Working Paper 2024.2.4.7
- Vol 2, No 4

HIỆP ĐỊNH AKFTA VỀ XUẤT KHẨU DỆT MAY CỦA VIỆT NAM SANG HÀN QUỐC: CƠ HỘI VÀ THÁCH THỨC

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Tóm tắt

Ngành Dệt may của Việt Nam là một trong những ngành xuất khẩu chủ lực và giữ vai trò quan trọng đối với sự tăng trưởng của nền kinh tế. Hàn Quốc là thị trường nhập khẩu hàng may mặc lớn thứ 3 của Việt Nam và là đối tác thương mại quan trọng. Hiệp định Thương mại tự do ASEAN – Hàn Quốc (AKFTA) chính thức có hiệu lực vào ngày 01/06/2007 đã tạo ra một lợi thế cạnh tranh đáng kể cho hàng xuất khẩu của Việt Nam sang thị trường Hàn Quốc. Đặc biệt ở lĩnh vực dệt may, kim ngạch xuất khẩu ngành dệt may (T&G) của Việt Nam sang Hàn Quốc đã có sự phát triển tích cực. Mặc dù việc giảm thuế quan đã mở ra nhiều cơ hội cho Việt Nam mở rộng thị trường và thu hút đầu tư nước ngoài, nhưng Việt Nam vẫn đối mặt với thách thức từ các quy định về nguồn gốc, các rào cản kỹ thuật và sự cạnh tranh về giá. Mục đích bài nghiên cứu này nhằm phân tích các cơ hội và thách thức đối với vấn đề xuất khẩu sản phẩm dệt may của Việt Nam sang thị trường Hàn Quốc trong khuôn khổ của Hiệp định Thương mại Tự do ASEAN - Hàn Quốc và đề xuất một số giải pháp cho chính phủ Việt Nam cũng như các doanh nghiệp để có thể khai thác tối đa các lợi ích mà AKFTA đem lại.

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Từ khóa: Hiệp định thương mại tự do AKFTA, xuất khẩu dệt may, Việt Nam, Hàn Quốc.

AKFTA ON VIETNAM'S TEXTILE AND GARMENT EXPORTS TO SOUTH KOREA: OPPORTUNITIES AND CHALLENGES

Abstract

The textile and garment industry plays a significant role in Vietnam's economy in general and the manufacturing sector in particular. South Korea is Vietnam's third-largest import market for textile and garment products and also a significant trading partner. The ASEAN-Korea Free Trade Agreement (AKFTA), which was signed on December 13, 2005, offers new opportunities as well as challenges for the export of Vietnam's textile and garment products to South Korea. When AKFTA entered into force, Vietnam's textile and garment industry saw significant growth. However, Vietnam was unable to fully maximize the benefits of the tariff reduction due to the rules of origin, technical barriers, and the increase in competition, even if the removal of tariffs opened up additional chances for market access and attracting FDI. This paper attempts to present the benefits and challenges of the ASEAN - Korea Free Trade Agreement related to the export of Vietnam's textile and garment products as well as propose some policy recommendations for the Vietnamese government and domestic enterprises to exploit the optimal advantages brought by AKFTA.

Keywords: AKFTA, export textile and garment products, Vietnam, South Korea.

Introduction

Vietnam-Korea relations have developed considerably since the establishment of diplomatic ties in 1992. The ASEAN-Korea Free Trade Agreement (AKFTA), signed on December 13, 2005, marked a significant milestone, highlighting the central role of ASEAN in the Asia-Pacific region and the regionalization trend in ASEAN's foreign trade policy since the late 1990s. South Korea is the second-largest trading partner with ASEAN negotiating a free trade agreement, following China. As the fifth-largest export market and the second-largest import market, South Korea is a crucial trading partner for Vietnam, only behind China, the United States, and Japan. The textile and garment industry, for years, has always been one of the major trading sectors of Vietnam. After the ASEAN – Korea Free Trade Agreement (AKFTA), Vietnam's textile and garment industry grew significantly. According to MPI in 2011, the sector's export turnover to South Korea was $900 million. A year later it increased to $1.1 billion and in 2013 it reached $1.6 billion. With reduced trade barriers and tariffs between ASEAN and South Korea, Vietnamese businesses have more opportunities to participate more extensively in global production and supply chains. This also facilitates the expansion of Vietnam's international market presence and creates favorable conditions for Korean investors to initiate and expand their business activities in Vietnam. The main purposes of this paper are: Firstly, to study the main content of the tariff agreements and other non-tariff measures of AKFTA related to Vietnam's textile and garment export activities to South Korea. Secondly, to analyze the effects of AKFTA's tariff agreements on Vietnam's textile and garment exports to South Korea. Thirdly, to indicate opportunities and challenges and propose some policy implications for the government as well as remedies for businesses to improve the competitiveness of Vietnam’s textile and garment products.

