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Vietnam: Thanh Cong Textile Garment Investment Trading JSC (TCM)

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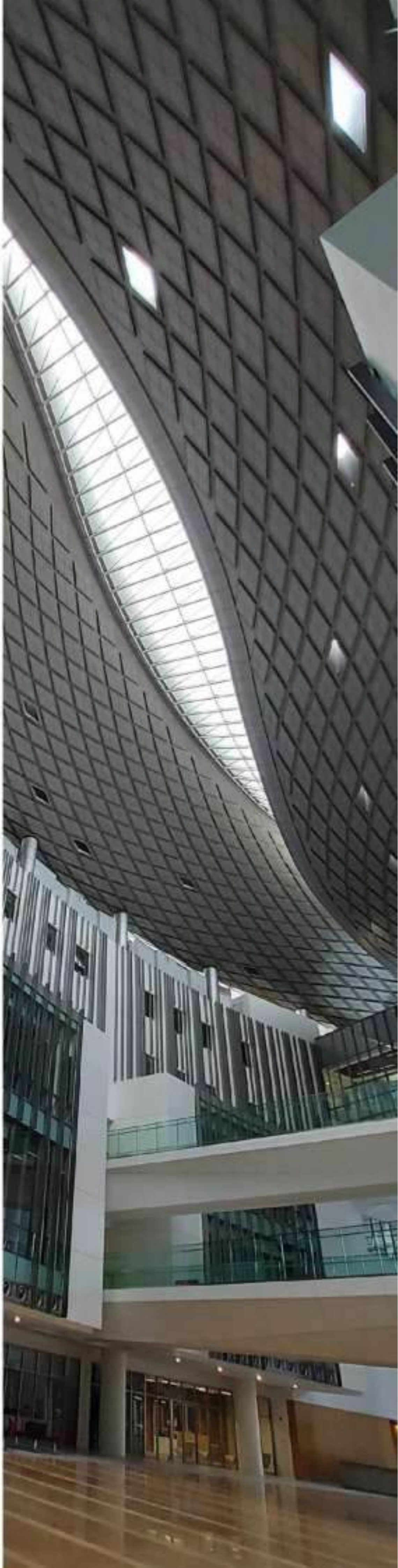

EXECUTIVE SUMMARY

Vietnam's textile and garment industry remains vital to its economy, with exports reaching $40.3 billion in 2023 and growing 6.3% to $20.3 billion by July 2024. Employing over 2.5 million workers, the sector accounts for 25% of the industrial workforce and supports rural and urban livelihoods. Key advantages include a skilled labor force, trade agreements like CPTPP and EVFTA, and integration into global supply chains. However, rising labor costs, reliance on imported raw materials, and increasing sustainability demands are reshaping the industry.

Thanh Cong Textile Garment Investment Trading JSC (TCM), founded in 1976, exemplifies Vietnam's manufacturing strength. As a fully vertically integrated company, TCM ensures cost efficiency, consistent quality, and timely delivery. It has embraced sustainability with recycled fibers, organic cotton, and renewable energy, earning certifications like OEKO-TEX to attract eco-conscious buyers.

Using Porter's Five Forces framework, this analysis highlights high entry barriers, strong buyer power, and intense competition. TCM's focus on innovation, sustainability, and high-value products positions it to capitalize on emerging markets, automation, and green initiatives. Its forward-thinking approach reflects Vietnam's broader resilience and potential in the global textile industry.

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Introduction

Understanding Vietnam's Socio-Economic Framework

Vietnam has undergone a remarkable transformation since the implementation of the Doi Moi reforms in 1986, evolving from one of the world's poorest nations to a dynamic lower middle-income economy. By 2023, Vietnam's GDP per capita reached approximately $4,347, with projections suggesting an increase to $4,700 to $4,730 by the end of 2024. The total GDP for 2023 was around $429.72 billion, with growth projected at 6.1% for 2024 and 6.5% for 2025.

