

SOME SOLUTIONS TO PROMOTE VIETNAM'S PARTICIPATION INTO GLOBAL VALUE CHAINS

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Abstract: *Based on the synthesis of existing studies on the role of global value chains (GVCs) in developing countries socio-economic development and analysis of Vietnam's current situation in global GVCs. With a systematic approach, the article proposes essential solutions to sustainably promote Vietnam's participation in global GVCs. Research shows that participation in global GVCs plays an important role in the socio-economic development of developing countries like Vietnam. Despite many successes, Vietnam is still at the bottom of global GVCs. To promote participation in global GVCs, Vietnam needs to take a systematic approach, focusing on inclusivity and sustainability, with an emphasis on the improvement of the capacity of enterprises to comply with quality standards, investment promotion, industrial clusters and export alliances development, knowledge exchange and learning networks development, greening of value chains and social justice in the development of GVCs.*

Keywords: *Global value chain, participation, socio-economic development, solutions.*

I. Introduction

The development of global GVCs opens up great opportunities for developing countries like Vietnam to participate in the world economy, and absorb knowledge and technology, thereby creating added value for its products. However, the development of global GVCs can make domestic enterprises that lack financial capacity and support from multinational companies and the government be left out of the game. Furthermore, when

participating in global GVCs, developing countries may face a major risk: forever stagnating in low-value-added positions in GVCs, with limited opportunities to learn and to upgrade. Besides, the benefits gained from participating in global GVCs depend heavily on factors related to competitiveness, market power and income distribution policies. Thus, when participating in global GVCs, developing countries need to consider broad, overarching public policy objectives such

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as the quantity and quality of jobs created, spillover effects radiating to other areas, environmental impacts, etc.

In that context, based on the synthesis of existing studies on the role of global GVCs in the socio-economic development of developing countries and based on the analysis of the current state of Vietnam in the GVCs, with a systematic approach, the article proposes basic, overall solutions to promote Vietnam's participation into global GVCs sustainably.

II. Theoretical Background

2.1. The concept of GVC

There are four main interpretations of GVCs. First, a GVC is a set of activities that add value. For example, Kaplinsky and Morris (2001, p. 4) define a GVC as “the set of activities required to bring a product or service from conception, through production, to the delivery to the final consumers and the disposal after the expiry date.” Second, GVCs are associative arrays. For example, Webber and Labaste (2010) consider a GVC as a mutually beneficial link between businesses that help businesses take advantage of market opportunities. Third, a GVC is a network or a system. For example, Jeannet (2006, p. 23) describes a GVC as a system that “includes all industry participants, connected in a sequentially increasing GVC, from raw material producer to wholesaler, retailers and customers, and in some cases recycling.” Fourth, GVCs are cycles. For example, UNIDO (2013) argues that the greening potential of a category can be determined only if the GVC of that industry, from production to consumption, with a particular focus

on resource use, waste management and recycling, be considered.

The positive approach to GVC analysis usually focuses on four aspects: 1) Input-output structure; 2) Geographical distribution; 3) The role of leading companies or intermediaries, suppliers, and powerful traders that govern the chain; and 4) Institutional context in international, regional and national levels. The normative approach to GVC analysis often focuses on what needs to be changed to improve GVC performance.

Effective use of the results of empirical and normative analysis of GVCs takes work. Therefore, to develop GVCs, it is necessary to be aware of the systematic nature of GVC development and to monitor and control the impact of GVCs on different objectives. According to UNIDO (2011), a comprehensive GVC analysis must cover a specific set of aspects, focusing on all segments of GVCs and a range of issues across the entire GVCs, including administrative and financial aspects.

2.2. Approaches in Value Chain Development

The article focuses on the development aspect of GVCs in industrial development. There are five basic approaches in this direction.

