing trend as it decreased from 2017-2020 from $31,105,205 to $29,333,716 thousands however, it increased in 2021 due to economic recovery from Covid-19 as being a major textile manufacturing hub, it had to meet growing demands so raw material such as yarn, cotton was imported. It fell again in 2022 (WITS, 2022).

China's Textile Imports to World

- 31,105,205.97
- 34,146,391.61
- 32,187,587.78
- 29,333,716.18
- 35,484,304.60
- 27,800,000

Value of imports(US$ Thousands)

Year

Value of Imports (US$ Thousands)

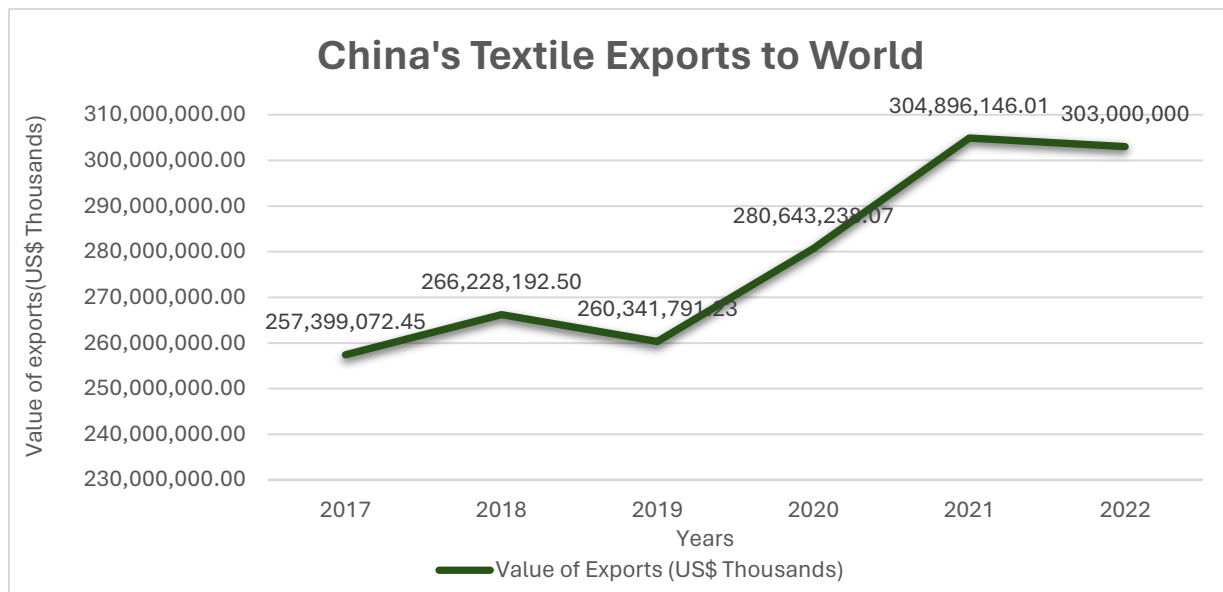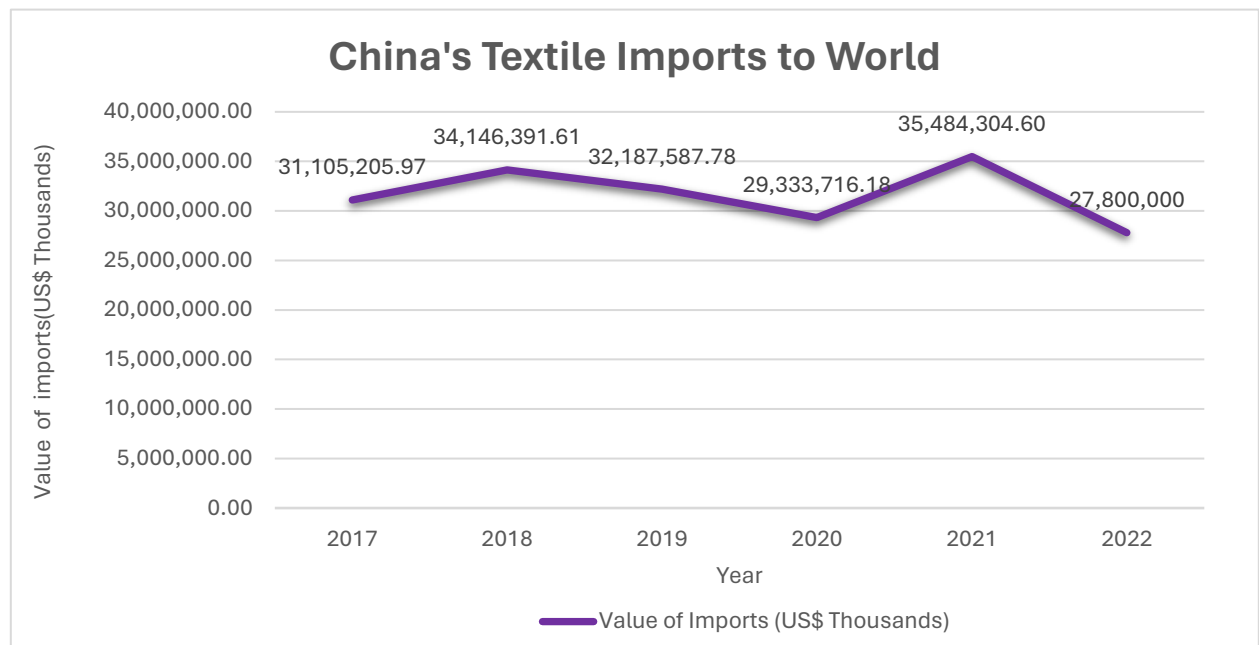Figure 16: China's Textile Imports from World