1. Research overview and research methods

1.1. Literature review

1.1.1 International research

Several studies have explored the positive impacts of ASEAN free trade agreements on trade flows. The research found that ASEAN agreements benefit both member and non-member countries by promoting trade creation and diversion (Karemera *et al.*, 1999). Itakura (2013) further highlights that these agreements elevate member countries' welfare and generate the most significant economic gains when including additional partners like China, Japan, and Korea. The trade liberalization initiated by these agreements has demonstrably increased intra-ASEAN trade and attracted foreign investment, although the benefits were initially stronger for founding members (Okabe and Urata, 2014). To fully capitalize on these agreements, effective utilization and the reduction of non-tariff measures are crucial.

1.1.2 Domestic research

Regarding the impact on the textile and garment export industry when implementing Free Trade Agreements (FTAs) there are several following studies:

Tran Viet Long (2019) implied that FTAs facilitate the growth of textile and garment exports in Thua Thien Hue province (Vietnam). Also, FTAs have generated employment opportunities, addressed labor-related issues, and attracted foreign direct investment (FDI). However, there are some challenges such as limited labor quantity and quality, some related legal commitments like rules of origin, and competition policy issues.

Pham Thi Minh Hien (2019) stated that the Vietnamese textile industry has the opportunity to expand its market and increase the export volume of textiles to the Korean market. The Vietnamese textile industry enjoys tariff benefits due to the reduction of tariff barriers and has the opportunities to improve its business environment, attracting investments in areas where the sector is still weak, such as weaving, dyeing, and raw materials. However, participating in the FTA with South Korea implies that the Vietnamese textile industry must address issues related to "rules of origin" for fabrics with low domestic content.

1.1.3. Research gap

In contrast to other key export items such as wood and wood products, thick leather, seafood, etc, there is a limited amount of studies focusing on the benefits and challenges of AKFTA towards Vietnam's textile and garment exports to South Korea. Previous literature lacks comprehensive assessments specifically focused on the advantages and challenges of AKFTA for Vietnam's textile industry. To bridge this gap, the study aims to provide a thorough analysis and a scientific foundation to assess the benefits and challenges of AKFTA on Vietnam's textile and garment exports to the South Korean market.

1.2. Research methodology

The author group employs a qualitative research method based on synthesis, calculation, and analysis of secondary data from various official reports both domestically and internationally, such as the World Bank, General Department of Customs, VCCI, VIA, Vietnam Textile and Apparel Association (VITAS), etc. By analyzing the actual export situations from Vietnam to South Korea before and after the agreement came into effect, the paper has reached important conclusions on the issues involved in the opportunities and challenges of textile and garment export activities to South Korea and proposes recommendations for the Vietnamese government as well as domestic enterprises to exploit the optimal advantages brought by AKFTA.

2. The ASEAN-Korea Free Trade Agreement (AKFTA)

2.1 Overview and key objectives of AKFTA

The ASEAN-Korea Free Trade Agreement (AKFTA) is a Free Trade Agreement between the Republic of Korea and the 10 ASEAN Member States. On December 13, 2005, both Parties signed the Framework Agreement on Comprehensive Economic Cooperation in Kuala Lumpur, Malaysia with primary goals to strengthen and boost economic, trade, and investment integration among the Parties, discover new areas, facilitate the progressive liberalization and the promotion of trade in goods and service as well as liberal investment environment, thus improving the living standard and enhancing economic growth and narrow the development gap among regions.

Building on the Framework Agreement, major Agreements were implemented:

- The ASEAN-Korea Agreement on Dispute Settlement Mechanism, a legal framework to provide methods and procedures for resolving disputes that may arise between the parties involved in the agreement, was signed on 13 December 2005

- The ASEAN-Korea Trade in Goods Agreement, the main objective of which is to eliminate tariffs on almost all products being traded among ASEAN Member States and Korea, was signed on 24 August 2006 and took effect in June 2007.

- The ASEAN-Korea Trade in Services Agreement, a legal framework to liberalize trade in services among ASEAN Member States and Korea in various services sectors, was signed on 21 November 2007.

- The ASEAN-Korea Investment Agreement, a legal basis to expand investment and provide enhanced safeguard measures for both Korean and ASEAN investors, was signed on 2 June 2009.