First, Business Management. The typical works of Porter (1985, 1990) build two important foundations for the concept of GVCs. Porter distinguishes between the different stages of the production process, including inbound logistics, enterprise operations, outbound logistics, marketing and sales, and support services.

Such division of stages is developed from the perspective of an individual enterprise, considering the backward and forward linkages of enterprises in the production chain. Porter explores how to create values in a system of various interconnections. According to Porter, a company's performance depends on how it manages its supply relationships, how these relationships are embedded in the overall structure of the GVC, and how it is organized, the GVC's category, and the ability of the whole chain. Therefore, the industrial system and the way industrial activities are organized are the decisive factors for developing enterprises and the entire related industry.

Second, Industrial Clusters Development. Industrial clusters are geographical concentrations of interconnected businesses that produce goods or services in similar ways and types. The industrial cluster analysis method examines the linkages between geographically concentrated enterprises (cross-linkage) and the relations between these enterprises and enterprises and organizations in other segments of the GVC (vertical link). Developing industrial clusters often involves assisting business clusters to improve their business operations, strengthen connections with suppliers and buyers, and create systemic capabilities based on information exchange, learning and innovation, similar to those in GVC development. USAID (United States Agency for International Development) (2008) argues that the industrial cluster approach will help overcome the limitations of GVCs, especially those

that require a change in the content of the relationships of related parties.

Third, Administration and Upgrading in GVCs. Gereffi et al. (2001) mark the shift from analysis at the enterprise level to analysis at the level of enterprise organizational networks and supporting institutions in GVCs. At the heart of this approach are the GVC governance structure and the conditions under which suppliers can participate and upgrade in GVCs. Upgrading is understood as improving the productivity and competitiveness of enterprises through strengthening management capacity and technology to bring enterprises into GVCs. In global GVCs, certain "players" can impose contract conditions on other players. Companies that lead GVCs often enjoy a higher share of added values due to their ownership of established brands, proprietary technology or access to exclusive information about markets and products. Therefore, one of the focuses in research on GVCs is asymmetric power relations and barriers for manufacturers in developing countries in their efforts to become suppliers in GVCs.

Fourth, Statistical Methods. A significant contribution of research on GVCs has been the introduction of statistical and measurement methods specific to the field. International organizations such as OECD (Organization for Economic Cooperation and Development), UNCTAD (United Nations Conference on Trade and Development), UNIDO and the WTO (World Trade Organization) analyze international trade data and interpret how these data reflect the real values created by companies and countries. For example,

the WTO, in collaboration with UNCTAD and the OECD, prepared a report for the G-20 Summit in 2013, arguing that GVCs have become a prominent feature of world trade and investment, bringing about new prospects for growth, development and job creation (OECD, WTO and UNCTAD, 2013).

Fifth, Innovative Systems. The innovative systems approach implies that system competitiveness, access to knowledge and technology, depends on the firm's ability to innovate. Engaging actors in GVCs requires technology upgrading, research & development (R&D) and learning. This approach focuses on building individual capacity and collective empowerment of actors in GVCs, building knowledge exchange networks and developing technology as well as institutional and policy frameworks to create a favourable environment for actors in GVCs to innovate and apply innovation initiatives (WB, 2012).

2.3. The Role of GVCs for Developing Countries

As the integration level of the global economy increases, GVCs offer more and more opportunities for developing countries to integrate into the world economy and promote economic growth. Emerging markets play an increasingly important and diverse role in GVCs, as world manufacturing operations are shifting from North America and Europe to developing regions.

Although GVCs may make manufacturers in developing countries more vulnerable to interference from global players and foreign competition,

developing countries only have a few options beyond developing the right strategies to make the best of that fact. As Altenburg (2007) points out, the real question for developing countries is not whether to participate in GVCs but how to participate in GVCs. GVCs have become key players in shaping the development strategies and programs of countries and multinational organizations, with a balanced approach focusing on the ability for competition, inclusiveness and sustainability

III. Methodology

The article applies a systematic approach in the analysis GVCs to clarify aspects that need attention in promoting the participation of a developing country like Vietnam in GVCs.