Vietnam

Textiles are the second biggest export sector for Vietnam after its electronics sector. According to data from the OEC World website, the textile exports of Vietnam contributed 13% to the total exports of $396 Billion ($50 Billion) in the year 2022 (OEC World, 2023). Vietnam is the 150th member of WTO and it has signed trade agreements and pacts with several countries and regions like (CPTPP) with countries such as Canada, Malaysia, Japan etc., bilateral trade agreements with United States, Mexico, Japan etc., and currently Vietnam is negotiating on free trade agreements with the European Free Trade Association countries and Israel as well (International Trade Administration, 2024).

Vietnam's exports have a flat-steady increasing trend with an exception in 2020, where the exports slightly dropped in 2020, due to the pandemic followed by a sharp increase. Exports grew at an average rate of 7.6% percentage from 2017-2022. In Vietnam's textile exports, the prominent categories are knitted clothing, non-knitted clothing, and cotton followed by other categories such as used clothes and textile articles, man-made staple fibers etc (ITC , 2022).
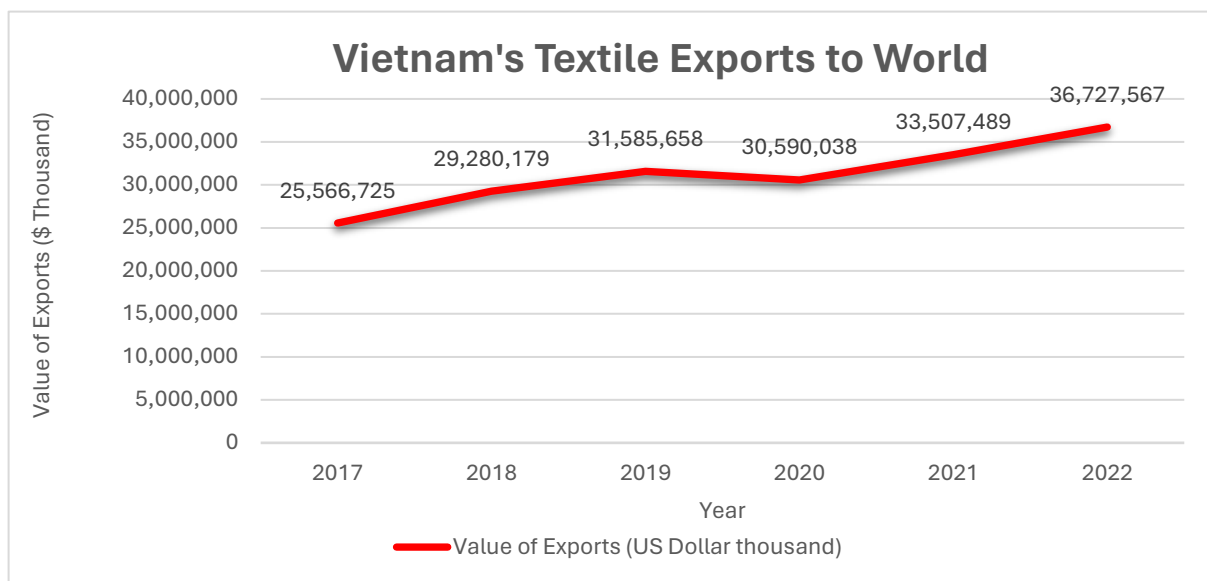
Figure 17: Vietnam's Textile Exports to World

Textile Imports grew at an average rate of 6.66% during 2017-2022. There has been an increasing overall trend of textile imports. Imports grew at a slower rate between 2018-2021 followed by a relatively sharp increase from 2021 to 2022. This shows that the textile industry's imports are also growing at a slower growth rate as compared to electronics and mineral oil and fuel industries. textile imports are knitted clothing, cotton, and man-made filaments, followed by other categories such as silk, non-knitted articles etc. which have a small share in textile imports.
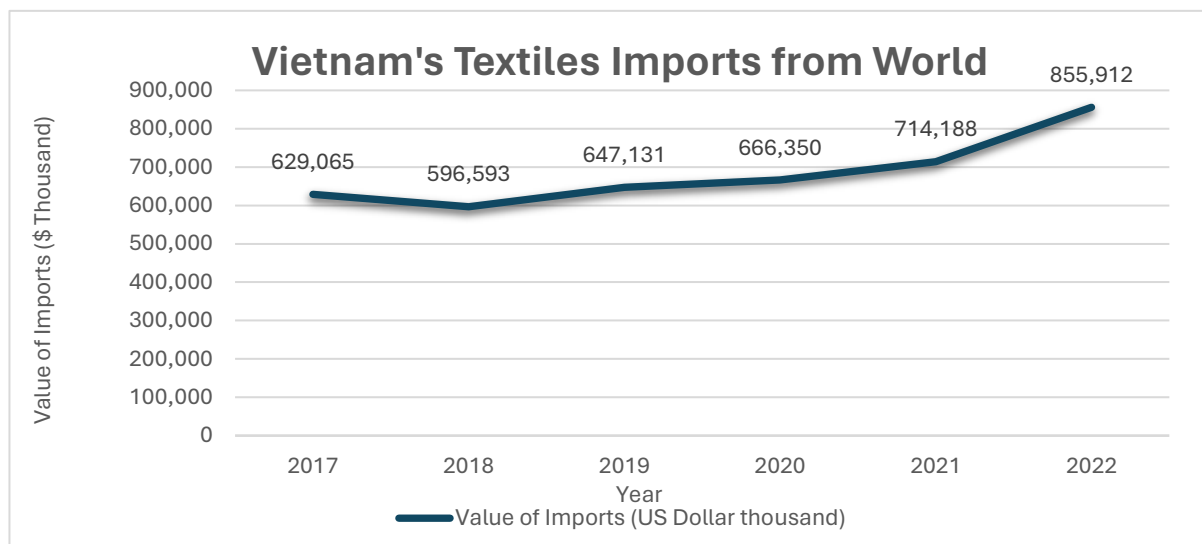
Figure 18: Vietnam's Textile Imports from World *(ITC, 2022)*