2.2. Structure and key provisions of AKFTA

The AKFTA is a significant milestone that signifies the central role of ASEAN in the Asia-Pacific region, encompassing various domains:

Trade in goods

According to the commitments, AKFTA will eliminate tariff and non-tariff barriers for two types of goods: the normal track and the sensitive track. Tariff barriers will be reduced according to a schedule, with South Korea eliminating the majority of tariffs in 2010, ASEAN-6 in 2012, Vietnam in 2018, and Cambodia, Lao PDR, Myanmar in 2020. Members of the agreement will enjoy preferential tariffs under the condition of complying with rules of origin.

Trade in service

In this area, AKFTA facilitates the progressive liberalization of the services sector by encompassing substantial sectoral coverage, which spans all modes of supply. Korea's package of commitments covers 112 subsectors: Business services, Communication services, Construction, Distribution services, Education services, Transport services, Environmental services, etc. In sub-sectors where commitments have been established, services and service providers in the region will benefit from enhanced market access and national treatment.

Investment

In the investment sector, AKFTA provides provisions related to investment protection, liberalization, and facilitation. These provisions offer robust protection for both Korean and ASEAN investors through national treatment and most-favored-nation treatment, preventing discriminatory measures by local authorities. Besides, AKFTA includes investment dispute settlement provisions that encourage and promote the flow of investments and cooperation between ASEAN and Korea and ensure transparency of investment rules and a fair resolution mechanism within the agreement.

2.3. Commitments of AKFTA related to textiles and clothing

2.3.1. Tariff commitments

Vietnam's commitment to tariff elimination

According to the preferential import tariff schedule of Vietnam under the implementation of AKFTA for the period 2018-2022, accompanied by Decree No. 157/2017/ND-CP, Vietnam commits to eliminating all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2018. Concerning T&G goods, this reduction primarily targeted items with higher tariffs, ranging from 5% to 12%, such as various types of fabrics and apparel accessories. Notably, products like cotton, wool, and synthetic fiber-based textiles benefited from a tariff reduction of 0%.

South Korea's commitment to tariff elimination

Upon the full implementation of the agreement, South Korea commits to eliminating most tariff lines on textile and garment products from Vietnam placed in the Normal Track not later than 1 January 2010. From 2016 onwards, the tariff schedule that Korea applies to T&G products under the AKFTA is mostly 0%, except for certain products like wool yarns.

Table 1. The Republic of Korea Tariff Reduction Schedule for Korea-ASEAN FTA on a wool yarn product

HS Code	Description	Rate of duty (%)				
		2012	**2013**	**2014**	**2015**	**2016**
5106	**Yarn of carded wool, not put up for retail sale**					
510610	**Containing 85 % or more by weight of wool**					
5106101000	Of all wool	8	8	8	8	5
5106109000	Other	8	8	8	8	5
510620	**Containing less than 85 % by weight of wool**					
5106201000	Mixed with polyester fiber	8	8	8	8	5
5106202000	Mixed with polyamide fiber	8	8	8	8	5
5106203000	Mixed with acrylic fiber	8	8	8	8	5
5106204000	Mixed with other synthetic fiber	8	8	8	8	5
5106209000	Other	8	8	8	8	5

Source. asean.org

2.3.2. Non-tariff commitments

Subject to the provisions of The Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation between the governments of the Republic of Korea and the member countries of ASEAN and any future agreements as may be agreed under the reviews of this Agreement by the Parties under Article 15, the Parties hereby agree and reaffirm their commitments to refrain from adopting or maintaining any prohibition or quantitative restriction on the importation or exportation of goods among the Parties, except as permitted under WTO agreements or the provisions of the Agreement.

2.3.3. Rules of origin

General rules

Under AKFTA, to qualify for customs duty preferences, textile and garment goods must comply with the rules of origin stipulated in the Agreement. Specifically, a good is considered to be originating if it meets any of the following criteria:

● A good is wholly obtained or produced entirely in the territory of the exporting Party

● The regional value content (RVC): this criterion is not less than 40% of the FOB value

There are two methods to calculate RVC:

Build-Up Method

$$\text{RVC} = \frac{VOM}{FOB} \text{ x}100\%$$

Note:

- RVC: Regional Value Content

- VOM: Value of originating materials, which includes the value of originating materials, direct labor cost, direct overhead cost, transportation cost, and profit

- FOB: Free-on-board Value

Build-down Method

$$\text{RVC} = \frac{(FOB - VNM)}{FOB} \text{ x}100\%$$

Note:

- RVC: Regional Value Content

- FOB: Free-on-board Value

- VNM: Value of non-originating materials, which is either: (i) the CIF value at the time of importation of the materials, parts, or goods; or (ii) the earliest ascertained price paid for the materials, parts, or goods of undetermined origin in the territory of the Party where the working or processing has taken place

● Code Transfer of Commodity (CTC): a good has changed tariff classification at four digit-level (change of heading) of the Harmonized System.

