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XUẤT KHẨU HÀNG DỆT MAY VIỆT NAM SANG NHẬT BẢN TRONG BỐI CẢNH HIỆP ĐỊNH VJEPA: CƠ HỘI, THÁCH THỨC VÀ KIẾN NGHỊ

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Tóm tắt

Dệt may là một trong những mặt hàng xuất khẩu chính của Việt Nam sang Nhật Bản do giá cả và chất lượng phù hợp. Sau khi Hiệp định đối tác kinh tế Việt Nam - Nhật Bản (VJEPA) chính thức có hiệu lực, sản phẩm này đã ngày càng có chỗ đứng trên thị trường khó tính này. Nghiên cứu này nhằm làm rõ các nội dung chính của VJEPA cùng với tình hình xuất khẩu dệt may của Việt Nam theo hiệp định. Ngoài ra, nghiên cứu này nhằm phân tích và đánh giá các cơ hội và thách thức mà ngành dệt may Việt Nam phải đối mặt. Từ các phân tích nêu trên, nhóm tác giả sẽ đưa ra một số giải pháp khả thi để tăng cường hơn nữa xuất khẩu dệt may của Việt Nam sang Nhật Bản theo VJEPA.

Từ khóa: VJEPA, dệt may, Nhật Bản, Việt Nam, cơ hội, thách thức, kiến nghị.

VIETNAM’S TEXTILE EXPORT TO JAPAN UNDER VJEPA: OPPORTUNITIES, CHALLENGES, AND RECOMMENDATIONS

Abstract

Textile is one of the main exporting products of Vietnam in Japan due to its price and suitable quality. After the Vietnam – Japan Economic Partnership Agreement (VJEPA) officially took effect, such product has been emerging in this highly demanding market. This study intends to clarify the main components of VJEPA alongside the situation of Vietnam’s textile export under the agreement. Additionally, the study aims to analyze and assess the opportunities and challenges faced by the Vietnamese textile industry. From the aforementioned analysis, the authors will put foward several viable solutions to further enhance the Vietnamese textile export to Japan under VJEPA.

Keywords: VJEPA, textile, Japan, Vietnam, opportunities, challenges, recommendations.

Introduction

Vietnam’s textile and garment industry has long been one of the key pillars of its economy, contributing significantly to export earnings and employment. As one of the largest exporters of textiles globally, Vietnam has established trade relationships with various countries, with Japan being one of its most prominent and reliable partners. The Vietnam-Japan Economic Partnership Agreement (VJEPA), which was signed in 2008 and came into effect in 2009, has played a crucial role in enhancing trade between the two nations by creating favorable conditions for Vietnamese textile and garment exporters to access the Japanese market.

The VJEPA offers preferential tariffs for Vietnamese textile products, opening up a competitive advantage over other exporting nations. Additionally, the agreement has improved market access by reducing trade barriers, allowing Vietnamese exporters to navigate the Japanese market more efficiently. As a result, Vietnam's textile exports to Japan have seen substantial growth, further solidifying Japan's position as one of Vietnam's top export destinations.

However, despite the clear advantages that VJEPA provides, the path to sustaining and expanding Vietnam's share in Japan's textile market is not without challenges. Vietnamese exporters face intense competition from other countries that also enjoy trade agreements with Japan, such as China and Bangladesh. Moreover, Japan's stringent quality standards require Vietnamese companies to continually invest in upgrading their production processes and technologies. These demands can strain smaller and medium-sized enterprises, which may lack the resources to meet these requirements.

This report seeks to provide a comprehensive analysis of the opportunities and challenges faced by Vietnam's textile industry under the VJEPA. It will explore the potential for growth, the hurdles that need to be overcome, and the steps necessary to fully capitalize on the benefits of this bilateral agreement. To achieve this objective, the authors analyze research articles and reports about Vietnam's textile export to Japan, which allowed for the analysis of the opportunities and obstacles it may face.

1. Theoretical background

1.1. Introduction of the VJEPA

It has been over 50 years since Japan and Vietnam initiated diplomatic relations. Over time, the two countries have strengthened their bond, deep-rooted historical connections, driven by their geographic proximity. Vietnam-Japan Economic Partnership Agreement (VJEPA) is the first dual-nation free trade agreement since Vietnam joined the World Trade Organization (WTO), in which both nations offered more incentives to each other than the ASEAN - Japan Comprehensive Economic Partnership Agreement (AJCEP) (WTO VCCI, 2013)

Japan, with its economic capital and management skills, had a great impact on Vietnam's modernization process and industrial development. Meanwhile, Vietnam, with its abundant human resources and stable economic growth, has become an attractive region for Japan in order to promote direct investment in Southeast Asia. The reciprocal relationship between Vietnam and Japan has broadened across various fields, for instance economics, society, and politics. Economic ties between the two nations continue to grow, especially in the areas of international trade and foreign direct investment.

The two countries agreed to enter into negotiations at a summit meeting held in October 2006, and negotiations began in January 2007. After a total of 15 negotiating meetings, an agreement in principle was reached in September 2008, the agreement was signed in December of the same year, and it came into effect in October 2009.

The VJEPA has a "two-layer" structure, including the Agreement between Japan and Vietnam on Economic Partnership (Main Agreement) and the Implementation Agreement between the

Governments of Japan and Vietnam (Implementation Agreement) - allowing flexibility in adjusting the method of implementing VJEPA in practice.

1.2. Main contents of the VJEPA

The VJEPA consists of 14 chapters, 129 articles, and 7 annexes. This comprehensive bilateral agreement contains commitments related to the liberalization of goods and services trade, investment, rules of origins, intellectual property, the movement of natural persons, and various other aspects of economic cooperation between the two countries.

Regarding bilateral trade between two countries, Japan committed to eliminate tariffs for 96.45% of total tariff lines in the Tariff Schedule for Vietnamese goods by the end of the roadmap (2026), including agricultural products, aquatic products, and industrial products (TTWTO VCCI). Meanwhile, Vietnam commits to eliminating tariffs on Japanese goods according to the following roadmap: from 2018, eliminate tariffs on 41.78% of tariff lines in the Tariff By 2026 (the last year of the tariff reduction roadmap), eliminate tariffs on 90.64% of tariff lines in the Tariff Schedule (WTO VCCI, 2013).