The manufacturing and processing sectors are crucial to this growth, expected to contribute approximately 24.1% to 24.2% of GDP in 2024. This commitment to industrialization is evident in Vietnam's strategic focus on improving productivity and competitiveness across various sectors. Significant strides have been made in poverty reduction, with the percentage of the population living on less than $3.65 per day dropping from 14% in 2010 to less than 4% in 2023. The government aims to reduce the poverty rate to 1% by 2035, while also targeting that over half of its population will join the global middle class. Infrastructure development has markedly improved, with nearly 100% of the population having access to electricity as of 2019, up from just 14% in 1993.

Vietnam's competitive advantage lies in its skilled workforce, trade-friendly policies, and strategic access to global markets through agreements like the CPTPP and EVFTA. These partnerships provide preferential access to high-demand regions such as the U.S., EU, and Japan. However, rising labor costs and reliance on imported raw materials pose challenges to the sector's growth. Despite these hurdles,

Vietnam's focus on sustainability, localization, and automation continues to strengthen its global position.

Importance of Textiles and Garments in Vietnam's Economy

Vietnam's textile and garment industry contributes significantly to exports, employment, and foreign investment. In 2024, the sector is projected to generate over $45 billion in revenue, accounting for 9.6% of total exports, with a steady CAGR of 3.33% expected through 2029. Employing over 2.5 million workers, or 25% of the industrial workforce, the industry supports livelihoods across rural and semiurban areas. Vietnam has solidified its role in the global value chain, supplying major brands like Nike, Adidas, Zara, and H&M. In response to rising demand for sustainable practices, companies are adopting greener methods, such as using recycled polyester and organic cotton, and obtaining certifications like OEKO-TEX and GRS. To tackle rising labor costs, including a 6% minimum wage increase in July 2024, firms are integrating automation and digital technologies to enhance efficiency. These advancements bolster Vietnam's competitiveness against emerging markets like Bangladesh and Cambodia. Beyond its economic impact, the sector also contributes to social development by driving progress in rural and semi-urban areas, reinforcing its importance to Vietnam's overall development.

Introduction to TCM: History, Operations, and Market Position

Thanh Cong Textile Garment Investment Trading JSC (TCM) is a prominent leader in Vietnam's textile and garment industry, reflecting the nation's industrial growth. Founded on August 16, 1976, TCM began as a knitwear manufacturer under the Union of Textile Enterprises and has since transformed into a fully vertically integrated enterprise. Its operations span yarn spinning, fabric weaving, and garment manufacturing, enabling cost efficiency, strict quality control, and timely delivery which is essential for competing in today's global market. Supplying global brands, TCM has built a robust international presence by adapting to shifting consumer preferences and meeting stringent international standards. The company has embraced sustainability as a core objective, investing in eco-friendly practices and earning certifications to validate its environmentally responsible methods. In 2024, TCM aims to achieve VND 3.7 trillion ($148.2 million) in revenue and a 21% growth in after-tax profit, targeting VND 161 billion ($6.45 million). Strong recovery indicators include 100% production capacity utilization in Q1 2024 and orders covering 85% of capacity for Q2.

Industry Context

The Vietnamese textiles and garment industry operates in a highly competitive global market, shaped by dynamic forces that influence profitability and growth. As one of the largest contributors to Vietnam's economy, the industry thrives on its strong export orientation, favorable trade agreements, and cost-efficient production capabilities. However, it also faces significant challenges, including price-sensitive buyers, reliance on imported raw materials, and intense rivalry from global competitors. Using Porter's Five Forces framework, this section analyzes the industry's competitive landscape, highlighting the strengths and weaknesses of key forces and how companies like Thanh Cong Textile Garment (TCM) strategically position themselves to maintain competitiveness.