(Ministry of International Trade and Industry Malaysia, 2023)

3. Export situation of Vietnam's textile and garment industry before and after the implementation of AKFTA

3.1. Export Situation Before the Implementation of the AKFTA

3.1.1. Scale And Growth Rate Of Textiles and Garments Before the Implementation of the AKFTA

From 2000 to 2005, the textile and garment exports from Vietnam to Korea witnessed steady growth. The Compound Annual Growth Rate (CAGR) during this period was 8%, indicating a relatively high growth rate. Nevertheless, the export value of textiles and garments from Vietnam to Korea remained low.

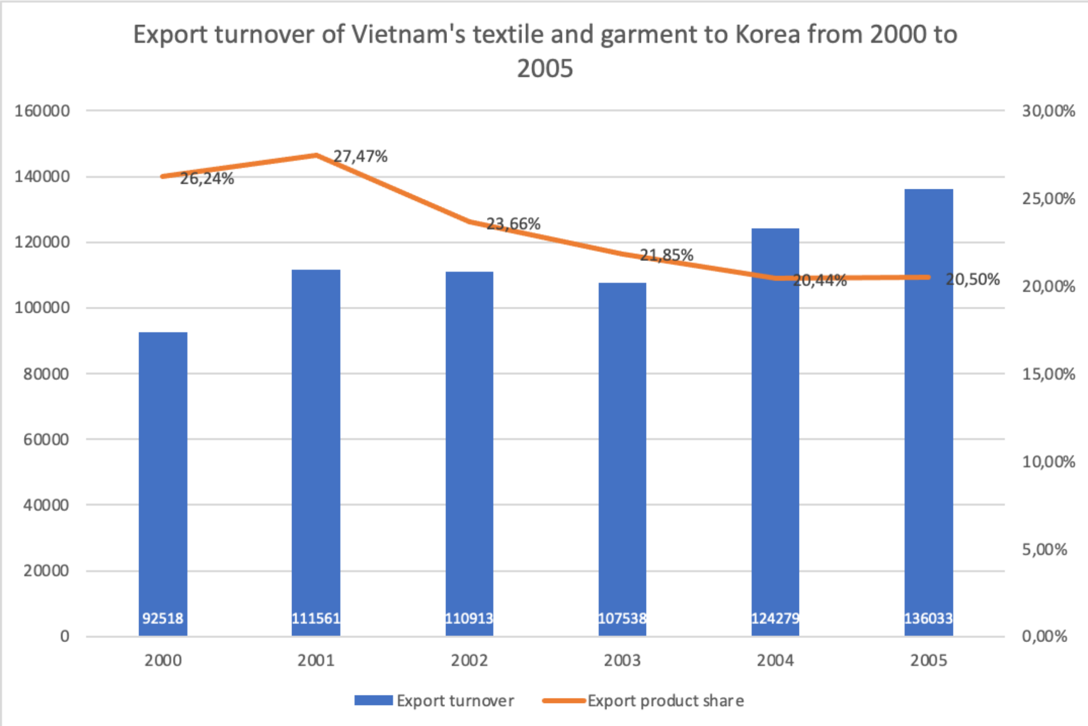

Figure 1: Export turnover of Vietnam's textile and garment to Korea from 2000 to 2005

Source. Author's calculation based on WITS

Vietnam's textile and garment export turnover to Korea witnessed a substantial increase from 92,518 thousand USD in 2000 to 136,033 thousand USD in 2005, representing a 47.3% increase over the five years. This translates to an average annual growth rate of approximately 9.5%.

While the export turnover increased significantly, the export product share of Vietnam's textile and garment in Korea's total imports slightly decreased from 26,24% in 2000 to 20,50% in 2005. The growth wasn't uniform, with the highest annual increase (27.47%) occurring in 2001 and the lowest (20.44%) in 2004.

The rapid growth in export turnover suggests Vietnam's textile and garment industry has become increasingly competitive and successful in the Korean market. However, the decreasing export product share indicates that other countries were also exporting more textiles and garments to Korea, potentially at lower prices or with higher quality products.