Commitments of Vietnam and Japan under VJEPA on textile exporting in Vietnam

1.3. Tariff commitment

Japan eliminated tariffs on 95% of industrial goods, including textiles, immediately when the agreement came into effect in 2009. By the end of a 10-year period, this extended to 97% of the tariff lines, reducing barriers for most textile products from Vietnam. However, certain textile categories remain subject to import quotas (around 57 tariff lines) or have no tariff reduction commitments (58 tariff lines, including leather chothes and leather footwear) (WTO VCCI, 2013).

In return, Although Vietnam is a major textile producer, it still imports a significant amount of fabrics and yarns. Under VJEPA, tariffs on Japanese fabrics were eliminated (Ministry of Industry and Trade, 2018), which allows Vietnamese garment producers to import high-quality materials from Japan at a reduced cost. This is especially important for companies aiming to meet the rules of origin requirements to qualify for Japan's preferential tariffs on finished garments.

1.4. Rules of origin

A good is considered to be originated in VJEPA if it is wholly obtained or produced in a member country, or if it meets one of the following two conditions:

- Goods meeting the general origin criteria:
  - Regional Value Content (RVC): minimum 40%, or
  - Change tariff classification (CTC): at the level of 4-digits (CTH – non-originating materials must belong to a different HS Group from the HS Group of the finished product).
- Goods with specific rules of origin: some goods do not apply the general rules, but the specific rules of origin that apply to the good are identified in the Product- Specific Rules.

To receive the preferential treatment under VJEPA, exporters must obtain a C/O Form VJ, which verifies the origin of the goods.

For enforcement, Vietnam has issued Decree 155/2017/ND-CP, which outlines the special preferential import tariff schedule for goods traded under VJEPA between 2018 and 2023. This decree specifies the conditions, including meeting the rules of origin, for products like textiles to benefit from the agreement's tariff preferences.

1.5. Technical Barriers of Trade (TBT)

Japan is known for having high technical and safety standards for textile products, including stringent regulations on the use of chemicals in fabrics (e.g., dyes, finishing agents). Additionally, Vietnamese textile and garment products are required to have their quality labelled, and will be prioritized for Japan's importation if they qualify JIS (Japan Industrial Standard), issued by METI.

VJEPA facilitates Vietnamese textile companies' understanding and compliance with these standards by promoting technical cooperation and information exchange between the two countries. Vietnamese exporters are now better equipped to meet Japan's technical and safety requirements, reducing the risk of products being rejected.

The cost for enterprises to adhere to TBT is a huge barrier for bilateral trade; therefore, both governments agreed to facilitate trade and reduce transaction cost. Both parties also agreed to form "TBT enquiry points" to help Vietnamese enterprises to solve their TBT-related problems.

Exporting Vietnamese textile to Japan in the context of the VJEPA

1.6. Before and after the VJEPA took effect

Before VJEPA, Japan has been a potential market for Vietnamese businesses to export textiles and garment to, in 2008, Japan was Vietnam's third largest importer of textiles and accounting for 820 million USD, or almost 9 percent, of the country's export turnover in this sector (Vietnam+ (VietnamPlus), 2009).

After officially signing on December 25th 2008 and coming into force on October 1st 2009, there have been significant increases in the exporting of Vietnamese textiles from Vietnam to the Japanese market.

At the end of 2008, after the official signing of Vietnam - Japan Economic Partnership Agreement (VJEPA), according to the Vietnamese General Department of Customs, by the end of 2009, the total amount in USD of Vietnamese textiles exports to Japan reached more than 950 million, making textile the product that Vietnam exported the most to Japan in 2009 with the 200 million difference with the second most popular product, seafood. In addition to this, this number made Japan the second biggest market for exported Vietnamese textiles, only smaller than the United States.

The 5-year period from 2010 to 2014 can be considered to be the exploding period of exporting textile from Vietnam to Japan. At the end of 2010, the total amount of exported Vietnamese textile to this market was about 1.1 billion USD, while that number in 2014 was slightly more than 2.6 billion USD, more than twice as the number at the beginning of the period.

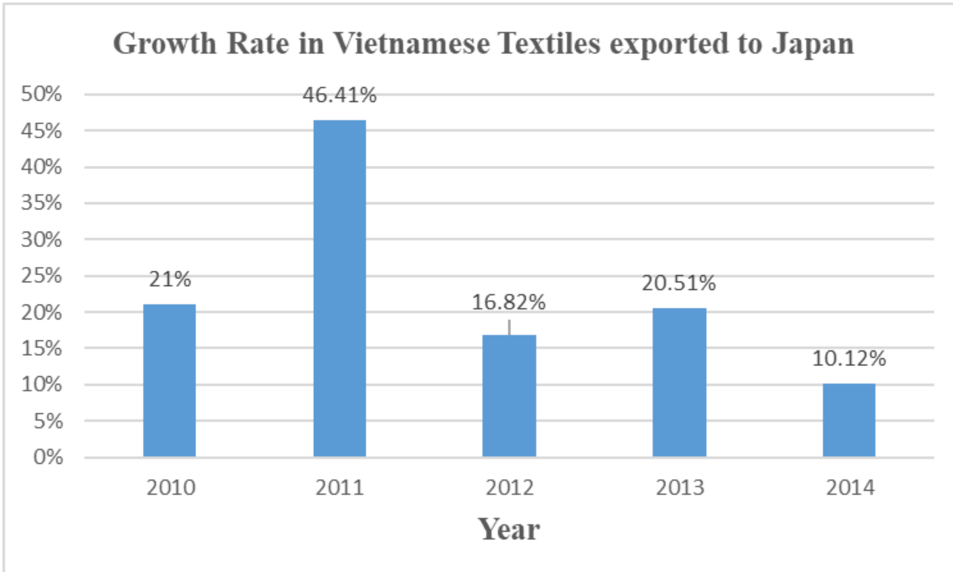

Figure 1: The annual growth rate of textile export from Vietnam to Japan from 2010 to 2014

Source: Vietnamese General Department of Customs

As can be seen from the chart, throughout the whole period, the annual growth rate of exporting textile to Japan was always higher than 10% - which is quite an amazing rate, in terms of economy. The highest proportion is considered in 2011, when the rate was nearly 50%.