To clarify the status of Vietnam's participation in GVCs, the article uses the results of a case study on the involvement of the apparel industry, one of Vietnam's key export industries, over the past time. It is expected to significantly contribute to Vietnam's socio-economic development in the coming time.

Aspects of concern in promoting a developing country's participation in GVCs are clarified through the synthesis and analysis of existing research on GVCs and the development of GVCs.

The reality of Vietnam's participation in the apparel GVC is clarified through secondary data collected from the data of the Vietnam Textile and Apparel Association (VITAS) and a number of existing studies. Statistical and descriptive methods were used to analyze the collected data.

The proposed solutions are based on the analysis and discussions of the aspects that need to be considered in promoting the participation of a developing country like Vietnam in GVCs and the current status of Vietnam's participation in the GVCs.

IV. Findings, Discussions and Recommendations

4.1. The status of Vietnam's participation in the global value chain

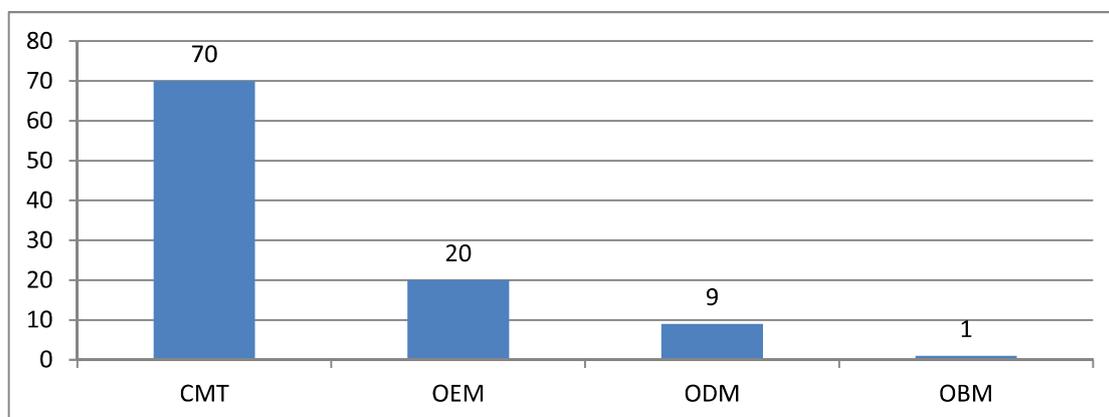
This study clarifies the status of Vietnam's participation in GVCs through a case study on Vietnam's position in the global apparel GVC. In Vietnam, the apparel industry has a long development history and has made many important contributions to the country's socio-economic development. Especially since Vietnam joined the WTO, the apparel industry has achieved great success. This industry is identified by Vietnam as an important export-oriented economic sector in the coming time, with very high targets. According to the "Development planning of Vietnam's textile and garment

industry to 2020, with a Vision to 2030" issued by the Ministry of Industry and Trade under Decision 3218 / QĐ-BCT dated 11/4/2014 (Ministry of Industry and Trade, 2014), the target of exports for the whole textile and apparel industry in general in the period 2021 - 2030 is 6% to 7% / year.

However, Vietnam, in general, is still at the bottom of the global apparel GVC. For R&D and Design, Vietnam's apparel industry still needs to improve. On the one hand, this is reflected in the fact that only some Vietnamese apparel enterprises implement ODM (Original Design Manufacturing) or OBM (Original Brand Manufacturing) production methods, which require the development of R&D and Design stages. On the other hand, it is shown that most of Vietnam's apparel enterprises only practice CMT (Cut-Make-Trim) production method, receiving input from global buyers (Figure 1). Few Vietnamese garment enterprises have grasped the market demand information and need help in R&D and Design activities.