3.1.2. Assessment of the export situation before the implementation of AKFTA

Before the AKFTA, the export turnover of textiles and garments from Vietnam to Korea was still low. The main export items included: Textile yarn, Fabric, and Garments. There were some reasons why this rate remained low:

Vietnam's textile and garment industry faces hurdles, with fabric and accessory production being the weakest stage. Experts point out that the industry relies heavily on imported materials (80%), struggles with design innovation (limited models, types, and labels), and lacks strong branding (few businesses have their brands or invest in intellectual property).

Moreover, exporting to Korea required complicated Rules of Origin. The rules of origin for textile and garment products exported from Vietnam to Korea were quite complicated. Vietnamese enterprises needed to meet many requirements to enjoy preferential tariffs.

Finally, The Vietnamese textile and garment industry has limited competitiveness. It had to compete with other countries such as China, Bangladesh, and India in the Korean market. The competitiveness of Vietnam's textile and garment industry still needed to improve, especially in terms of product quality and price.

3.2. Export Situation After the Implementation of the AKFTA Agreement

3.2.1. Scale And Growth Rate Of Textiles and Garments After the Implementation of the AKFTA

Export turnover

Figure 2: Export turnover of textiles and garments from Vietnam to Korea after the implementation of AKFTA

Source. Author’s calculation based on WITS

Between 2005 and 2022, Vietnam's textile and garment exports to South Korea exhibited phenomenal growth, multiplying a staggering 29-fold from approximately 136 million US dollars to 4 billion US dollars. This translates to an impressive 25.28% average annual growth rate, significantly exceeding global textile export averages. It can be seen that from 2005 to

2007 when AKFTA had not come into force, the export turnover decreased over time. However, the inverse trend was observed after the implementation of AKFTA in 2007.

The export turnover of textiles and garments from Vietnam to Korea has displayed diverse growth patterns following the implementation of AKFTA. From 2005 to 2011, there was a remarkable surge, with consecutive year-over-year increases exceeding 20% for six years. This exceptional growth can be attributed to tariff reduction in the AKFTA with the average tax rate on textiles being reduced from 8% to 0%, and the average tax rate on garments being reduced from 13% to 0% (Xuân Bách, 2010).

Between 2011 and 2017, there was a gradual but consistent increase in export turnover, reaching over 3 billion US dollars from 1 billion. A sudden surge in growth occurred from 2017 to 2018, following the removal of Korea's normal track tariff on Vietnam, resulting in zero tariffs for most products. The final phase of accelerated growth took place in 2018-2019, with export turnover exceeding 4 billion US dollars.

However, the Vietnamese textiles and garments industry encountered formidable challenges in 2020 as a consequence of the COVID-19 pandemic. The industry grappled with critical issues such as raw material shortages and a substantial decline in demand, resulting in a notable negative trend of nearly 11% in export turnover compared to the preceding year. Progress towards recovery commenced in 2021, as export turnover demonstrated a remarkable rebound, shifting from a negative 10% to a positive 10%. Nonetheless, the recovery process has been hindered by a host of difficulties stemming from the prolonged repercussions of the COVID-19 pandemic and the prevailing economic recession. Consequently, the demand for the textile and garment industry experienced a pronounced decline throughout the years 2022 and 2023.

Market share

Before 2013, the market share of Vietnamese textile and garment exports to Korea was less than 20%. However, in subsequent years, there was a consistent growth trajectory. From 2014 to 2017, the market share witnessed a significant increase, with figures of 39.9%, 36.15%, 34.48%, and 36.66% respectively. Vietnam had emerged as one of the major suppliers of textile and garment products to Korea, capturing a market share of over 33% in 2018. This figure was only marginally lower than that of the largest market share partner, China, by approximately 2%. A comparison with the situation three years prior reveals the rapid acceleration of Vietnam's textile and garment exports to the Korean market. The market share gap between China and Vietnam decreased from 40.18% and 29.52% to a near parity in 2018.

Furthermore, despite the impact of the COVID-19 pandemic, Vietnam has maintained its position in the Korean market during the period from 2019 to the present day. Specifically, in 2019, Vietnam's market share in the textile and garment industry accounted for 35.15% of the Korean market, representing a 3% increase compared to 2018. However, in the subsequent years, the market share experienced a slight reduction due to the consequences of the pandemic.

Overall, Vietnam has consistently remained the second-largest export partner for textiles and garments to Korea, and despite the challenges posed by the pandemic, it has managed to maintain a significant presence in the Korean market after the implementation of AKFTA.

3.2.2. Assessment of Vietnamese's textile and garment situation after the implementation of AKFTA

Over time, the tariffs underwent a gradual reduction until they all nearly reached 0% by 2016, thereby facilitating the export of Vietnamese products of this nature to Korea.