From 2015 to 2019, things were a bit different. In spite of the fact that the total amount throughout the period rose gradually, from over 2.5 billion USD at the beginning to nearly 4 billion USD at the end; the growth rate from each year recognized huge fluctuations. Although the average annual growth rate reached 8.95% precisely; this number mainly because of the growth rate in 2018 at more than 22%. In the remaining years, none of those could be higher than 8%, at 6.27% in 2015, 4.11% in 2016, 7.25% in 2017 and finally 4.60% in 2019. This can be explained that after the period of explosion from 2010 to 2014, the "trend" was controlled and the growth rate has gradually slowed down, but still at such a high rate. Still, the total amount in USD rose ten years consecutively from 2010 to 2019, showing the positive effect of VJEPA on the export activity of textile from Vietnam to Japan.

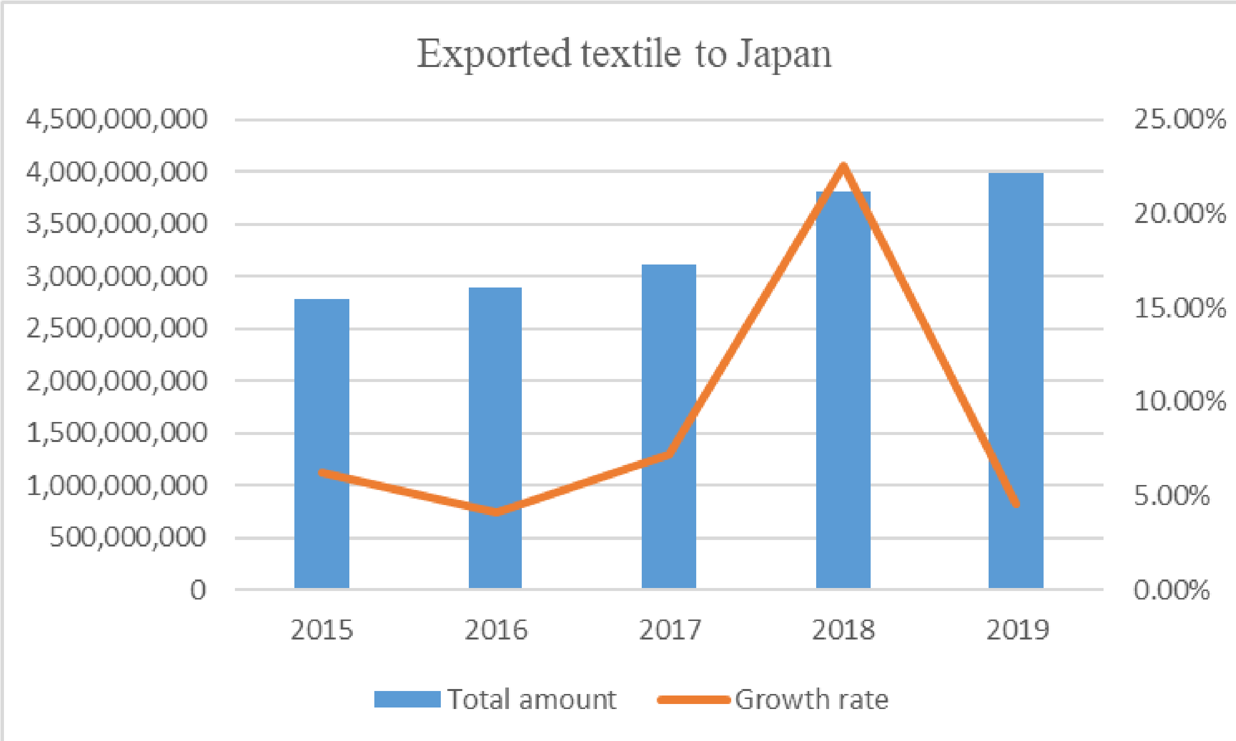

Figure 2: Vietnamese textile export from 2015 to 2019

Source: Vietnamese General Department of Customs

In 2020 and 2021, due to the significant negative impact brought by the COVID-19 pandemic, the total amount of Vietnamese textile imported by Japanese enterprises were around 3.5 billion USD and 3.2 billion USD respectively; receiving a total 700 million USD loss, in comparison with that of before the pandemic.

After the pandemic, the Japanese, as well as the global economy started to recover from the year 2022. As a consequence, there was a 800 million USD rise in the total amount of Vietnamese imported textile, to more than 4 billion USD - which is even higher than that of the peak before the pandemic (nearly 4 billion USD in 2019). Now, after 8 months of 2024, the total export of textile from Vietnam to Japan reached 2,749,822,510 USD in particular. With this number and with the total amount in August only of more than 450 million USD, it is expected that by the end of 2024, the total export of this product to the Japanese market will reach around 4.5 billion USD, with the annual growth rate of about 10%, just like before the pandemic.

Before the Vietnam-Japan Economic Partnership Agreement (VJEPA) was implemented in 2009, Vietnam's textile and garment exports to Japan were imposed 5% -10% import taxes based on the product (Nghia, 2014). The tariffs sharply raised the end price of products, rendering Vietnamese textiles less competitive than those from nations like China and Bangladesh. Japanese consumers looking for cheap clothing benefited from Japan's Generalized System of Preferences (GSP), which allowed many textile products to be imported tariff-free. On the other hand, China was also not excluded from such tariffs but it had still a logistics competitive advantage thanks to

China's production capacity and lower workers outlay than Vietnam. With the implementation of VJEPA, most Vietnamese textile and garment exports to Japan were granted 0% import tariffs either immediately or within three years, depending on the product category (Phong, 2022). The most significant benefit of the 0% tariff rate was the direct reduction in export costs. For instance, before VJEPA took effect, a shirt valued at $10 was subject to a 5% import tariff, adding an extra $0.5 to its cost. After the tariff rate was reduced to 0%, Vietnamese enterprises were able to lower selling prices or maintain the same price to increase profit margins. This created a substantial competitive advantage for Vietnamese textiles in the Japanese market, particularly compared to China, which lacks a similar bilateral agreement with Japan.

