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Researching the Relationship between Aggregate Demand and the Absorb Capacity of Business Capital of Garment Enterprises in Vietnam

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Abstract

The article analyzes the business capital absorption capacity of textile and garment enterprises in Vietnam using descriptive statistics and conducts regression analysis based on data collected at 250 enterprises at the time of the quarter. April 2023. According to proposed research, the ability of businesses to absorb capital will increase thanks to the impact of a good signal of aggregate demand. Fiscal policy is said to have a significant impact on the increase between purchasing power and aggregate demand, as well as a direct impact on the ability of businesses to absorb capital. In the process of converting and exploiting capital resources,

research shows that human capital factors, direct employee productivity and the number of years of existence of the business all have an impact on the ability to absorb business capital. Enterprise. Through research, the author emphasizes that in order for capital flow to circulate continuously, the key point is to increase the capital absorption ability of businesses. Aggregate demand is an important factor in the research model because if capital flows are large, if aggregate demand is weak, businesses' ability to absorb capital will decline.

Keywords: Absorb Capacity, Business Capital, Garment Businesses

1. Introduction

In 2023, the world economy continues to recover after the Covid-19 pandemic but there are still countless difficulties and challenges. Throughout the recovery process, the world continues to experience complex and unpredictable fluctuations, slowing down the speed of recovery and pushing the global economy to face the risk of recession. The phenomenon of supply chain disruption due to the Covid 19 pandemic as well as the outbreak of the Russia-Ukraine war caused gas prices to increase and food prices to skyrocket, causing the cost of living of people in particular to increase. European countries skyrocketed. For textile and garment businesses in Vietnam, the main customers are consumers in exporting countries such as the US, Europe... tightening their wallets with non-essential products including textiles and garments. This is a difficult time for domestic textile and garment enterprises. Looking at the situation in Vietnam, consumer demand for the garment industry is not very positive when considering the first 9 months of 2023 consumer price index. (CPI) increased by 1.08% over the previous month and compared with December 2022 by 3.12% and with the same period last year by 3.66%. Along with the pressure from not having large orders, businesses cut costs, resulting in workers' salaries also being affected. Therefore, the demand for fashion shopping in the domestic market will also decrease.

Looking back at the monetary market recently, we can see that economic growth drivers are almost "invisible", the State Bank of Vietnam in 2023 will continuously reduce operating interest rates, synchronously combining other measures. Other policy tools. In particular, there is a phenomenon of excess credit capital. But credit demand dropped sharply because businesses faced countless challenges in business operations, especially the textile and garment industry as analyzed above. According to Standing Deputy Governor of the State Bank of Vietnam, Dao Minh Tu, commented to Nhan Dan newspaper, "To solve the problem of improving the ability to absorb capital of enterprises cannot rely on monetary policy alone, but requires strong forces." push from many sides. The most important measure at this time is aggregate demand for the economy, resolving business inventories through increasing consumer demand, boosting purchasing power..."

The research was conducted to achieve the goal of making recommendations to both increase aggregate demand and promote the opening up of the capital market through improving the ability of businesses to absorb capital. Taking the research object as textile and garment enterprises because this is the manufacturing industry group that has suffered the most negative effects

from market instability in recent times. Not only that, this is also the industry that accounts for a high proportion of Vietnam's GDP, so it is necessary to research special policies for businesses in this field.

The topic focuses on emphasizing the application of Zahra and George's 2002 foundational research on absorptive capacity. Zahra and George defined absorptive capacity as a system of organizational processes through which an organization receives, assimilates, transforms and applies new knowledge to create dynamic capabilities for the organization. From the application and construction of an overview of old research works, the researcher emphasized the application to businesses in the garment sector in Vietnam in the new normal period amid a complex context. Complexity of the world, as well as finding the correlation between aggregate demand and the ability to absorb capital, thereby providing appropriate recommendations to both stimulate aggregate demand and open up the capital market.