Measurement Unit: Percentage

Figure 1. Distribution of Vietnamese garment enterprises by production mode, 2022



Source: Calculation from data of Vietnam Textile and Apparel Association (VITAS, 2022)

For raw materials and accessories, Vietnam has to import most of the raw materials and accessories, especially fabrics, for garment production. 2022 the garment industry imported 72% of fabrics for domestic production and export (VITAS, 2022).

For Marketing, Distribution and Branding, although Vietnam is currently one of the world's leading garment

exporters, consumers only know Vietnam as an apparel factory. Vietnamese apparel enterprises are hardly involved in Marketing, Distribution and Branding activities. The basic reason is that Vietnamese apparel enterprises do not have direct links with consumers. Vietnamese apparel enterprises export their products mainly through intermediaries such as representative offices of global buyers or regional manufacturers (Figure 2).

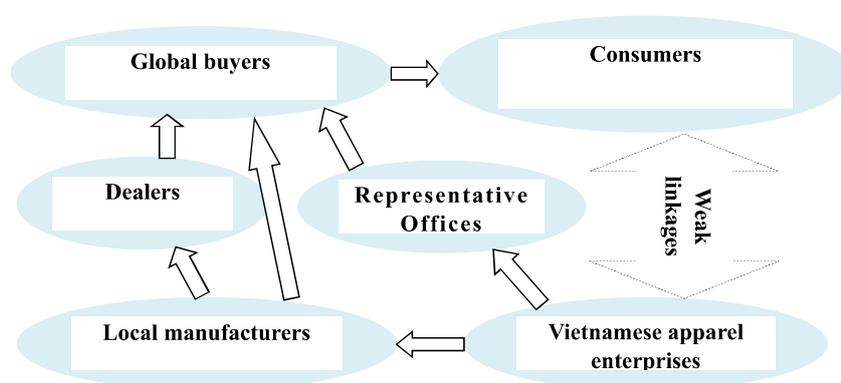


Figure 2. Links between Vietnamese apparel enterprises and world consumers

Source: VIRAC, 2023

The above analysis shows that after years of continuously increasing export turnover, Vietnam's apparel industry focuses only on the CMT production method and remains at the bottom of the apparel GVC. Although Vietnam's apparel industry still benefits from cheap labour, this advantage will quickly disappear. If Vietnam's apparel industry does not upgrade through the development of high-value-added stages and strengthen linkages between them, the industry will soon lose its competitive advantage.

4.2. Some solutions to promote Vietnam's participation in global value chains

From the above analysis, with a systematic approach, the article proposes

the following basic solutions to help promote Vietnam's participation in global GVCs sustainably.

4.2.1. Improve the capacity of enterprises to comply with quality standards

Brands and retailers in GVCs are now very strict about compliance with quality standards, especially sustainability-related ones. Requirements to comply with quality standards are often "pushed down" to suppliers and ultimately to manufacturers in developing countries. In that context, to support producers, the government needs to take the following actions:

First, build a system of policies on quality standards. Policies on quality

standards should be harmonized with other policies, such as industrial development policies, trade policies, investment policies, etc.

Second, improve the capacity of government agencies to manage compliance with quality standards, including standard-setting bodies, metrology agencies, standards accrediting agencies, standard inspection and certification bodies, etc.

Third, develop consulting and support services to help businesses implement processes to comply with quality and international standards and meet market requirements.

Fourth, improve the capacity of production and quality management teams at enterprises.

4.2.2. Increase investment promotion

Investment promotion can contribute to the development of GVCs by impacting the following areas:

First, information about investment opportunities: Government agencies, development programs or investment promotion divisions of associations can provide potential investors with access to reliable and up-to-date information on activities, projects and businesses in which they can invest. Investments should be directed towards developing certain GVCs, based on GVC analysis and financial feasibility.