According to a report by the Vietnam Ministry of Industry and Trade, in 2014, Vietnam's textile and garment export turnover to Japan grew at an average annual rate of 10% during the 2009-2014 period, reaching $2.4 billion in 2014, double the value in 2008. This growth not only reflects the impact of the 0% tariff rate but also demonstrates the ability of Vietnamese businesses to effectively leverage the advantages of VJEPA. Notably, product groups such as sportswear, corporate uniforms, and casual clothing benefited the most. These items are in high demand in Japan, which prioritizes high-quality products at competitive prices (JETRO, 2024b). Companies like May 10 and Vinatex have reported significant growth in exports thanks to this advantage.

Not only about the quantity, but also the quality of Vietnamese textiles has been improving day by day to meet the requirements of the Japanese market. Because most of the Japanese population work in another industry, almost all clothes and textiles that are being traded in this market come from another country, with the biggest market share belonging to Chinese enterprises, reaching nearly 50% in 2007.

Not only China, but also Taiwan, South Korea, etc. are potential competitors for Vietnamese firms when exporting textiles to this market. Therefore, in order to gain market share in the Japanese market, Vietnamese products need to be good in quality. Japanese customers are very demanding, there must not be any wrinkles or faulty stitches. All products must be perfectly prepared, and receive clear quality certifications, issued by Japanese agencies. Moreover, with the aging Japanese population - the target group requires a lot of high quality products; as well as requiring prices to be low enough to be affordable, creating many challenges for Vietnamese enterprises exporting to this market.

1.7. Reasons for Vietnamese exporters to prefer VJEPA rather than AJCEP

Firstly, the regulations and procedures for Vietnamese firms when exporting under VJEPA are significantly simpler than those under AJCEP. While AJCEP is a broad and complex multilateral agreement involving multiple ASEAN countries and Japan, VJEPA is a more straightforward bilateral agreement between Vietnam and Japan, focusing mainly on trade in goods and services. This simplicity in structure translates to more accessible provisions for exporters. For instance, AJCEP includes highly detailed and stringent rules of origin (ROO), which require compliance with multiple criteria, such as origin, processing stages, and regional value-added content. These criteria often necessitate extensive documentation and administrative coordination across ASEAN countries, increasing compliance costs and procedural burdens. In contrast, VJEPA adopts a more streamlined approach to ROO. Under VJEPA, products only need to achieve a 40% Regional Value Content (RVC), calculated based on inputs from Vietnam and Japan. This flexibility allows Vietnamese exporters to source materials directly from Vietnam or Japan without depending on complex supply chains within ASEAN. The simpler ROO under VJEPA not only reduces administrative overhead but also enables faster processing and utilization of preferential tariffs, making it a more attractive option for Vietnamese exporters.

Secondly, the tariff structure and reduction process under VJEPA are more advantageous for Vietnamese exporters compared to AJCEP, enabling Vietnamese textile exporting companies to maximize their earnings in the Japanese market. While AJCEP provides a slower and more gradual tariff reduction timeline, VJEPA offers faster and more immediate tariff reductions, with many textile and garment products enjoying 0% tariffs either upon implementation or within three years. This rapid reduction significantly lowers export costs, allowing Vietnamese businesses to either increase their profit margins or offer more competitive pricing. As a result, Japan has risen to become the second-largest market for Vietnam's textile exports, driven by the clear benefits of the VJEPA framework, which enhances market accessibility and bolsters Vietnam’s position as a key trade partner for Japan.

1.8. Some assessments and comments on the textile exporting activities to Japan under VJEPA

1.8.1. Overall assessment

Japan was already Vietnam’s third largest importer of textile before the agreement, which made such industry in Vietnam better flourish after the mutual commitment between two countries, with the evidence of stable growth rate as well as turnover over the years.

With VJEPA, the tariff for Vietnamese textile has been reduced to zero, which provides exporters the direct price advantage. Also, this earns the exporters a slight competitive edge over other textile-exporting nations that do not have a similar trade agreement with Japan.

However, to fully benefit the preferential tax rates, Vietnamese textile products have to meet Japanese standards and rules of origin, along with environmental commitment. Smaller and medium-sized enterprises might find it difficult to fulfill these requirements.

1.8.2. Strengths

Vietnam has a large, relatively low-cost labor force, making it a competitive hub for textile manufacturing. This cost advantage is crucial in the labor-intensive textile industry, helping Vietnam maintain competitive pricing in the Japanese market. According to The Vietnam Textile and Apparel Association (VITAS), the spendings of Vietnamese firms in this industry on labor in 2022 was 30% to 50% lower than that of competitors, such as China, Thailand or Malaysia. Under the case of VJEPA, before the appearance of the Agreement, Vietnamese textile exports faced import tariffs of 8-12%, creating a disadvantage compared to competitors like Thailand and Indonesia - where garment and textile exporters are benefited by existing Agreement on tax reduction. With VJEPA in place, as soon as the export tax of garment and textile is reduced to 0%

only, the advantage of lower operating costs will be utilized. Less money in production cost, the lower the price of introduced products. Vietnamese exporters may offer competitively priced goods by taking advantage of low production costs and tariff-free access, especially in high-demand categories like sportswear and casual wear. With such an advantage, Vietnamese businesses can increase their market share in the Japanese market. In 2022, Vietnam's textile exports accounted for 11% of Japan's total textile imports, up from 7% in 2015 (JETRO, 2024a).