2. Literature review

2.1 Overview

2.1.1 Absorption capacity

The concept of absorptive capacity was first mentioned in the study of authors Cohen and Levinthal (1990), this study focused on emphasizing that this is an indicator of a business's ability to conduct innovation. Create and adapt to changes in the business environment. Cohen and Levinthal provide the concept that the ability to absorb and apply new external knowledge for commercialization goals is referred to as absorptive capacity. Research in 1990 suggested that a company is considered to have stronger development potential, better business capacity, and better production capacity if and only if it is equipped with the ability to absorb knowledge from outside to serve their own production development. The study also built a basic model that the ability to absorb has three main components: Recognize, Assimilate and Apply. Absorptive capacity such as organizational structure, culture and communication.

In 2002, Zahra and George systematized research on absorptive capacity in a comprehensive way and saw it as an organizational process. The highlight of the research is that the newly proposed absorptive capacity assessment model has two stages and 4 activities. Zahra and George believe that a capital flow outside the enterprise is absorbed in two stages: potential absorptive capacity PAC - Potential absorptive capacity and RAC - Realized absorptive capacity, respectively. The four activities are Acquisition, Assimilation, Transformation, and Exploitation.

Lane's 2006 research suggests that the ability to reabsorb only goes through three basic steps: (1) the ability to recognize new knowledge, (2) the ability to assimilate valuable knowledge, (3) the ability to use acquired knowledge to create new knowledge through the process of exploitative learning.

Based on the basic foundations of the concept of absorptive capacity, researchers around the world continuously apply new aspects such as Kelly's (2006) research on innovation, the ability to absorb technology. New technology by Salojarvi and Liisa - Maija Sainio (2006) emphasizes the role of people, saying that a business that wants to absorb a new technology cycle depends heavily on human capital in that organization, or Research on innovation capacity in Vietnamese enterprises by Nguyen Quoc Duy (2020) ^[5] emphasized that accumulated knowledge and knowledge

integration mechanisms have a strong positive impact on absorptive capacity. Through impacts in the field and synergistic effects, it is proven that absorptive capacity has a strong positive impact on both basic innovation and improvement.

In particular, research by Nguyen Hong Son and Ly Dai Hung (2022) ^[6] on the capacity to absorb foreign direct investment capital of provinces and centrally run cities in Vietnam with cross-sectional regression method based on data and 63 localities, this study shows that human resource quality needs to become the top policy priority among three strategic breakthroughs to increase FDI attraction in localities.

2.1.2 Aggregate demand

John Maynard Keynes's classic economic research condensed in the book "The general theory of employment, interest, and money" in 1936 created a strong resonance among economists. Keynes himself, before publishing the above book, argued during the Great Depression that with weak aggregate demand or low aggregate spending in the economy, the private sector could only survive through cuts. Reduce targets, unnecessary activities, businesses that cannot access capital will have to lay off workers and employees. This means that as consumers, workers will have less money to use, consumers buy fewer things from businesses, and demand for goods decreases, causing businesses to find it necessary to lay off workers. According to Keynes's point of view, people with high incomes tend to consume less than low-income people because low-income people have to immediately pay for items such as food, services, and transportation. Traffic, loan interest, etc. reduce the velocity of money circulation, reducing economic development. Therefore, spending more is also a way to increase economic growth.

2.1.3 Theoretical basis

2.1.3.1 Keynes theory

Keynesian theory was proposed by economist John Maynard Keynes. In his view, Keynes believed that the government should use the influence of the budget to stabilize and grow the economy. Keynesian economics defines that to achieve optimal economic efficiency and prevent economic recession, one must influence aggregate demand through government policies to stabilize and intervene in the economy. His theory is considered a "demand-side" theory that focuses on the effects of short-term changes in the economy. In his view of fiscal stimulus, Keynes argued that spending increases aggregate output and creates more income, and that the magnitude of the Keynesian multiplier is related to the marginal propensity to consume, as spending One consumer's income becomes another person's income, which then turns into spending, and so the cycle repeats. He believes that individuals should save less and spend more to raise their marginal propensity to consume to create jobs and economic growth.