Second, foreign investment: By establishing business linkages, foreign investors can help local businesses upgrade their capabilities to meet more demanding requirements, which can help

local enterprises to move gradually to a higher position in GVCs. In turn, this will support the learning and knowledge accumulation process of local businesses and enhance the technological capacity of the host country.

Third, business registration and licensing. Business registration and licensing can take a long time, especially in developing countries. Therefore, it is necessary to establish one-stop centres to assist businesses in handling all administrative procedures. International experience shows that, in addition to the direct support of state agencies, the state needs to support professional associations so that they can take on the role of helping enterprises register to operate in specific fields.

Fourth, develop business plans and access to finance. Domestic enterprises in developing countries often find it difficult to create viable business plans because they need help fully visualising the relationships with buyers and suppliers in GVCs. At the same time, they cannot also raise capital. In this context, technical assistance and business incubation projects can provide expertise in finance and business plan development and help businesses launch viable projects. Consulting and affiliate support can reduce the risk of failure from the beginning of the business process.

Fifth, adapt to the local business environment. Investors may need help investing in localities capable of absorbing knowledge and technology for production. In such situations, technical cooperation projects can provide the expertise and technology required to

help businesses operate efficiently and return investments. Such programs may be targeted at providing knowledge and technology to specific GVCs. Technology can be transferred by building a pilot production plant, which foreign investors can provide through particular licensing agreements. Technical cooperation will also help adapt alien technology to local conditions and train local staff. A relatively new but widely used form of technology transfer in the world today is “technology lending”, in which multinational companies provide their technology to produce necessary for different segments of their global operations.

Sixth, improve the capacity of investment promotion agencies. World experience shows that public investment promotion agencies will operate more effectively when there is coordination between different public agencies and private associations. Strengthening trade and investment linkages in GVCs increasingly requires closer coordination between domestic trade and investment promotion agencies, as well as more specific targeting of relevant GVC segments. to the advantage of the host country.

Seventh, improve the business environment. Investment promotion should be carried out in parallel with policy measures to create a more favourable business environment.

By influencing the above aspects, investment promotion should proactively attract quality investments and provide business support services. It requires assessing the impact of acquisitions, especially FDI, on the country’s GVCs and

monitoring investment performance with measurable indicators, such as productivity and the number of jobs created...

4.2.3. Development of industrial clusters and export alliances

Industrial clusters are geographical concentrations of interconnected companies and related organizations. Companies in an industrial cluster are often located in the same GVC. When they jointly produce the same or related goods or services, they can benefit from economies of scale by participating in collective action in procuring supplies and marketing the products. They can also benefit from the exchange of information, sharing of initiatives, and more.

The establishment of export alliances involves the development of industrial clusters. Exporting is often a complex and high-risk business for many small and medium-sized enterprises (SMEs). They may lack the necessary knowledge and finance, may not meet foreign regulatory requirements, may produce products of a quantity or quality that are unsuitable for foreign buyers or may not have access to or knowledge of potential markets. These problems can often be overcome by strengthening cooperation between SMEs and establishing export alliances. An export alliance is a voluntary union of companies aimed at promoting exports. By combining the knowledge, financial resources and relationships in an export alliance, SMEs can significantly improve their export potential and reduce the costs and risks associated with entry to foreign markets. Typically, export alliance development activities are carried out

within the framework of industrial cluster development programmes, emphasizing linkages with smaller economic partners or specific projects targeting dynamic SMEs in growth-oriented sectors. Most export unions are nonprofit organizations whose members retain financial, legal, regulatory, and commercial autonomy. Although participating in export alliances, member companies do not relinquish any control over their business. It is the key difference between export alliances and other strategic alliances.

4.2.4. Developing knowledge exchange networks and learning networks

By bringing together actors and stakeholders in GVCs, these networks can contribute to the following goals:

First, member firms engaged in similar business activities and production processes in GVCs can exchange knowledge and learn best practices. They can also be exposed to leading experts, innovators and the most successful companies.