In the context of highly intensive integration, the Vietnamese government has determined textile manufacturing as one of its strategic industries with high potentials, alongside with a variety of governmental regulations to support the industry. For example, a pivotal initiative is the establishment of specialized industrial zones, such as the Rang Dong Textile and Garment Industrial Park in Nam Dinh province. This industrial park is designed to integrate various stages of textile production—from spinning and weaving to dyeing and garment manufacturing—thereby enhancing the self-sufficiency of the supply chain. The project aims to supply 30% of the industry's material needs by 2025, significantly reducing reliance on imported raw materials (baotainguyenmoitruong.vn, 2024). With VJEPA, the more materials are originated and produced in Vietnam, the better tax reduction those firms can receive. Moreover, the government works together with foreign organizations to make the sector more sustainable. Co-operations with the International Finance Corporation (IFC) have resulted in a number of projects which aim to increase resource efficiency, decrease greenhouse gas emissions in the textile industry. Such collaboration helps in providing industry support in the form of technical guidance as well as funds for adoption of more sustainable practices. Japan is a market which emphasizes the importance of longevity, sustainability and environmentally-friendly the most; with the huge assistance from the government, Vietnamese textile and garment can reach the market easier. Also, VJEPA creates uncountable opportunities for businesses from Vietnam and Japan to work together, therefore, it is easier for small and medium-sized Vietnamese exporters to access loans or to establish bilateral partnership with Japanese importers, with the commitment and assistance from the government.

In another aspect, decades of experience working with demanding markets like the United States, the European Union, and Japan have equipped Vietnamese businesses with the ability to navigate complex requirements, from rules of origin and product quality to environmental standards. Within the framework of the Vietnam-Japan Economic Partnership Agreement (VJEPA), this experience represents a crucial competitive edge, allowing enterprises to satisfy the conditions and avail of tariff reductions. Additionally, prominent companies like May 10 or Vinatex obtained the internationally accepted certificates of ISO, WRAP as well as SA8000. These certificates are of strategic importance for Japanese importers as they strengthen their trust but also facilitate the access of Vietnamese goods to high end products with high quality and sustainability.

1.8.3. Weaknesses

Exported garments are mostly produced by processing, while design and fashion are not yet developed. The rate of making goods by FOB method is low, and production efficiency is low. To be particular, according to VITAS, Vietnam's FOB production rate was about 40% in 2022, compared to 60% of China and slightly more than 50% of Bangladesh; which limited the capacity to create high-value products and independently manage the supply chain. Consequently, Vietnamese exporters primarily serve as subcontractors, which reduces their profit margins and makes it difficult to compete in premium market segments.

The absence of a strong national brand is one of Vietnam's textile and apparel industry's major problems. Nowadays, rather than creating their own labels, the majority of Vietnamese companies use Original Equipment Manufacturing (OEM) models, concentrating on producing goods for foreign brands. Because the brand owners keep the majority of the earnings, this reliance on OEM restricts the value-added segment of the supply chain. For example, despite the fact that Vietnam produces a significant amount of clothing for well-known companies like Uniqlo, Muji, and H&M, Japanese buyers frequently do not know where these goods actually come from. Vietnamese goods are also unable to penetrate high-end market niches due to the lack of a distinctive national brand. Customers in Japan have a high level of brand loyalty and are prepared to pay more for well-known and reliable brands (ulpa, 2024). Vietnam is still limited to competing in the low-to-mid price range in this regard, which limits its capacity to compete with nations such as South Korea, which has built internationally renowned fashion companies.

Most textile and garment enterprises are small and medium-sized, with low ability to mobilize investment capital, limiting the ability to innovate technology and equipment. The small scale has caused businesses to fail to achieve economies of scale, and can only supply to a certain market. If Japan, in this case, undergoes an economic crisis which makes its importers reduce the import quantity, such Vietnamese enterprises will face a vast array of challenges.

The significant reliance on imported raw materials—particularly fabric and yarn, of which more than 60% are derived from China—is another serious flaw (Như Quỳnh, 2023). This dependence raises production costs and exposes Vietnamese exporters to supply chain disruptions around the world, like the COVID-19 pandemic or the rising cost of transportation. Additionally, this dependence limits Vietnamese exporters' capacity to fully benefit from tariff reductions by making it more difficult to comply with the VJEPA rules of origin. Vietnam's textile sector runs the risk of becoming less competitive in Japan's demanding market if large investments are not made in domestic supply chains and technology.

Moreover, logistics and supply chain cost is another factor that cannot be overlooked. Despite being one of the world’s largest textile exporters, Vietnam struggles with outdated transportation systems, overburdened seaports, and inefficient customs processes. According to a World Bank report, logistics costs in Vietnam account for 20-25% of GDP, substantially higher than the 10-15% average in developed nations (Yin LamAlmud Weitz, 2019). These high logistics costs diminish the competitiveness of Vietnamese textile exports, particularly in the Japanese market, which demands low costs and timely delivery. A major issue lies in the lack of efficient domestic transportation links between key production hubs, such as Nam Dinh and Hai Phong in the north, and major export seaports in the south. This results in prolonged storage times at warehouses and delays in shipment schedules. Moreover, Vietnam’s seaport capacity remains insufficient to handle large export volumes, forcing businesses to rely on third-party logistics providers, often at higher costs.

Opportunities of Vietnamese textile exporting to Japan in the context of the VJEPA

1.9. Increase Vietnamese textile's market share

The Vietnam-Japan Economic Partnership Agreement (VJEPA) plays a crucial role in enhancing the competitiveness of Vietnamese textiles exports by reducing tariffs, thereby making Vietnamese textiles more attractively priced. This significant tariff reduction presents a valuable opportunity for Vietnamese textiles exporters to expand their market presence and capture a larger share of Japan's textile market, which is renowned for its substantial fashion industry and discerning consumers. With Japan being one of the top importers of textiles globally (with imports valued at 10 billion dollars in 2021, ranking 6th globally), the potential for growth in market share is immense for Vietnamese coffee brands. Additionally, Vietnam currently ranks fourth worldwide in terms of textiles export value, with exports amounting to 31 billion USD. This prominent position underscores the capacity of Vietnam's textiles industry to meet international demand and leverage favorable trade agreements like VJEPA to further penetrate the Japanese market, ultimately enhancing Vietnam's overall export performance and economic growth.