2.1.3.2 Some concepts and hypotheses

Capacity absorb of business capital

There have been many studies that have mentioned the ability to absorb capital, especially FDI capital. According to Kalotay's research in 2000, the author introduced the concept of the ability to absorb FDI capital as the maximum amount of FDI that a country's economy can receive. The

host country can receive and assimilate or integrate into the economy. FDI capital brings countless benefits to the economy, but if the host country does not have the ability to absorb it well, it will be limited.

Research by Bui Thi Lanh (2021) ^[9] emphasizes that the ability to absorb FDI capital is the ability of the host economy to receive how much FDI capital, and from there the host country's ability to convert and exploit how much of this foreign capital can be exploited to bring benefits and achieve the socio-economic goals set before?

According to Nguyen Hong Son and Ly Dai Hung (2022) ^[6] also stated that the ability to absorb FDI capital is the maximum amount of FDI capital that an economy can receive, with the structural conditions of the current economy. Have.

Thus, the author defines the ability to absorb business capital as the maximum amount of business capital that a business can receive with the current conditions and resources of the business.

The relationship between purchasing power and aggregate demand

The study "Analysis of purchasing power and purchasing tendency for modern Chinese women" introduces a concept based on the observation from Kurniawan's (2019) ^[11] research that consumers' purchasing power is often related to their behavior. of the subject in clearly determining his or her consumption needs in life. Weak purchasing power is understood as the inability of a subject to purchase goods for themselves or the subject believes that the product is not necessary for their own consumption needs.

The CPI (consumer price index) is often used to evaluate consumer purchasing power. Normally, if the CPI index increases, it means consumers need to buy and use more goods and vice versa. However, the CPI index may not reflect accurately.

Looking at the aggregate demand equation $AD = I + C + G + NX$, target C (consumption) accounts for a part in building aggregate demand. Consumer purchasing power is determined as the basis for evaluating criterion C. Criterion C increases in value if and only when the consumer decides to buy and pay to own a certain type of good. Research by Mimi Liana (2010) ^[12] suggests that selling price is an important factor in consumers' spending decisions. If a product has a high price, or changes close to the time the consumer makes the decision, it will affect the psychology of the buyer. Research by Pechey and colleagues (2015) suggests that a person's income is a factor that plays an important role and has a positive impact on the level of spending on a certain type of good. Purchasing power is mentioned by authors Omar *et al.* (2023) as well as Moor *et al.* (2014) as a statement similar to that of Kurniawan (2019) ^[11] and points out that people's ability to access goods Consumers are a golden factor influencing the decision to purchase goods, thereby affecting the spending level of aggregate demand.

The relationship between aggregate demand, fiscal policy and absorptive capacity

According to Keynesian economists, consumption plays an important role in the theory of income and employment. If consumption of goods and services does not increase demand for those goods and services, it will lead to a decrease in production. Reduced output means businesses will lay off workers, leading to unemployment. Therefore, consumption helps determine income and output in an

economy.

The absorptive capacity model proposed by Zahra and George (2002) ^[1] has four main components: Absorptive capacity, assimilation capacity, conversion capacity and exploitation. Acquiring ability refers to the ability of a subject to identify and acquire external factors. The ability to assimilate refers to the subject's ability to analyze, process, explain and understand external factors. According to Zahra, these are the capabilities that determine the potential value of PAC - potential absorbing capacity. This is the first stage of an absorption process, so researchers emphasize that this is a cycle that needs to be focused, from there on. can achieve the highest efficiency of the process.

Research by Bui Thi Lanh (2021) ^[9] "Factors affecting Vietnam's ability to absorb foreign direct investment" suggests that the PAC stage demonstrates the ability to recognize and identify the necessary FDI capital sources. for the economy so that there are measures and methods to receive the necessary amount of FDI capital.