GRAVITY MODEL

The Gravity Model explains that the volume of trade between two countries is directly proportional to the size of their economies and inversely proportional to the distance between them.

$$T_{ij} = \frac{A \times Y_i \times Y_j}{D_{ij}}$$

T represents the value of goods traded,

A is the formula's constant term,

Tij is the trade between the countries, i & j,

Yi, Yj is the GDP of country i & j,

Dij is the distance between the 2 countries.

China's strategic geographical location in Asia reduces transportation costs and facilitates trade flows, strengthening its position as a major player in global textile trade. Vietnam has emerged as a significant player in the global textile industry, being an export-driven country with a rapidly growing economy driven by its manufacturing sector (Dong & Truong, 2019).According to data from UN Comtrade and WITS, Vietnam's textile trade with China has shown consistent growth over the past decade. Vietnam has become a key exporter of textiles and garments to China, while also importing various textile products from China to support its domestic industries. China being the 2nd largest economy in the world, China's 3rd largest trading partner is Vietnam. Vietnam and China are in close geographical proximity of 3,420 km so transportation costs and problems related to logistics are not much. China's projects like the BRI (Belt Road Initiative) play a huge role in lowering the impact of trade problems (Chu, Chan, Cheung, & Nguyen, 2019). Free trade agreements help Vietnam promote trade cooperation in textiles with China, since trade policies imposed by both the companies affect their trade patterns (Dong & Truong, 2019).

RICARDIAN MODEL

The Ricardian Model revolves around comparative advantage where two countries specialize in producing specific goods efficiently. As per this model, countries make similar goods with one factor of production and the country which produces surplus of that good or at a lower opportunity cost of another good, that country possess comparative advantage in that good resulting in export to other countries in exchange for other goods.

Fitting this model on China and Vietnam both are two of the dominating textile industry and Vietnam possess abundant labor whereas China has abundant capital. China is a key player on a global scale for cotton production exceeding 6.7 million metric tons world production in 2023. Moreover, the textile exports from China reached 37.6% of world's total export. Meanwhile, Vietnam is largest producer of knitwear accounting for 42.5% of Vietnam's total exports (Somani, 2023) whereas Vietnam's largest exporter of Yarn is China, accounting for 48% of export revenue in 2023 (Duc, 2023).

Vietnam has comparative advantage higher productivity, skilled workforce, dynamic manufacturing, and efficient supply chain. Vietnam exported around $ 4.83 billion knitwear products in 2022 resulting in third largest exporter of knitwear products in the world. The main areas of exporting knitwear of Vietnam are United States, Japan, South Korea, Canada, and China (OEC, 2022).

Figure 19: Vietnam's Textile and Clothing Imports and Exports with China

The textile goods export to China were always less than imports from China which shows a deficit in textile goods of Vietnam with China. In terms of Exports, the exports to China increased from $811,877 to $4,196,032 thousands from 2011 to 2019 showing a 4 percent increase. It decreased in 2020 due to the Covid-19. It increased from 2021-2022. In terms of imports, it increased from $ 3,637,740 to $10,362,139 thousands from 2011 to 2019 amounting to 185% increase. However, due to import restrictions in 2019 in Covid-19, imports fell though, it had a spike increase in 2021 when it reached $12,176,280 thousands but again fell in 2022. (WITS, 2022)

Figure shows that Vietnam's knitwear imports and export destinations. (OEC World, 2023).
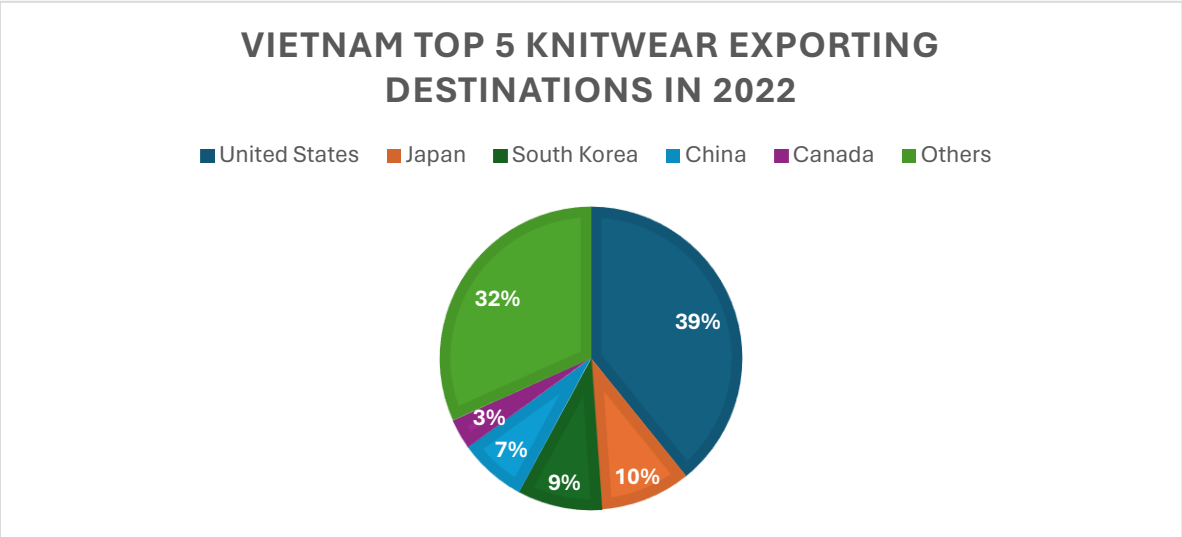
Figure 20: Vietnam's Top 5 exporting destinations in 2022.