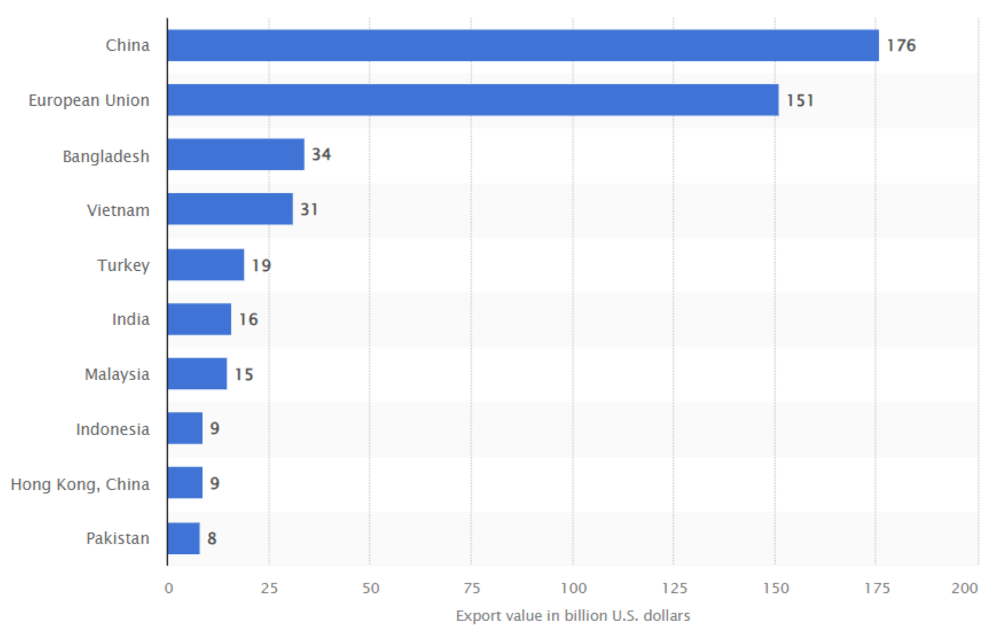

Figure 3: Leading exporting countries of textile worldwide by value in 2021

Source: Statista

Vietnam remains the second largest producer for Japan falling only behind China, beating out countries like Cambodia and Bangladesh. In 2021, Japan imported $4110 million worth of apparel from Vietnam, (14.3% of total imports). Vietnam's textile is also known for its affordable prices and trendy designs. It is expected that the demand for Vietnamese apparel will continue to grow in the upcoming years (Causton, 2021)

Apparel Imports by Country

	CY2020									
	Knitwear		Fabric Clothing		Other Clothing & Accs		Total			
	Units '000	Value ¥m	Units '000	Value ¥m	Tonnage	Value ¥m	Tonnage	Share	Value ¥m	Share
1 China	1,341,404	650,365	673,556	587,151	109,072	217,477	586,247	61.9	1,454,993	55.8
2 Vietnam	355,566	202,411	155,454	191,820	10,551	33,982	135,333	14.3	428,214	16.4
3 Cambodia	117,154	52,256	56,129	56,338	913	3,411	42,661	4.5	112,005	4.3
4 Bangladesh	149,904	54,192	65,185	55,435	597	1,247	58,096	6.1	110,874	4.3
5 Myanmar	62,528	25,729	67,478	74,803	776	2,296	38,226	4	102,828	3.9
6 indonesia	68,631	40,490	47,881	44,477	4,564	6,716	34,822	3.7	91,683	3.5
7 Italy	1,468	24,598	1,451	40,524	271	12,786	1,553	0.2	77,908	3
8 Thailand	55,434	24,553	15,717	5,717	4,454	13,591	11,931	1.3	43,861	1.7
9 India	10,826	5,398	23,092	17,062	465	1,365	7,204	0.8	23,825	0.9
10 Romania	183	2,830	579	13,013	1	37	404	0	15,880	0.6
Asean	687,716	360,933	346,550	380,185	25,118	67,277	275,609	29.1	808,395	31
YonY %	*-9.5*	*-10.9*	*-5.9*	*-14*	*-8.5*	*-9.3*	*-10.2*		*-12.2*	
EU	4,712	40,497	3,318	72,587	563	20,920	3,731	0.4	134,005	5.1
YonY %	*-24.4*	*-16.9*	*-22.7*	*-13.7*	*-28.8*	*-22.7*	*-22.8*		*-19.2*	
Global	2,235,794	1,143,955	1,123,902	1,146,418	137,812	317,679	947,352	100	2,608,052	100
YonY %	*-10.7*	*-13.7*	*-11.1*	*-19.4*	*-12.2*	*-15.7*	*-11.8*		*-16.1*	

Source: Japan Govt Data; JapanConsuming

Figure 4: Japan's Apparel Import by country in 2021

Source: Japan Govt Data, Japan Consuming

1.10. Competitive pricing

Japanese consumers have become increasingly price-sensitive, seeking better value for basics like clothing. This represents an opportunity for Vietnamese garment producers to offer competitive pricing on essential items.

Vietnam can leverage its lower production costs compared to countries like China, allowing it to offer affordable textiles without compromising quality. This positions Vietnamese products favorably in the price-sensitive segments of the Japanese market. The Vietnamese textile industry can respond quickly to fashion trends and consumer demands, offering customization options that align with the fast fashion model popular in Japan (vietnamnews.vn, 2021).

Challenges of Vietnamese textile exporting to Japan in the context of the VJEPA

1.11. Over-reliance on Chinese raw materials

Fabric is an extremely important input material for the Vietnamese textile and garment industry - a key industry with an export turnover of tens of billions of USD each year. Currently, Vietnamese garment products have been exported to 104 countries and territories. However, domestic raw fabric sources only meet 50% of demand (Như Quỳnh, 2024), so Vietnam has to import raw fabric from other countries, typically China.

China's advantages in the textile industry are low production costs, quality raw materials, modern industrial infrastructure and available high-tech machinery, making this market always a priority for other countries to import. Not only do they dominate the world in terms of fabric and garment output, many textile and garment factories in China are also actively shifting to applying automation to production lines to improve productivity and avoid labour shortages.