Combining Keynes's theory and Bui Thi Lanh's comments, the research author believes that businesses consider aggregate demand as an indicator to assess the current state of the economy and thereby determine consumer demand for goods. of the enterprise, thereby building a business plan and production plan appropriate to its resources. Thanks to that, clearly determine the amount of business capital that the enterprise needs at the time of conducting production and business, helping businesses optimize input resources and bring the greatest economic benefits to the business.

The policy is a set of rules, programs and policies developed by the government to achieve socio-economic goals in a certain period, based on objective laws and development requirements. socio-economic development to guide financial distribution activities and solve financial distribution problems, thereby achieving macroeconomic goals (Fu, B., 2008) ^[14].

Fiscal policy can be divided into expansionary or contractionary depending on its impact on aggregate supply and social demand. Expansionary fiscal policy is a policy aimed at stimulating social demand through tax cuts or increased fiscal spending. In general, when the economy is in recession, the unemployment rate is high, and actual demand is insufficient, this policy tends to increase after-tax income of businesses or individuals by reducing tax rates and making cuts. or tax exemption, to stimulate their consumption and investment (Sun, F. 2004) ^[15]. At the same time, the government increased government spending including spending on public works, spending on government purchases of goods and services and spending on government transfers to individuals, etc., on the one hand, directly increases social aggregate demand, on the other hand, it will promote private investment and indirectly increase aggregate demand. In terms of employment impact, expansionary fiscal policy has a positive impact on employment by facilitating job creation and increasing firms' demand for labor.

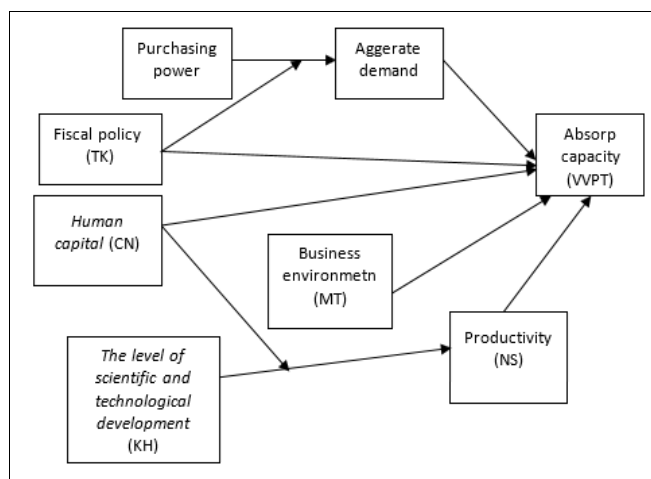
During periods of fluctuation with weak purchasing power (consumer income is difficult to reach the selling price), unnecessary items will be eliminated because consumers do not see the increase in value if purchased. that chemistry (Kurniawan, 2019) ^[11]. Abraham Mashlow's (1943) ^[16] research published the Theory of Human Motivation. In her research, Mashlow built a set of scales of human needs from level 1 to level 5. The behavior of a consumer buying new,

changing fashion is identified as the need for this level. Monday. In an economy with low income and high costs, consumers tend to pay for the first level of needs (basic physiological needs). According to the research of Kurniawan and the Keynesian school, if you want to increase purchasing power and stimulate aggregate demand, you need to use expansionary fiscal policy.

However, the research of Tran Thi Xuan Huong and her colleagues written in the publication "Fiscal policy and private consumption: Experimental research in Southeast Asian countries" (2015) introduced a concept called the effect non-Keynesian when the government uses expansionary fiscal policy that also does not stimulate private sector consumption. Tran Thi Xuan Huong's research team believes that "Both private groups are forced and not forced, both taxes and government spending have a non-Keynesian effect, total government spending has a non-Keynesian effect." in the pre-crisis period, but there is a Keynesian effect during the crisis period. Thus, the government's spending policy is more effective in times of crisis."