Threat of New Entrants

The threat of new entrants is low due to significant barriers. Setting up a vertically integrated facility like

TCMs require a massive capital investment of over $50 million, along with annual costs of $20,000 - $40,000 for sustainability certifications. Established companies have a clear advantage given their strong relationships with global brands. The long-term partnerships provide steady demand and access to lucrative export markets, creating a significant competitive advantage that is hard for newcomers to replicate. In 2022, less than 5% of new textile businesses managed to enter Vietnam's export market, highlighting the difficulty of scaling operations to compete with well-established players who benefit from economies of scale, operational expertise, and trusted reputations. Although government incentives and tax breaks are in place to attract investment, the high costs and dominance of existing players make it challenging for new entrants to gain a foothold.

Bargaining Power of Suppliers

The bargaining power of suppliers can be considered moderate, due to the country's heavy reliance on imported raw materials. In 2022 alone, Vietnam imported $13 billion worth of fabrics, with over 60% coming from China. Cotton imports were similarly significant, totaling 1.5 million tons at a value of $3.2 billion. This dependency gives suppliers leverage, during periods of supply chain disruptions or price fluctuations. However, companies like TCM are taking proactive steps to counter this dependency through vertical integration. By managing their supply chain internally, TCM has been able to save 2030% on production costs, which not only reduces their reliance on external suppliers but also gives them better control over quality and lead times. This approach limits the bargaining power of suppliers, especially for firms that can internalize key parts of the production process. Global competition among suppliers also helps temper their influence, as manufacturers in Vietnam often have access to multiple sourcing options. Vietnam's limited domestic production of raw materials still leaves the industry somewhat exposed, making it a priority for the country to invest in local material production to enhance resilience.

Bargaining Power of Buyers

Global dominant buyers hold significant power in Vietnam's textile and garment industry. In 2022, these major players accounted for over 50% of Vietnam's garment export revenue, making their purchasing decisions critical to the industry. These buyers are highly price-sensitive, pushing manufacturers to offer competitive pricing to secure contracts. Vietnam's average FOB price of $2.50 per garment reflects this pressure which is lower than China's $3.10 but still slightly higher than Bangladesh's $2.10, underscoring the tight margins manufacturers must work within. As highlighted earlier, companies purchase eco-friendly certifications, as approximately 70% of buyers request compliance with sustainability standards. These demands come with added costs, making it challenging for manufacturers to maintain both price competitiveness and profitability. As a result, manufacturers in Vietnam must continuously innovate, adopt able practices, and optimize efficiency to retain and grow their share of buyer contracts.

Threat of Substitutes

The threat of substitutes is moderate, influenced by advancements in automation, shifting consumer behaviors, and external pressures like U.S. labor restrictions. Automation in developed markets offers low-cost, customizable alternatives, while the global second-hand clothing market, valued at $96 billion in 2022, reduces demand for new garments. U.S. labor restrictions further increase the risk of buyers shifting orders to other countries or automated facilities, as seen in cases like Esquel. Despite these challenges, Vietnam mitigates substitution risks by specializing in high-value products like sportswear, which generated $9 billion in exports in 2022. By prioritizing quality, innovation, and compliance with labor standards, Vietnam maintains its competitive edge in the global market.

Industry Rivalry

Industry rivalry is intense, driven by global and domestic competition. In 2022, Vietnam exported $44 billion in textiles, competing with China ($323 billion), Bangladesh ($45 billion), and India ($44 billion). Domestically, major players like Vinatex hold 20% market share, challenging smaller manufacturers to differentiate themselves. Slim profit margins of 3-5% intensify price competition, pushing firms to focus on efficiency and cost control. Companies like TCM invest up to 10% of their revenue in sustainability and innovation to capture premium segments, such as eco-conscious buyers and markets for high-quality sportswear and technical textiles. With evolving consumer preferences and stricter compliance demands, firms must innovate and adapt to compete effectively in this highly competitive landscape.

Prospects

Technological Adoption

Companies like Thanh Cong Textile Garment Investment Trading JSC (TCM) are leading this shift by integrating Industry 4.0 technologies. Automation plays a key role, with AI-driven systems enhancing precision in fabric cutting, dyeing, and quality control, reducing material waste and improving output quality. Automated fabric cutting, for example, minimizes errors and speeds up production, enabling TCM to meet rising demands for smaller, high-value orders.