1.12. Intense price competition with other exporters

Vietnam faces intense competition from China and Bangladesh in the Japanese market. Both countries have established strong supply chains and lower production costs, enabling them to offer competitive prices. Chinese manufacturers benefit from advanced technology and economies of scale, while Bangladesh has leveraged its low labor costs to attract significant orders. This competitive landscape necessitates strategic investments in technology and skills development to ensure that Vietnam remains a viable player in the global textile industry.

In 2022, Japan imported $35.3B in Textiles, mainly from China ($19.6B), Vietnam ($4.72B), Bangladesh ($1.41B), Cambodia ($1.23B), and Indonesia ($1.22B) (The Observatory of Economic Complexity, 2022). Export from China, Vietnam and Bangladesh in this sector were in a pecking order as shown in the figure below.

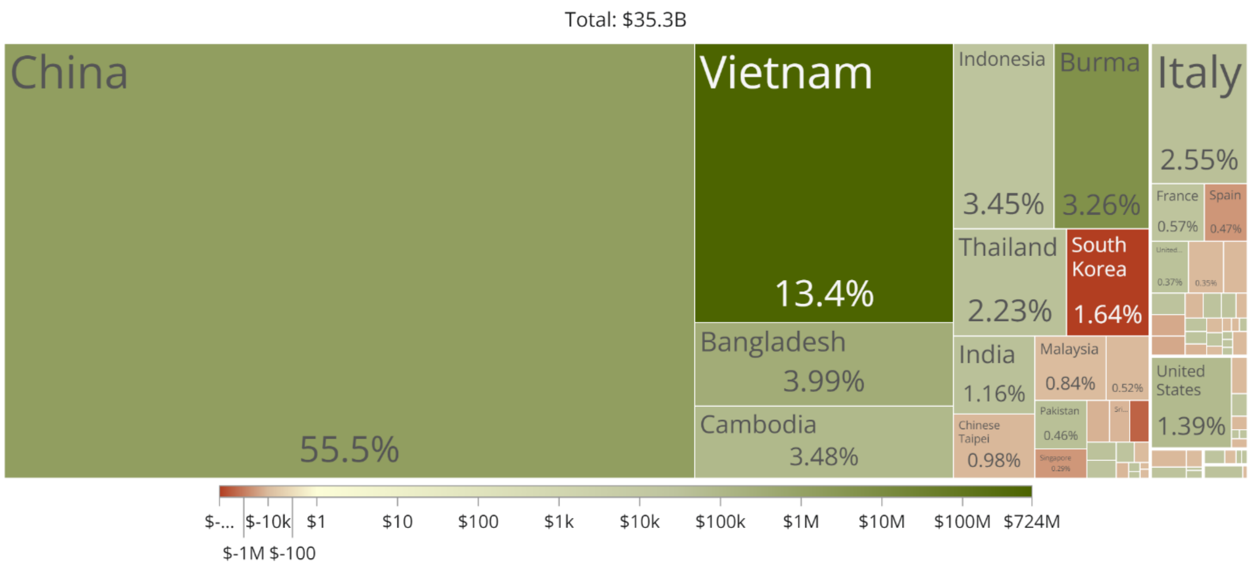

Figure 5: Japan's textile import origin growth in 2022

Source: The Observatory of Economic Complexity

1.13. Japan's quality control

Japanese consumers have very high standards. Living in a high-standard environment, they place particular emphasis on the quality, durability, reliability, and convenience of products. They are willing to pay a premium for quality items. This demand includes not only the product itself but also after-sales services that ensure timely support from manufacturers when products encounter issues. Many products receive quality certification in exporting countries but may not meet the specific requirements for the Japanese market. Standards set by Europe and the United States usually focus more on external appearances rather than detailed internal specifications.

However, Japanese consumers always expect perfection across all purchased products, paying close attention to any defects in materials, stitching, or even when minor flaws in usage occur.

Japan is sensitive to seasonal weather changes, each bringing unique weather conditions that significantly influence consumer trends. Textile products must adapt to seasonal changes, ensuring that they provide adequate protection in varying weather conditions. Additionally, consumer preferences shift with the seasons, which requires careful planning and product offerings. Companies must ensure that their products meet the specific needs of consumers during different weather conditions. Understanding the impact of climate and consumer habits is essential for effectively strategizing marketing efforts in the Japanese market. (Nguyễn Mạnh Toàn, Huỳnh Thị Diệu Linh, Huỳnh Thị Diễm Trinh, 2020)

1.14. Little role in global supply chain

Despite remarkable turnover, the role of Vietnam's textile industry in the global supply chain is almost trivial. The textile industry is mostly involved in cutting and sewing stages, also known as garment processing. Currently, only 21% of small and medium enterprises in Vietnam participate in the global supply chain compared to 30% in Thailand and 46% in Malaysia (Phạm Thị Thanh Thanh, 2023).

For a long time, Vietnam has failed to propose a specific plan to develop raw material areas for the industry, while domestic enterprises only focus on sewing products for business and export. That shows that the textile industry's supply chain in general and raw materials in particular are still the weak points of the Vietnamese textile industry.

Proposed recommendations to promote textile exports to Japanese market

Studies have indicated that Vietnam's textile exports have faced a number of chances as well as difficulties after the official implementation of the VJEPA. The research team therefore suggests the following strategies to encourage textile exports to Japan, particularly in the context of political crisis in Bangladesh in 2024, one of Vietnam’s biggest competitors in Japanese textile market:

1.15. Recommendations for Vietnamese government

1.15.1. Accelerate investments in domestic supporting industries for textile products

The government should introduce a national program for the development of the supporting industries for textiles and garments by investing in domestic production of fabrics, yarns, dyes, and accessories. This includes establishing specialized industrial zones in strategic areas such as Hai Phong, Thai Binh, Nam Dinh, Binh Duong, and Dong Nai. These provinces are in close proximity to the North - South traffic axis as well as large marine ports and have already possessed adequate conditions for industrial practices. Notably, Hai Phong, Thai Binh, and Nam Dinh boast textiles as their traditional product, which is appropriate for further enhancements of raw material areas, thereby improving the value chain.