Figure 21: Vietnam Top 5 Importing destinations in 2022.

China has a comparative advantage in labor intensive apparels, technology, and innovation advancement. China's most exported good is cotton as it exported $12.2B cotton in 2022.
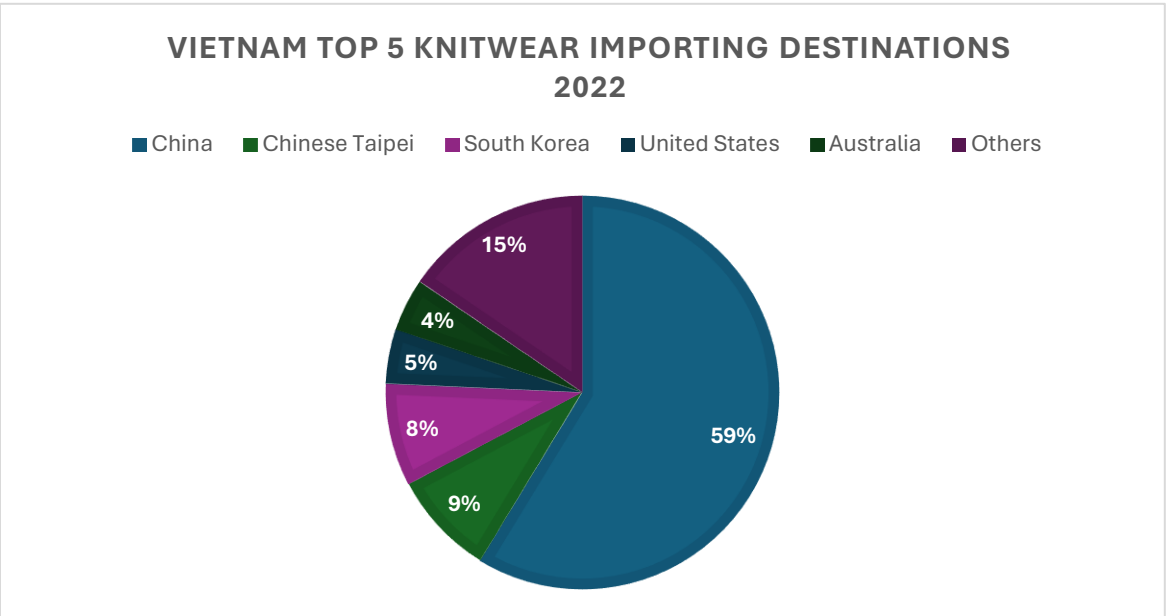
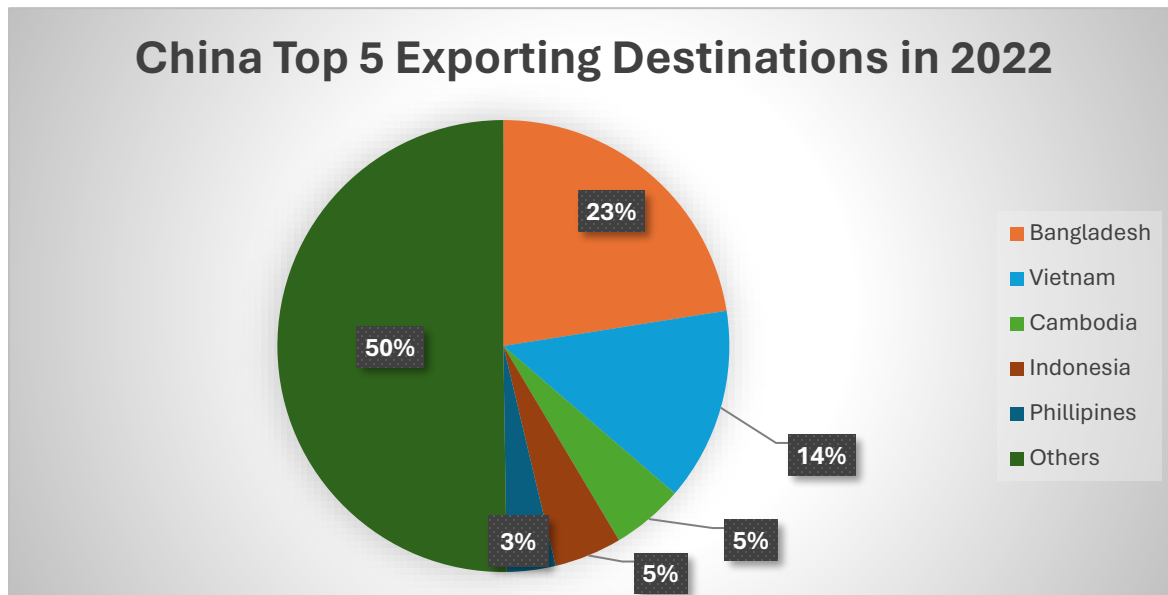Figures show China's Cotton exports and imports destinations. (OEC World, 2023)