Therefore, it is necessary to determine whether expansionary fiscal policy actually increases the relationship between purchasing power and aggregate demand.

3. Proposed research model



Source: Research model by the author

H1: Purchasing power has a positive impact on Aggregate demand.

H2: Aggregate demand has a positive impact on capital absorption capacity. Purchasing power is measured.

H3a: Fiscal policy adjusts the impact of purchasing power on aggregate demand.

H3b: Fiscal policy has a positive impact on capital absorption capacity.

H4a: Human capital has a positive impact on the ability to absorption capacity.

H4b: Human capital moderates the impact of the level of scientific and technological development on labor productivity.

H5: The level of scientific and technological development has a positive impact on direct labor productivity.

H6: Labor productivity directly positively affects the ability to absorption capacity.

H7: Business environment positively affects the ability to absorption capacity.

H8: The number of years of operation of a business has an impact on the ability to absorption capacity.

4. Research results

4.1 Cronbach's Alpha reliability analysis

Scale reliability is performed with the purpose of measuring the reliability value of each component in the scale, that is, viewing the indicator value of the scale components that constitute aspects of the measured factor. Scale reliability must have the following standard values:

+ Cronbach's Alpha test results for the factors that must meet the requirements are greater than 0.6.

+ The total correlation coefficient of observed variables is greater than 0.3.

+ The Cronbach's Alpha value if each observed variable of the above factors is eliminated is smaller than the Cronbach's Alpha value of the scale.

Scale standards that achieve reliable value will be included in exploratory factor analysis (EFA) to measure convergent validity. The testing results are described in the table below

Table 1: Checking scale reliability using Cronbach's alpha

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Total demand (TC): Alpha = 0.871				
TC1	14.54	15,920	,701	,844
TC2	14.53	15,792	,685	,847
TC3	14.55	15,975	,666	,850
TC4	14.62	16,028	,664	,850
TC5	14.52	16,098	,641	,854
TC6	14.55	15,798	,670	,849
Purchasing power (SM): Alpha = 0.874				
SM1	15.07	12,449	,692	,850
SM2	15.17	12,012	,638	,865
SM3	15.16	12,028	,671	,856
SM4	15.09	12,236	,729	,841
SM5	15.00	12,253	,809	,825
Fiscal policy (TK): Alpha = 0.881				
TK1	22,24	23,147	,600	,873
TK2	22,28	22,130	,636	,870
TK3	22,21	22,455	,691	,861
TK4	22,22	22,327	,703	,860
TK5	22,19	22,477	,727	,857
TK6	22,24	23,342	,621	,870
TK7	22,16	23,048	,713	,860
Business environment (MT): Alpha = 0.894				
MT1	18.57	15,435	,648	,886
MT2	18.57	14,937	,715	,876
MT3	18.58	14,751	,713	,876
MT4	18.59	14,829	,723	,875
MT5	18.56	14,698	,762	,869
MT6	18.55	15,108	,738	,873
Human capital (CN): Alpha = 0.858				
CN1	18.51	16,653	,662	,832
CN2	18.56	16,713	,605	,843
CN3	18.58	16,807	,623	,839
CN4	18.56	16,649	,666	,831
CN5	18.56	16,745	,673	,830
CN6	18.52	17,094	,662	,832
Direct labor productivity (NS): Alpha = 0.899				
NS1	8.94	6,723	,811	,856
NS2	8.96	6,910	,804	,859
NS3	8.94	7,144	,706	,895
NS4	8.93	6,910	,781	,868