Strong incentive policies should also be introduced to encourage businesses to invest in the supporting industries. Firstly, the government should introduce decrees of corporate income tax reductions, e.g from 20% down to 15% or even 10%, for businesses investing in raw material production. Secondly, import tax exemptions for machinery and technology during a 5-to-10-year period should also be taken into account so as to strengthen the product quality and give such enterprises enough time to upgrade their products. This measure may act as a catalyst for enterprises to ensure their compliance with VJEPA's rules of origin, thereby taking full advantage of preferential tariffs. Last but not least, providing access to preferential credit through Vietnam Development Bank is also crucial for enterprises working on supporting industry for textiles and garment products.

Long-term support for enterprises investing in raw material production will help reduce import tax, transportation cost from exporters, especially China, thereby reducing the price as well as alleviating the reliance on Chinese raw material. However, in the short term, the scale of raw material production needs to be enlarged and other investments need to be made in equipment, expertise, and so forth, which might render the price go up.

1.15.2. Enhancing quality control

The establishment of advanced testing and certification centers represents a critical effort by the Vietnamese government to ensure textile exports meet Japan's stringent standards. These centers, equipped with cutting-edge technologies, conduct tests for durability, flame resistance, breathability, and the presence of banned substances in textile products. By providing rigorous testing services, these centers help enterprises identify quality issues and avoid export risks such as product rejections due to non-compliance. An example is the development of facilities like the Textile Ecology Laboratory, which has been tailored to meet the demands of major export markets, including Japan, the United States, and the EU. This initiative not only supports businesses in maintaining product quality but also significantly boosts the competitiveness of Vietnam's textile products on the global stage.

1.16. Recommendations for Vietnamese enterprises

1.16.1. Enhance the product quality and the manufacturing practices

Vietnam's textile exporters must prioritize quality and adhere to specific requirements in order to succeed in the Japanese market. Given Japan's preference for high-quality and "green" textiles, Vietnamese exporters should focus on producing durable, innovative fabrics that meet specific consumer demands, such as moisture-wicking or eco-friendly materials. Additionally, factories must meet ESG standards, which entails the utilization of solar energy in the manufacturing process, the reduction of sewage, and the achievement of carbon certifications (Huy Đức, 2024). Investing in research and development (R&D) would enable companies to create advanced products that appeal to the Japanese market.

1.16.2. Create value chains

It is important to focus on supply chain efficiency. Active cooperation and linkages must be established to boost strengths and construct supply chains by increasing production linkages among firms, cooperatives, and production households. To create a robust value chain, Vietnamese textile exporters must collaborate closely with suppliers of cotton, synthetic fibers, or other key raw materials, exporters can ensure consistent quality, reduce costs, and mitigate risks of supply chain disruptions. Additionally, partnering with global textile machinery manufacturers or textile technology providers could help Vietnamese exporters upgrade their production processes and increase efficiency. Leveraging advanced technologies such as automation, artificial intelligence, and robotics in manufacturing enhances productivity, reduces waste, and improves product quality.

It is essential for businesses to have long-term vision about restructuring the supply chain and repositioning their position. In other words, they need to shift from ordinary processing stages (CMT) to FOB (purchasing raw materials, semi-finished products), ODM (own sales design), or OBM (owning its own brand) (Phạm Thị Thanh Thanh, 2023). It is this factor which creates added value for Vietnamese product.

1.17. Recommendations for VITAS (Vietnam Textile and Apparel Association)

1.17.1. Enhance linkages between raw material suppliers and enterprises

VITAS should play a pivotal role in connecting raw material suppliers with processing and exporting enterprises to establish a closed-loop production chain. This will ensure adherence to origin regulations and compliance with Japanese market standards about TBT, Rules of origins, and so forth. Consequently, both businesses and suppliers will have a stable market for their products.

1.17.2. Promote "Made in Vietnam" brand

VITAS should emphasize on launching branding campaigns that promote "Made in Vietnam" textiles as high-quality, sustainable, and competitively priced, emphasizing unique strengths like craftsmanship and eco-friendly production. To implement this, the organization should encourage member companies to develop a collective brand identity which appeals to Japanese consumers and retailers using specialized training or consulting programmes, thereby enhancing the visibility of Vietnamese textiles.

1.17.3. Provide policy consultation for government

The association should enhance cooperation with government authorities to collect necessary information for the industry, updating policies or new market requirements. Moreover, such institution should work with the government to protect enterprise interests related to non-tariff measures, and act as a liaison for businesses to submit proposals to government agencies when needed.

Through these efforts, VITAS can play a crucial role in enhancing Vietnam's textile export potential to Japan under VJEPA.

Conclusion

Vietnam’s textile exports to Japan, under the framework of the Vietnam-Japan Economic Partnership Agreement (VJEPA), represent a vital component of the country's trade strategy. The agreement has provided significant opportunities by reducing tariffs, thus enhancing Vietnam’s competitiveness in the Japanese market. As a result, the textile and garment industry has experienced growth, solidifying Japan as one of Vietnam’s key export destinations.

However, the challenges posed by intense competition, Japan’s stringent quality standards, and evolving consumer preferences cannot be overlooked. To sustain its position and continue to grow, Vietnam’s textile industry must address several key issues, such as improving product quality, adhering to environmental standards, and enhancing supply chain efficiency. Therefore, innovative solutions are required to maintain competitive pricing and meet the increasing demand for sustainable products.

To fully capitalize on the benefits of VJEPA, government support, in the form of policies that encourage innovation and sustainability, will also be crucial in helping the industry navigate these challenges. Vietnamese businesses must invest in upgrading technology, enhancing labour skills, and building stronger relationships with Japanese buyers. VITAS also plays a crucial role in the development of the industry by acting as a catalyst for government as well as enterprises. With the right strategies and improvements, Vietnam’s textile sector has the potential to further strengthen its foothold in the Japanese market, ensuring long-term success and continued contributions to the nation’s economic growth.

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