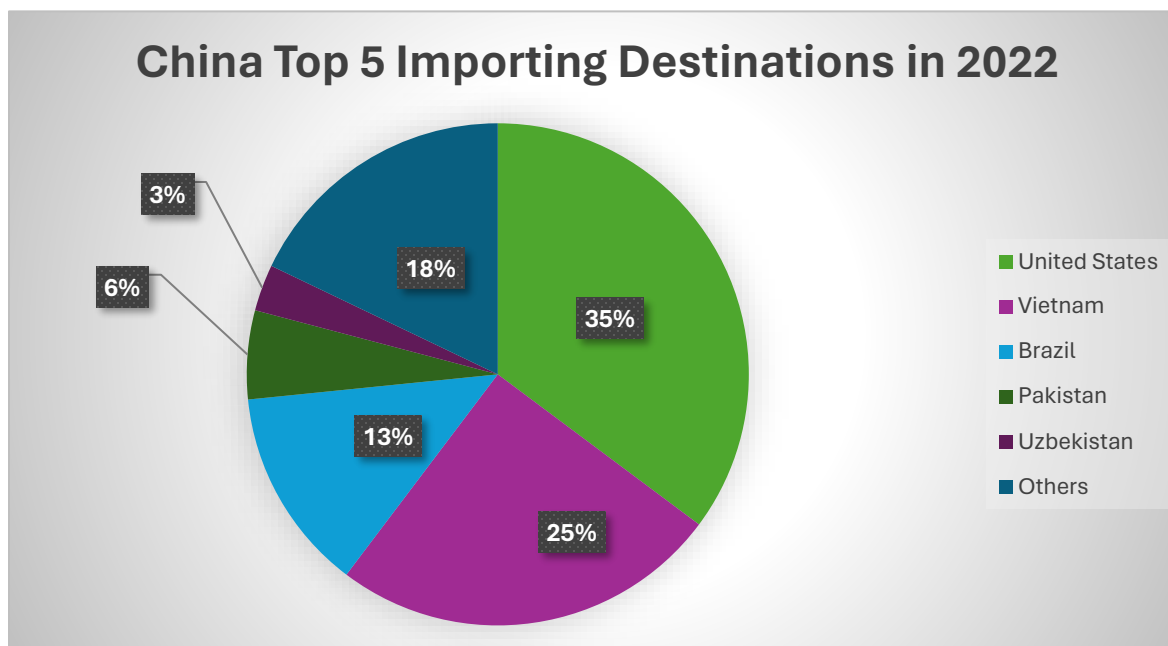Figure 22: China Top 5 Exporting Destinations in 2022

Figure 23: China Top 5 Importing Destinations in 2022

SPECIFIC FACTOR MODEL

The Specific Factors Model, an evolution of the Ricardian model, integrates additional layers of complexity by acknowledging the presence of industry-specific, immobile production factors within countries. This analytical framework is particularly potent when dissecting industries like textiles, where specific factors can significantly influence international trade dynamics.

The Assumptions are there are two countries, each with two factors, the specific factor is relatively abundant in each country, two countries produce only two goods, and each good is produced using the factors of production, and no transportation costs or other barriers of trade.

China

China's textile industry employed approximately 7.9 million people directly, with millions more in ancillary roles, showcasing an extensive, skilled labor force adept in various textile manufacturing disciplines (China National Textile and Apparel Council, 2023). The country's textile sector is also renowned for its technological prowess, with substantial investments in automation and smart manufacturing. In 2022, textile machinery imports and domestic production combined reached a market value exceeding $15 billion, reflecting the sector's technological investment intensity (Ministry of Industry and Information Technology of China, 2023) (International Trade Administration, 2022). China's textile industry's robustness aligns perfectly with the Specific Factors Model, where specific: immobile factors like skilled labor, and advanced technology.

Vietnam

Vietnam it can be studies that the country is heavily dependent on labor. It's a competitive labor-intensive industry and has employed 3 million employees. Thus, the availability of affordable labor would compel more manufacturers. Along with that capital investment is also a crucial need. The more access to capital the better the production facilities like machinery investment. Vietnam has great amount of skilled and unskilled labor force and most of the goods are made by labor rather machinery. The synthetic textile contributes greatly to the exports of Vietnam. Vietnamese government has made efforts to make sustainable and environmental policies which contributes to meeting the world quality standards and it has resulted in improving waste management, energy efficiency, and quality controls thus benefitting from open trade. Moreover, suitable climate and natural resources have contributed to production of cotton and natural fiber (Vietnam Plus - Business, 2023). Vietnam is the second largest garment exporter in the world, supplying 6.4% of the world's apparel exports. Their main export market is the USA amounting to almost 16 billion U.S. dollars (Marshall, 2022).

HECKSHER OHLIN MODEL

This model states that each country exports the goods that it produces relatively better than the other country because there are differences in comparative advantage which results from differences in factor abundance and intensity of goods.