The signing of AKFTA in 2006 subsequently familiarized Vietnamese enterprises with the import and export procedures falling under the purview of AKFTA. According to data from the Ministry of Industry and Trade, the utilization rate of preferential tariffs within the framework of AKFTA stands at an impressive 85%, representing the highest among the various Free Trade Agreements (FTAs) that Vietnam has implemented. One of the contributing factors behind this outcome can be attributed to the comparatively lenient rules of origin under AKFTA, which enable enterprises to easily obtain a Certificate of Origin (C/O) from AK. Additionally, in 2005, we signed the Viet Nam – Korea Free Trade Agreement (VKFTA) which further reinforced the flexibility of C/O. The rules of origin within the AKFTA and VKFTA frameworks exhibit a considerable degree of flexibility, enabling exported goods to meet the prescribed criteria for obtaining AK and VK certificates of origin. Furthermore, Korean foreign direct investment (FDI) enterprises operating in Vietnam import raw materials from Korea and employ the principle of cumulation in determining the origin of goods intended for export to Korea.

Despite those merits, after the implementation of AKFTA, the textile and garment industry of Vietnam still faces a lot of difficulties. It is worth noting that AKFTA was established between Korea and the ASEAN, thus extending the availability of tariff reductions and preferential rules of origin not only to Vietnam but also to other ASEAN member states. This development has fostered heightened competition among exporters of textiles and garments within the ASEAN region. The difficulty also lies in the fact that a significant portion of textile and garment enterprises in the country are small and medium-sized enterprises (SMEs) that primarily engage in outsourcing production. These SMEs find it difficult to compete with both large domestic textile and garment enterprises and foreign enterprises. Furthermore, the industry predominantly relies on unskilled labor. Currently, approximately 84.4% of the workforce in the textile and garment sector consists of unskilled workers, while those with university degrees account for only 0.1%. Additionally, the utilization of machinery and equipment to enhance productivity and product quality remains limited.

The textile and garment industry in Vietnam also faces challenges about the quality and variety of domestic fabrics. The fabrics produced within the country do not meet the required standards for export markets, and there is a limited range of available fabric types. Additionally, most textile and garment enterprises in Vietnam, regardless of their origin, tend to focus on cutting, sewing, and finishing tasks, neglecting the production of fabrics and accessories. Moreover, there is a shortage of skilled workers in technical areas such as dyeing, fabric finishing, and product design, leading to a heavy reliance on imported materials.

Moreover, after the COVID-19 pandemic, the textile and garment industry has continued to face significant losses. In 2022, despite numerous challenges, particularly in the later months of the year, the export of textile and garment products showed a positive growth trend, primarily due to the effective utilization of Free Trade Agreements (FTA). However, the industry encountered difficulties due to negative impacts from the disrupted supply chain of raw materials caused by the COVID-19 pandemic and China's COVID-19 prevention policies. Additionally, the depreciation of many regional currencies against the USD and high input costs for raw materials and fuel further contributed to the challenges faced by the industry.

In 2022, fiber enterprises encountered difficulties in securing and signing new export contracts due to the absence of new orders from the Chinese market or low-price offers from customers. Although the Korean market still provided some orders, the quantities were small, and the selling prices continued to decline without showing signs of recovery. This was primarily due to price competition from competitors and China's release of a large amount of cotton reserves, leading to a significant decrease in cotton prices. The decrease in fiber imports by China was also attributed to its Zero-Covid policy, which resulted in lockdowns, production disruptions, and reduced domestic demand. In the latest year 2023, the export of textile and garment products faced numerous challenges due to economic and political instability, which led to inflation and constrained consumer spending in Vietnam's major export markets. This was particularly evident for textile and garment products, as they are not considered essential goods, resulting in a significant decline in export rates.

The current outlook for textile and garment exports is not optimistic. However, businesses are making efforts to secure orders for the remaining months of 2024 and the beginning of the year, while hoping for more positive signals from the market shortly.

4. Opportunities and Challenges

4.1. Opportunities

According to the World Bank‘s data in 2007, with a total population of approximately 50 million and a GDP of 1172 billion USD, the Republic of Korea is considered a potential market with high purchasing power and demand, promising an optimistic development of the **Vietnamese textile and garment** industry.

Promotion of the export turnover growth

With the implementation of AKFTA, Vietnam’s textile and garment industry gains access to South Korea’s market under the preferential tariff rate, thus stimulating production in Vietnam and enhancing the volume exported.

In the early stage after the conclusion of AKFTA, the textile and garment industry's exports to South Korea in 2009 increased by 67% compared to the same period last year despite the consequences of the Financial crisis in 2008 (Le, 2010). This made textile and clothing the leading sector in terms of export turnover in 2009.

