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Where's the next China?: Comparative advantages of Bangladesh and Vietnam apparel industries

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Background and Theoretical Framework

With rising production costs in China, fashion retailers are considering alternative locations to source apparel assembly. China, a supplier of roughly 40% of the world's apparel market, has been gradually losing some of its comparative advantages as other countries are emerging as preferred sourcing destinations. Bangladesh and Vietnam have been recognized as the fastest growing and most promising apparel producing nations (Beron, 2014; Gereffi & Frederick, 2010). Yet, little is known about strengths and weaknesses of Bangladesh and Vietnam's apparel industries. The purpose of this study was to examine comparative advantages of the Bangladeshi and Vietnamese apparel industries.

Comparative advantage refers to the competing advantage one country has relative to another country in the global industry (Kogut, 1985). Global Value Chain (GVC) framework has been utilized to evaluate comparative advantages of various industries (Gereffi & Memedovic, 2003). We used the GVC framework to systematically analyze and compare performance of the Bangladeshi and Vietnamese apparel industries across the following GVC components: availability and quality of raw materials (natural and synthetic fibers, yarns, fabrics, and trims); apparel manufacturing capabilities and capacity; and established transportation networks and export channels (Gereffi & Memedovic, 2003). We expanded the GVC framework to include social and environmental sustainability because many apparel firms place increasing importance on these factors when evaluating potential apparel suppliers.

Method

To analyze comparative advantages of Bangladesh and Vietnam's apparel industries based on the GVC framework, latest available secondary data for the 2012-2014 period were collected and analyzed. Databases of international organizations (World Trade Organization, International Trade Centre, World Bank, World Economic Forum, OECD, International Labour Office, Industrial Development Organization), industry reports, and trade publications (e.g. Vietrade; Fibre2Fashion; Apparel Magazine) were used to collect data and measure the following indicators: export and import of raw materials, yarns, and fabric; textile domestic production; apparel manufacturing capabilities and capacity; labor cost; workers' skills, education, training, and productivity; industry value-added services; infrastructure and logistics performance index; compliance with social and environmental regulations; and other relative global competitiveness indices.

Results

The findings indicate that each country has different strengths and weaknesses in terms of the GVC components. Major comparative advantages of the Bangladeshi apparel industry are lower wages, high capacity suitable for large volume orders; and lean manufacturing. The Bangladesh

apparel industry benefits from domestic supply of cotton and production of yarns and fabrics. At the same time, domestic supply of raw materials is not sufficient to support the fast growing apparel industry. The country is dependent on importing high volumes of cotton and fabric to sustain apparel manufacturing. Other factors contributing to longer lead time are poor infrastructure, inefficient logistics, and unstable energy supply.

Even though Vietnam's labor cost is two-three times higher than in Bangladesh, it is compensated by higher productivity of skilled and better trained workers. As a result of proficient workforce, Vietnamese apparel industry's comparative advantage lies in ability to produce intricate styles and agile and flexible manufacturing. In comparison with Bangladesh, Vietnam has more developed infrastructure and logistics services as well as reliable energy supply, resulting in shorter lead times. On the downside, Vietnam lacks in domestic raw material and primarily relies on textile imports. Vietnam's flexible and agile manufacturing practices are suited for companies with a just-in-time business model with lower inventory and reduced time to market. Another important comparative advantage is better social and environmental compliance in Vietnam's apparel industry, in comparison with Bangladesh. With regards to full-package production, both countries are at a disadvantage. Although Bangladesh and Vietnam are mostly CMT based, some firms in both countries are in the early stages of introducing full-package production and added services for a competitive, global marketplace.

Conclusions

Bangladesh and Vietnam's apparel industries have unique comparative advantages that mostly compliment rather than compete with each other. Choosing between Bangladesh and Vietnam when sourcing apparel assembly will depend on the company's business model and the type of product they want to manufacture. For fashion driven companies that need higher quality, faster delivery, and greater overall efficiency in producing more complex styles, Vietnam might be a better choice. In contrast, Bangladesh might be a better choice for high volume driven companies that offer basic apparel and better value for their consumers. Bangladesh and Vietnam are filling unique niches in apparel manufacturing but neither have developed full capabilities yet to compete with Chinese apparel industry. Detailed data comparison by country will be presented and implications discussed.

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