China

As of the latest data, China accounts for approximately 30% of the global textile exports, underscoring its dominance in the sector. This export capacity is underpinned by the country's vast labor force to produce textiles at a scale and at a cost that few countries can compete with. Moreover, the government's support in terms of policies and subsidies has further bolstered the industry, enhancing China's competitive advantage in accordance with the model's predictions. China's textile sector

Figure 24: Vietnam's Most Specialized

has benefited immensely from its labor abundance, making textiles one of the country's hallmark exports. This industry not only serves as a testament to China's alignment.

with the Heckscher-Ohlin model but also highlights the dynamic nature of comparative advantages as they evolve over time (Baiardi & Bianchi , 2019).

Vietnam

Vietnam was a low-skilled labor abundant country, but it transitioned its production structure towards manufacturing and capital-intensive goods and high skilled labor. There has been a shift in comparative advantage due to a change in resource allocation of a country. Textile production requires relatively less capital-intensive production compared to telephones.

Due to the shift towards capital intensive production, telephones are more specialized than textile goods, and have a high export volume. The textile industry has benefitted from an increase in capital and has more specialized products under its portfolio after electronics. Hence, it is the second largest export-oriented industry in Vietnam. The Hecksher-Ohlin model is successful in explaining how trade in Vietnam is based due to the evidence provided above (Le, 2023).

STANDARD TRADE MODEL

It is based on the idea of comparative advantage, which states that nations with lower opportunity costs than others may specialize in manufacturing products and services. This model has the following assumptions: perfect competition, constant costs, customer preferences that are the same, and the absence of trade restrictions like tariffs or high shipping costs. It is anticipated that in these circumstances, nations will specialize on products that play to their advantages, resulting in productive production and trade benefits.

This economic model explains trade patterns based on a nation's relative factor abundance. In China's case, the key factor is its massive, affordable labor force and technological machines resulting in efficiency. Textile production is inherently labor-intensive, requiring significant human input for tasks like weaving, dyeing, and garment assembly. China's abundance of low-

cost labor along with technological advancement gives it a massive edge over countries with smaller or more expensive workforces and traditional ways. The Standard Trade Model predicts that this abundance of capital translates to China becoming a net exporter of textiles.
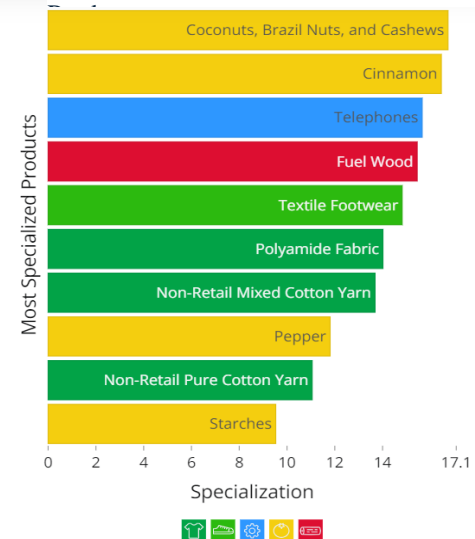
In a study of Kawamura, he puts forward the fact that Vietnam has changed its export structure from low value-added goods to high value-added goods (A.Kawamura, 2023). Vietnam entered into trade agreements and further opened it economy by 2009, the patterns of trade changed pivoted towards value added goods, in textile industry and others as well.

According to Briefing (2023), Vietnam's prime activities in textiles are cut-make-trim, this activity requires low capital and accounts for around 70% of their total output of their domestic manufacturing and garment production while advanced manufacturing models comprises of 30%. Despite labor abundance, Vietnam imports raw cotton as an input and exports high value-added textile goods which have some or more degree of capital involvement. This implies that due to abundance of labor (both skilled and unskilled), untapped potential in cotton cultivation, free trade agreements in textile industry, and having adequate amounts of capital, the textile industry in Vietnam thrives and presents wealth creation opportunities for Vietnam's textile export sector and for foreign firms as well (V.Briefing, 2023).

POLICIES - FREE TRADE AND PROTECTIONISM

FREE TRADE

China

China has implemented several free trade policies in the textile industry. One key policy is the establishment of Special Economic Zones (SEZs) like Shenzhen, where foreign companies can operate with fewer restrictions. China also joined the World Trade Organization (WTO) in 2001, which led to the reduction of tariffs on textile imports. According to the WTO (Dorsey, 2013), China's average applied tariff rate on textiles was 6.3% in 2019, down from 32.8% in 2001. This indicates a significant decrease in trade barriers. SEZs tend to increase income inequality, raise environmental concerns, and present violators of labor rights and land ownership. At the same time, China's accession to the WTO in 2001 led to a rapid increase in textile exports, market share, and competitiveness.

Additionally, China has entered into numerous bilateral and regional trade agreements, such as the ASEAN-China Free Trade Agreement and the China-Pakistan Free Trade Agreement, which have further facilitated trade in textiles (Yin, 2004). For example, under the ASEAN-China Free Trade Agreement, tariffs on textile products between China and ASEAN countries have been gradually reduced or eliminated (Uroos, 2022).

The free trade agreement between ASEAN and China contributed to increased trade, investment, and economic growth between the involved parties. However, it has also created several challenges, including increased competition, employment dislocation, the need for standard harmonization, and environmental sustainability (Tse, 2016).

Furthermore, China has implemented export tax rebates to promote its textile exports. For instance, in 2020, China provided export tax rebates ranging from 5% to 13% for various textile products, including textiles, apparel, and footwear.