In 2023, the Republic of Korea (ROK) is Vietnam's third largest garment export market, after the United States and Japan, by the end of 9 months exports to this market reached over 2.43 billion USD (Ngoc and Phuong, 2023)

Opportunities to attract foreign investment, and international cooperation, and create a solid internal foundation for Vietnamese businesses.

The commitments of the AKFTA related to investment offer favorable conditions for Korean businesses and corporations to invest in Vietnam. Thanks to the enhanced market openness combined with significant growth potential and low-cost labor, the Vietnamese textile industry has attracted numerous waves of foreign direct investment (FDI) worldwide, particularly in 2008, one year after the signing of AKFTA, the Republic of Korea emerged as the second-largest investor in Vietnam's textile sector (after Taiwan) with a total investment of USD 737 million. This influx of FDI has enabled Vietnamese companies and factories to access significant capital, advanced technology, and expertise, thereby enhancing productivity and the quality of export products. Besides, under AKFTA, Vietnamese manufacturers are required to adjust their processes, production line, their distribution channels,... and most importantly enhance product quality by the rules of origin and other nontariff rules outlined in the Agreement to meet the requirements of the Korean market. As a result, businesses will establish a more robust foundation for future free trade agreements.

Social wealth augmentation

The cooperative trade between the Republic of Korea and Vietnam under AKFTA contributes considerably to the development, growth, and expansion of the Vietnamese textile industry. This results in the creation of numerous jobs and the improvement in the income of workers, thereby enhancing their living standards and stimulating economic growth. Moreover, as the economy of Vietnam grows, the quality of human resources will be enhanced, thereby generating a more skilled workforce for the future.

Mitigation of systematic risks for the Vietnam economy

Along with the aforementioned opportunities, facilitating trade and investment cooperation with the Republic of Korea not only diversifies potential markets that Vietnam can approach but also contributes to minimizing the dependence on other major markets such as the USA and China. This diversification plays a crucial role in reducing risk exposure, especially during the period of global crisis and tension.

4.2. Challenges

The ASEAN-Korea Free Trade Agreement (AKFTA) ushered in a new era for Vietnam's textile and garment industry, promising easier access to the lucrative Korean market. However, with opportunity comes challenges. While AKFTA presented a growth path, it also opened the door to a more competitive landscape, demanding adaptation and innovation from Vietnamese exporters. This exploration delves into the key challenges Vietnam faced in exporting textiles and garments to Korea after the implementation of AKFTA, offering insights into the obstacles that needed to be overcome for sustained success.

The increase in competition

While AKFTA promised easier access to the Korean market, it also ushered in a wave of fierce competition. AKFTA led to reduced tariffs for textile and garment products from other ASEAN countries, putting pressure on Vietnam's price competitiveness. As a result, countries like Thailand and Indonesia, with established textile industries, became stronger competitors in the Korean market. Moreover, AKFTA did not create exclusive benefits for Vietnam, opening the door for competition from textile giants like China and Bangladesh.

Quality and product diversification

Korean consumers have a reputation for valuing quality highly, often paying premiums for products that meet their standards for durability, performance, and aesthetics. Therefore, Vietnamese manufacturers had to invest in production process upgrades: This could involve improving machinery, using higher quality raw materials, and implementing stricter quality control measures.

Production and cost factors

There are some main considerations about production and cost factors including rising labor costs, infrastructure limitations, and raw material dependence. While still competitive, Vietnam's labor costs gradually increased, challenging its edge in price-sensitive segments.

As Vietnam's economy develops and labor standards improve, labor costs in the textile and garment industry are likely to increase. This could erode Vietnam's cost advantage, making it more challenging to compete with countries with lower labor costs, such as Cambodia or Bangladesh. To address this challenge, Vietnamese exporters may need to invest in automation and efficiency measures to offset rising labor expenses.

Moreover, the infrastructure limitations, inadequate logistics, and infrastructure within Vietnam could have hampered timely and cost-effective deliveries to Korea. Reliance on imported raw materials exposed Vietnam to price fluctuations and potential supply disruptions.

Difficulty in complying with strict regulatory framework

Despite tariff reductions under the AKFTA, non-tariff barriers such as technical regulations, customs procedures, and certification requirements can still pose challenges for Vietnamese exporters seeking to access the South Korean market. Vietnam must actively engage with South Korean authorities to address these barriers and facilitate smoother trade flows. Additionally, concerns about intellectual property protection could have discouraged Korean investment and collaboration, hindering technology transfer and product innovation. Finally, the complexities of navigating the regulatory and policy landscape of both countries could have posed administrative challenges for Vietnamese exporters, further complicating their journey into the Korean market. These seemingly intangible factors added another layer of difficulty to Vietnam's post-AKFTA textile export ambitions. Vietnam needs to strengthen its legal framework and enforcement mechanisms to protect trademarks, designs, and patents, reducing the risk of intellectual property infringement and disputes that could undermine trade relations with South Korea.