Amid rising labor costs, including a 6% minimum wage increase in July 2024, automation helps mitigate expenses by reducing reliance on manual labor. TCM also adopted circular economy practices like recycling textile waste into raw materials, reducing its environmental impact. Government support has been instrumental, with policies fostering technological advancements and infrastructure investments. By May 2024, the textile sector attracted over $37 billion in foreign direct investment (FDI), underscoring international interest in sustainable manufacturing.

Global Trends

Consumers and brands are prioritizing environmentally responsible practices, which has led to tighter regulations in major markets such as the European Union and the United States. In 2023, Vietnam experienced a 27.1% drop in exports to the U.S., which accounts for approximately 44.21% of its total garment exports. This decline highlights the need for Vietnamese manufacturers to adapt quickly to changing consumer preferences that favor sustainable product and in response, TCM and other companies are investing in eco-friendly materials. Moreover, advancements in technology are enabling Vietnamese firms to produce high-value products quickly and efficiently. The integration of digital printing technology allows companies like TCM to customize products rapidly, catering to specific consumer preferences while maintaining high quality. The recovery of major markets such as the United States is also driving growth in Vietnam's textile exports. In July 2024 alone, textile export turnover reached $3.72 billion, marking a 17.6% increase from the previous month. This rebound indicates strong demand for Vietnamese textiles as international buyers seek reliable suppliers capable of meeting stringent quality standards.

Market Expansion Opportunities

Vietnam’s textile industry is expanding into new markets to reduce risks from global trade fluctuations. The Vietnam Textile and Apparel Association (VITAS) aims for $44 billion in exports by the end of 2024, recovering from a 9.2% drop in 2023, when exports fell to $40.3 billion. The recovery is supported by peak-season demand, favorable trade agreements with tax incentives, and a stable business environment. Vietnam's well-developed logistics and ability to produce diverse, high-value products efficiently make it an attractive sourcing destination amid geopolitical instability.

From January to July 2024, textile exports grew by 6.3% to $20.3 billion, driven by recovering consumer demand in key markets. Companies like TCM are securing contracts extending into 2025, capitalizing on Vietnam's competitive edge over rivals like China and Bangladesh. Substantial investments in advanced machinery and skilled labor enable Vietnamese firms to meet demand for high-value products quickly. A U.S. Fashion Industry Association (USFIA) survey highlighted Vietnam's efficiency and reliability, strengthening its position as a key player in the global textile market.

Challenges and Solutions

Key Challenges Identified

Vietnam's textile and garment industry faces several pressing challenges as it strives to maintain its growth trajectory. Rising labor costs, which have increased by approximately 8% annually (Vietnam Textile and Apparel Association, 2023), are putting pressure on manufacturers, particularly those operating in low-cost, high-volume segments. Compounding this issue is competition for workers from other sectors like electronics and agriculture, which offer comparable wages and better working conditions. Le Tien Truong, Chairman of Vinatex, has emphasized the urgency for the industry to focus on higher-value, technical products to offset these labor cost pressures. Labor fluctuation remains a significant issue in this industry, with some firms reporting up to 11.7% of workforce turnover despite improved wages and policies. This can disrupt production schedules and increase operational costs. Trade barriers and tariff disparities also pose significant challenges. Competing countries like Bangladesh and Myanmar enjoy more favorable tariff preferences under trade agreements, while Vietnam faces compliance hurdles with agreements like CPTPP and EVFTA, increasing operational expenses. Truong highlighted that Vietnam's lack of "developing economy" status in certain agreements limits its tariff advantages, making it harder to compete in price-sensitive markets. Additionally,

Vietnam's recent entry into BRICS may complicate its export landscape, as recent U.S. tariffs targeting BRICS nations could strain its competitiveness in key markets like the U.S. and EU.