Vietnam

Vietnam's economy has thrived due to export-led industrialization. Vietnam joined World Trade Organization (WTO) in 2007 to get access to the global markets and to reinforce strong commitments domestically. According Cling, Ali Marouani, Razafindrakoto, Robilliard, and Roubaud (2009), Vietnam's started reducing its tariff rates more than a decade before its accession to WTO by 5.9 percentage points (from 23.3% to 17.4%). The effective tariff rates and effective rate of protection for industry decreased by 33.3 percentage points and 77.6 percentage points respectively (Cling et al., 2009)

US lifted trade embargo on Vietnam in 1994 which led Vietnam entering into various trade agreements for its economic growth and to connect with the international markets. Vietnam became a full member of ASEAN (Association of South-East Asian Nations) in 1995 under which its members cooperate in terms related to economics and peace. Then it became member of AFTA (Asia Free Trade Agreement) which monitors trade within ASEAN countries, and ACFTA (ASEAN-China Free Trade Area) which aimed to the deepening of the continent's economic integration. Vietnam also signed a bilateral trade agreement with US in 2002.

In 2019, Vietnam has extended its reach to 10 countries such as Canada, Australia, Mexico etc. by signing CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific) and by 2022 it was a member of RCEP (Regional Comprehensive Economic Partnership) with the countries that exists in the same region.

When the economy started to liberalize in 2007, quotas were lifted on Vietnam's textile and apparels after which Vietnam became the second largest importer of textiles after China for US. The tariff exemption measures were eradicated which were against regulations of WTO. Vietnam was given the MFN (Most Favored Nation) status and market access.

As a result of free trade, there has been an increase in FDI inflows and the sectoral contribution towards GDP has changed significantly as the share of agriculture has halved as compared to the industry's share which has doubled (Cling et al., 2009). This implies that the employment structure has also changed over the years as more workers are in the industrial sector as compared to agriculture. Moreover, there has been an increase in urban and rural real wage rates which means that there is a sharp drop in poverty from 58.1% in 1993 to 16% in 2006 and food poverty (Cling et al., 2009). Now Vietnamese people have a greater access to a variety of products at competitive prices.

However, there is another side of the story as well. Although the employment has increased due to trade, but only 26% of the workforce in Vietnam is trained and this has caused skilled labor shortages for the firms and increased inequality within the country (Chieu, 2024). It means that having cheap labor is a competitive edge for Vietnam and a problem as well. Although signing

17 FTAs (2 yet to be implemented) are beneficial for Vietnam, but it has raised concerns and lawsuits for Vietnam to be involved in dumping activities.

PROTECTIONISM

China

Now China has been going back and forth in implementing pro and anti-protectionist policies in their textile industry. In 2019, in retaliation to US imposition of tariff on Chinese textile goods, China imposed an additional tariff of 10% on $19.5 million worth US textile and apparel products, but it was abolished due to China and US "One Phase" deal. Though, it heavily impacted the Chinese firms who were dependent on the US textile products (International Trade Administration, 2021).

Moreover, in 2018, the tariffs were raised by both US and China on imported Cotton which raised the cost of production in China and disrupted the global value supply chain of China. The additional 25% Chinese import tariffs on U.S. raw cotton resulted in a 26% tariff for in-quota. U.S. cotton and 65% tariff for out-of-quota U.S. cotton. China also implemented tariffs targeting U.S. textiles and apparel.

From 2019-2020, China maintained tariff rate quotas (TRQs) for imports of raw cotton and wool fiber that limit the amount of these commodities that can enter at a lower "in quota" tariff rate. Any imports over that quantity are charged a higher duty. At the end of each year, the SCTC announces China's TRQs to be applied the next year (International Trade Administration, 2021).

After entering to WTO formally in 2001, import tariff on textiles were four times greater than average tariff in USA, 10% in EU and 8.5% in Japan with tariff escalation, which disrupted the well manufactured products cost and price. Since China was new in WTO but still there were some tariff wars with countries such as US, and Japan therefore, to protect their domestic industries, China implemented tariffs (Ma, 2010).

Due to China being a large economy, the WTO had to introduce new types of non-tariff barriers. After the entrance in WTO, China had implemented strict quality control barriers which makes it difficult for the foreign textile products to enter the market (Zhang & Han, 2008). When the quality standards are not met, the items are returned. Moreover, the exporters of other countries had to get a quality license which was difficult to obtain.

Vietnam

Before 2000s, Vietnam adopted pro-protectionist policies in their textile industry which included high tariff and import substitution in manufacturing sector under strict pro-protectionist policy regime. Moreover, the import bias policies were implemented on upstream textile activities and garments like cotton, silk, and certain fabrics. These protectionist policies were implemented to protect the local industry and Vietnamese companies which had potential.

Vietnamese Fiber holds great potential in textile industry therefore, in 1966 the Ministry of Industry and Trade increased the import tariff from 0% to 2%. The local fiber was struggling to compete the international fiber products therefore tariff was increased. However, the local fiber

companies which were heavily dependent on fiber import faced an increased cost of production which resulted in local fiber companies struggling to meet the demand (Thuận, 2017).

Moreover, Vietnam had to import textile printing machines which held a substantial amount in import bill resulting in higher import bill due to which the government implemented a policy that directors of the company who want to import printing machine must have college degree or higher printing in order to get import license which constrained most of the companies to adopt latest technology printing machine which could have boosted production (Thuận, 2017).

Another example of such a policy is Special Preferential Import Tariff (SPIT), which was a method adopted to shield its domestic industries from foreign competition, support national goals aid foster economic growth.