Second, network members can receive GVC-compliant pilot technology and are subject to capacity-building interventions.

Third, networks can provide periodic information on markets, technologies and other trends in global GVC.

Fourth, member companies can find and build relationships with business partners in the upstream and downstream segments of GVC.

Fifth, stakeholders can develop a shared vision for developing GVC and development actions for the common good.

4.2.5. Greening value chains

The state should strengthen diverse activities to support businesses and industries to use resources more efficiently and adopt cleaner production processes. It may involve greening industrial parks, applying energy and water-saving technologies, generating green energy from organic materials, waste, wind, water and sunlight, and developing and using pollution reduction and treatment equipment and technologies. Greening solutions need to target specific segments within GVCs. However, products and wastes can pass through many different segments of GVCs, so it is necessary to organize proper GVCs for sustainable use of resources, energy and water, as well as good waste management.

Government agencies can become the driving force behind the greening of GVCs through the development and enforcement of regulations and by providing direct support to businesses in their greening efforts. Most importantly, however, companies must actively participate in greening their own operations or those of their upstream and/or downstream business partners for compliance reasons, cost-effectiveness, company image, etc.

The state can influence the following areas to promote this process:

First, strengthen policy dialogue. Policymakers, businesses and other stakeholders need dialogue to raise awareness about environmental issues related to GVCs. Policy dialogue will lead to the developing and implementation of laws and regulations and the development

of GVC greening programs jointly implemented by both the public and the private sector.

Second, develop and provide reports on the potential of greening and propose appropriate technologies for different industries. Multidisciplinary expert groups should be established to create such information, which helps guide businesses and stakeholders in the adoption of green industry policies and practices.

Third, identify the potential of clean production and energy saving in national GVCs. This determination is usually based on state and/or private sector requirements and analysis by experts at the local level. Then greening programs are needed to implement the proposed recommendations.

Fourth, facilitate the transfer and dissemination of clean and energy-saving technologies. It can be achieved through projects and programs implemented by the State and development agencies. The focus may be introducing pilots and demonstrations to stimulate other domestic operators to copy and introduce new technologies.

4.2.6. Ensuring social justice in the development of value chains

The development of GVCs is never socio-economically neutral. Depending on the products to be manufactured and the technology applied, and the resources and skills required, the involvement of different groups of people will vary. The development of GVCs constantly changes the equilibrium of those currently participating in the value chain.

Including women, youth and vulnerable groups - an objective of many value chain development programs - is not easily achieved. Participating in the race to be a competitive supplier in GVCs implies that those with certain capabilities and competitive advantages will be the winners. It is very difficult for vulnerable groups to become winners in this race.

In that context, several starting points must be identified for creating jobs for different target groups. Under certain conditions, it may be possible to focus on developing GVCs targeting youth, women and other vulnerable groups from the outset. It can be achieved by providing technology and knowledge matching particular groups' skills and characteristics. Focusing on training target groups to suit specific jobs in GVCs is possible. It can be achieved through vocational training programmes, supporting curriculum development at educational institutions targeting women, youth and other target groups in production development, and development skills on-site and through shared learning networks. At the same time, it is possible to promote entrepreneurship development, to support young people, women, etc., to become entrepreneurs in GVCs. Start-up development can be especially important in the service delivery functions of GVCs, consulting services, transportation, factory management, information technology, accounting, and more.

V. Conclusion

Research shows that participation in global GVCs plays an important role in the socio-economic development

of developing countries like Vietnam. Despite many successes, Vietnam is still at the bottom of GVCs, with low added values. To promote participation in GVCs, Vietnam needs to take a systematic approach, with emphasis on inclusivity and sustainability and a focus on improving the capacity of enterprises to comply with quality standards, promoting investment promotion, developing industrial clusters and export alliances, developing knowledge exchange networks and networks learning, greening value chains and ensuring social justice in the development of value chains.

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