Many free trade agreements have been signed or concluded negotiations which promoted to attract foreign investors in develop the textile, dyeing and garments in Vietnam, this was an extreme pressure for development plans of the domestic textile industry and creating critical competition for enterprises like TCM in Vietnam in unison. Moreover, Vietnam is grappling with intensified competition from other manufacturing hubs. Countries such as India and Indonesia are rapidly scaling their textile sectors, benefiting from government incentives and lower labor costs. To stay competitive, Vietnam's textile companies are being urged to invest heavily in technology and sustainable practices, a strategy that requires significant capital and operational shifts. Despite these challenges, the industry's strategic importance in global supply chains continues to push it toward innovation and transformation. However, its long-term sustainability will depend on balancing these external pressures with internal advancements.

Solutions Proposed

A central strategy is shifting toward high value, technical products such as performance fabrics, smart textiles, and specialized garments for industries like healthcare and sports. Le Tien Truong, Chairman of Vinatex, emphasized that this transition is essential for reducing reliance on price sensitive markets and ensuring long term competitiveness.

In parallel, the industry is heavily investing in technology and automation. Advanced systems, including AI driven inventory management, robotic sewing machines, and automated quality controls, are enhancing productivity and reducing dependency on manual labor. Vu Duc Giang, Chairman of the Vietnam Textile and Apparel Association, highlights that these technological upgrades are crucial for meeting international buyers' expectations for speed, precision and sustainability.

Efforts to strengthen domestic supply chains are also reshaping the industry. By increasing local production of yarns and fabrics, manufacturers can reduce reliance on imports and enhance resilience to global disruptions. Simultaneously, the exploration of new export markets in regions like Africa, South America, Russia, and the Middle East diversifies revenue streams, easing dependency on traditional markets such as the US and EU.

Sustainability initiatives have become a defining feature of the industry's evolution. Companies are adopting eco-friendly practices, including the use of recycled fibers, organic cotton, and bamboo, alongside zero-waste processes and energy-efficient production methods like solar power. Workforce development remains a priority, with targeted training programs addressing labor shortages and skill gaps. In collaboration with organizations like VITAS and the International Textile Manufacturers Federation (ITMF), these programs equip workers with expertise in advanced manufacturing techniques, sustainability, and branding, ensuring a skilled and competitive workforce for the future.

Finally, the industry is leveraging global partnerships to strengthen its international competitiveness. Active participation in organizations such as the ASEAN Federation of Textile Industries (AFTEX) and Asia Fashion Federation (AFF) promote knowledge exchange, trade facilitation, and the adoption of global best practices. These collaborations further enhance Vietnam's position as a leading player in the global textile and garment industry. By integrating high-value production, advanced technologies, sustainability, resilient supply chains, and workforce development, Vietnam's textile and garment industry is laying a solid foundation for sustained growth and adaptability in an increasingly competitive global market.

Conclusion

Vietnam's textile and garment industry is a driving force of the country's economy, contributing significantly to exports, employment, and global supply chain integration. Despite remarkable achievements, the industry faces pressing challenges, including rising labor costs, reliance on imported raw materials, and growing sustainability expectations. These hurdles, compounded by global competition and trade complexities, call for strategic transformation and innovation.

The sector's resilience shines with initiatives led by firms like Thanh Cong Textile Garment (TCM), which embody the shift toward high-value products, advanced technologies, and sustainable practices. Investments in automation, eco-friendly materials, and circular economy principles are positioning Vietnam as a responsible and competitive manufacturing hub. Additionally, diversifying export markets and strengthening domestic supply chains are critical steps toward mitigating external risks and ensuring long-term stability.

To sustain momentum, the industry must focus on upskilling its workforce, fostering global collaborations, and leveraging trade agreements to unlock new opportunities. By balancing economic growth with environmental and social responsibility, Vietnam's textile and garment sector can navigate complexities, reinforce its global standing, and contribute meaningfully to the nation's broader development goals. Its trajectory offers a testament to the power of adaptability, innovation, and sustainable progress.

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