Furthermore, not only prior to 2000s but also after 2000s, in some years, Vietnam imposed protectionist policies in textile industry such as Vietnam heavily rely on Cotton import therefore, along with agricultural products, Vietnam imposed TRQ (Tariff Rate Quotas) which constrained its quantity imported (Athukorala, 2006).

POLICIES RECOMMENDATION

China – Free Trade and Protectionism

As China continues to assert itself as a major player in the global marketplace, it is crucial for the nation to enhance and refine its trade policies to promote not only economic growth but also ensure equitable and sustainable practices in international trade. The first step in this strategic enhancement would be to further reduce trade barriers. By lowering tariffs and simplifying customs procedures, China can make it easier for both domestic and international businesses to engage in trade, boosting the economy and fostering global relationships.

Expanding the scope and number of Free Trade Zones (FTZs) is another tactic that could prove beneficial. These zones act as testing grounds for new economic policies and offer incentives that attract foreign investment while minimizing bureaucratic interference.

Intellectual property rights are also a pivotal area for improvement. Strengthening these rights will protect innovators and attract new business ventures, particularly from technology sectors, where proprietary knowledge is a key asset. Robust legal frameworks for IP protection reassure foreign investors and domestic creators alike, contributing to a stable and reliable business environment.

Transparency and adherence to international norms are essential for building and maintaining trust with trade partners. Regular updates on policy changes and economic developments can help create a predictable environment that foreign businesses find attractive. This transparency extends to actively participating in international forums and trade organizations, which can facilitate smoother negotiations and foster mutual understanding on trade issues.

Investing in technological advancements such as blockchain and artificial intelligence along with human capital to increase productivity can also enhance trade facilitation. These technologies offer secure and efficient mechanisms for tracking transactions and managing complex supply chains, making trade more efficient and less susceptible to fraud.

In the protectionist era in China's textile industry, its salient to have policy recommendation that would align with the need for protectionism along with sustainability. China can start with implementing trade barriers and targeted tariffs to protect its industry from discriminatory practices. This can play a major role in safeguarding share of market along with giving more exposure to domestic producers and discriminating against unfair practices (YUAN, 2007).

The country should also aspire to focus on ecological friendly methods which would help sustain the environment by reducing waste and using renewable energy resources. This would not only help China play a vital role in global sustainability but would also elevate its status in the Textile market (Chen-ke Xu, 2019).

China can reciprocate to the protectionist era in its textile industry in a sustainable and innovative way. China can overcome the barriers along with playing an important role in global sustainability.

Vietnam – Free Trade and Protectionism

Similarly, Vietnam can increase the competitiveness and sustainability in their textile industry by implementing targeted tariffs. This proactive approach will allow them to promote domestic textile SMEs from large-scale international competitors. Strategies adopted by foreign competitors such as dumping would then be neutralized, giving a better incentive to local manufacturers to expand their activities. Setting up targeted tariffs on countries from whom they import the most textile from (China, South Korea & USA) would also increase the government's revenue. This revenue can be vital to implement the next course of action: to promote investment and innovation in Vietnam's textile industry through the means of supportive measures and incentives.

The government can provide subsidies, grants, and loan guarantees to local manufacturers in an attempt to increase their market size. These tools will act as incentives to the current market players to further strengthen their position in the market and will also incentivize new players to enter, which will help in boosting innovation as more people try to gain market share.

To make sure their manufacturers act according to the government's goal, they should promote domestic value addition in the textile industry by mandating a high local content requirement for textile products. Policy tailored to this mindset will ensure that the market does not end up proliferating cheap goods which would protect their intrinsic value. This will allow the market to focus on value creation rather than being reliant on other countries for sourcing and development. Furthermore, this would encourage them to advance in their process and assembly techniques.

Vietnamese government should now shift its focus on investing more on capacity building rather than trade, because there is a shortage of skilled labor in Vietnam. When firms would increase

production, it is easy to hire low skill workers as compared to skilled labor for the Vietnamese firms. Moreover, the government should focus on building technical colleges and good educational institutes to overcome this problem otherwise Vietnam will lose its competitiveness if the skilled people keep leaving the country for better opportunities and surplus labor is not put into good use.

The government should take steps for sustainable industrialization because it poses a threat for the agricultural lands in Vietnam by introducing laws that protect the lands and its strict implementation as the agricultural sector is vital for the country's trade balance and has high productivity as the export turnover of the whole industry is over US$53.22 billion (Briefing, 2023). The government should invest in research and development and, introducing incentives and support programs to produce good quality cotton as Vietnam is not able to produce good quality cotton because of its changing climatic conditions due to global warming.

Lastly, properly planning its infrastructure is crucial for Vietnam because projects have been planned in disregard due to fast emergence of industrial sectors. Although investment in infrastructure is 10% of their GDP but this approach is not sustainable. Therefore, Vietnam should focus on few planned projects rather than diverting their resources everywhere without planning. In addition, the government should work on their transport and electricity infrastructure which has been the weakest despite so much support by the government in Vietnam's infrastructure by improving technology, introducing deregulation in this sector and management of resources.

CONLCUSION

After analyzing the textile industry of China and Vietnam, its policies in Protectionist and Free Trade Era, it can be fairly concluded that China and Vietnam are textile dominating firms therefore, it is best for both of the countries to stick to the free trade policies since the value of exports increased in free trade. The relationship between countries improves and the cost of trade decreases. Moreover, China trades with Vietnam on a large scale so its mutually beneficial for them to adopt free trade.

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