Level of scientific and technological development (KH): $\alpha = 0.847$				
KH1	15.00	12,643	,662	,814
KH2	15.08	12,427	,651	,818
KH3	15.04	12,789	,668	,813
KH4	15.08	12,885	,610	,829
KH5	15.03	12,959	,694	,807
Capital absorption capacity (VV): $\alpha = 0.897$				
VV1	23.55	15,462	,624	,889
VV2	23.64	14,496	,662	,886
VV3	23.60	14,988	,629	,888
VV4	23.60	14,772	,659	,886
VV5	23.62	14,445	,766	,876
VV6	23.65	14,678	,660	,886
VV7	23.60	14,796	,701	,882
VV8	23.55	14,899	,749	,878

Source: Data analysis from SPSS

From the table above we can see that all variables have Cronbach's Alpha ranging from 0.6 to 0.9, proving that the scale can be used. At the same time, the total correlation coefficients (Corrected Item - Total Correlation) of the component measurement variables are all greater than the allowed standard of 0.3. The coefficients with Cronbach Alpha values if Item Deleted are all smaller than the Cronbach Alpha coefficients of each observed variable. Thus, the observed variables all meet the requirements and the scale is reliable and these variables are used in the next analysis.

4.2 EFA exploratory factor analysis

KMO coefficient = 0.831 > 0.5, sig Barlett's Test = 0.000 < 0.05, so factor analysis is appropriate.

There are 8 factors extracted based on the criterion of eigenvalue greater than 1, so these 8 factors best summarize the information of 47 observed variables included in EFA. The total variance extracted by these 8 factors is 64.071% > 50%, thus, the 8 extracted factors explain 64.071% of the data variation of the 47 observed variables participating in EFA.

Analysis of the rotated matrix results shows that 47 observed variables are divided into 8 factors, all observed variables have Factor Loading > 0.5 and there are no longer any bad variables.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.831
Bartlett's Test of Sphericity	Approx. Chi-Square	6977.630
	DF	1081
	Sig.	.000

Source: Data analysis from SPSS

4.3 Confirmatory factor analysis CFA

Through CFA analysis, the model's fit is good when P value = 0.000 < 0.05, Chi - square = 1.455 < 3, GFI, CFI, TLI coefficients all reach extremely good levels. RMSEA index = 0.043 < 0.05 is acceptable.

Observed variables are meaningful when the P value levels are all 0.000 < 0.005. Estimate standardized regression weights are all greater than 0.5. The level of impact of observed variables on the factor is good.

Values such as AVE and MSE are all at an acceptable level. Thus, the model has convergent and discriminant properties.

4.4 SEM model analysis

Accepting the SEM model, the indicators are at a good level such as P value = 0.000 < 0.05, Chi - Square = 1.442, GFI > 0.08, TLI > 0.9, CFI > 0.9, RMSE < 0.05. The proposed hypotheses are significant at P value = 0.000 < 0.05. That is, accepting the author's hypotheses, according to research, the impact of fiscal policy has the strongest impact on the ability to absorb capital of businesses at 0.368, followed by the impact of aggregate demand at 0.367. The human capital factor has the weakest impact on the ability to absorb business capital at 0.294. Technological progress and purchasing power have an indirect impact on the change in the dependent variable, capital absorption ability, at 0.272 and 0.264, respectively.

5. Recommendations and discussions

Research has shown that in order to improve the ability to absorb business capital of garment enterprises in Vietnam, it is necessary to have a fiscal policy suitable to changes in the economy. The aggregate demand factor is an important factor in adjusting the capital absorption ability of garment enterprises because when and only when aggregate demand increases and there are good signals, will enterprises borrow capital and expand production. Business to meet people's needs. This is consistent with economist Keynes's judgment in his theory about the government's role in regulating the economy.

Although the human capital factor has little impact on the ability to absorb business capital, research shows that human capital still has a correlation with the ability to absorb capital, especially the impact of progress. Science and technology on labor productivity is extremely important. Research shows that human capital regulates the impact of scientific and technological progress on productivity. Therefore, it is necessary to focus on developing high-quality human resources and supporting the improvement of workers' skills.

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