Overall, while the AKFTA offers significant opportunities for Vietnam's textile and garment industry to expand its exports to South Korea, navigating the associated challenges is essential to fully capitalize on the benefits of the trade agreement. This requires strategic planning, investment in capabilities, and close collaboration between government and industry stakeholders.

5. Recommendations

For the textile and garment industry to take advantage of price competition, overcome challenges, and achieve sustainable development in the context of global integration, the author group proposes some policy implications as follows:

5.1. For the government

To assist Vietnamese exporting enterprises, there is a need for widespread dissemination and training on the commitments outlined in AKFTA because many exporters lack information about FTAs, therefore, numerous businesses might not fully capitalize on the tariff benefits. Consequently, it is crucial for the Textile and Garment Association, along with other relevant agencies, to organize seminars, training sessions, and campaigns about the negotiated and signed commitments between Vietnam and South Korea for businesses.

Secondly, the government should refine the regulations of Vietnamese law on customs tax guidance for the export of textiles and garments to South Korea under the AKFTA and perfect the legal framework regarding AKFTA customs tax regulation. Providing clearer and more detailed guidance on how to calculate and apply the tariff reductions according to the committed roadmap in the AKFTA, specifically:

(1) Providing specific guidance on the product codes eligible for tariff reduction under the AKFTA

(2) Guiding standards for determining the origin of goods to qualify for tariff reductions under the AKFTA. Clarify all the technical standards and propose to firms to comply with them.

(3) Providing specific guidance on how to calculate and apply the tariff reductions according to the committed roadmap in the AKFTA.

The government must actively promote the implementation of cotton cultivation in large-scale farms to replace the scattered cultivation in households and support the implementation of viscose production projects carried out by the Vietnam National Textile and Garment Group (Vinatex), primarily sourced from materials such as Eucalyptus wood pulp and acacia resin, which are abundant in Vietnam to ensure stable production and sufficient supply of raw materials.

Finally, the government needs to implement supportive policies and create favorable conditions for small and medium-sized enterprises (SMEs) in the textile and garment industry. Some potential policies that can be applied to support and facilitate SMEs in the textile and garment industry in terms of investment capital are Favorable loan policies, financial investment support, export support, etc.

5.2. For businesses

First, enterprises should focus on training and developing quality human resources, especially high-tech workers. Enterprises need to invest in people and human resources by providing specialized vocational training in textiles, attracting high-quality human resources.

Second, textile businesses need to proactively innovate partly or entirely modern production lines, moving towards automation to improve productivity, product quality, and production lines to enhance the competitive capacity of the enterprise. It is essential to develop a technology investment strategy, especially in advanced technologies for textile production, considering the fierce competition in markets for these textile goods.

It is necessary to timely update information about the South Korean market to adapt quickly and learn about the technical standards of South Korea. Participating in export activities, exhibitions, specialized booths, or introducing textile products at exhibitions, and fairs in South Korea is another way to enhance knowledge about this market.

To mitigate reliance on outsourced orders from foreign partners, Vietnamese enterprises can emphasize the ODM Approach (Own Design Manufacture). Rather than solely acting as manufacturers according to the requirements of foreign partners, designing products in-house enables enterprises to add further value and create unique products tailored to market demands. Also, enterprises should actively participate in the ASEAN supply chain such as SAFSA - the textile and garment supply chain to enhance competitiveness capability.

Conclusion

The research conducted by the group of authors aims to assess the opportunities and challenges presented to the Vietnamese T&G industry since the AKFTA came into force. The agreement eliminates tariffs, increases foreign direct investment (FDI), creates jobs, and reduces economic risk. However, Vietnamese businesses must face competition from other ASEAN nations, high Korean quality standards, and rising labor costs and infrastructure limitations. To fully leverage the benefits offered by AKFTA, Vietnam must take steps to address these challenges. The government can assist by disseminating information on the agreement's benefits and implementing supportive policies for small and medium-sized enterprises (SMEs). Businesses should invest in training a high-quality workforce, modernize production lines, emphasize the ODM Approach, and timely update. Through these collaborative efforts, Vietnam's T&G industry can seize the opportunities presented by AKFTA and achieve sustainable growth.

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