



## Developing the Cultural Industry Value Chain for Handicraft Trades: An Approach from Value-Added Theory

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**KEYWORDS:** cultural industries, value chain, value-added theory, handicraft trades, smile curve, creative economy.

**ABSTRACT:** This article aims to construct a conceptual model of the cultural-industry value chain of handicraft trades using the concept of value-added theory to understand why traditional crafts are so prone to being mired in low value-added production and how they can become part of a competitive cultural industry. The study is designed using the conceptual design and model-building design, which is a combination of documentary analysis, policy analysis and value-chain theory, value-added theory, and cultural-industries scholarship. By using the value added (smile) curve, the article illustrates that the greatest value is added at the intangible upstream (design, creativity) and downstream (branding, marketing, experience, services and shows) stages, while the artisans mostly focus on the middle value-added stage of production and crafting. It highlights the four upgrading pathways process, product, functional upgrading and inter-chain upgrading, and connects them to design, branding, market access, cultural tourism and digital transformation. To recognise handicraft as a cultural industry, the policy and practice of supporting volume production need to be shifted towards capturing value at the high value-added ends of the chain, whilst safeguarding cultural authenticity and delivering a more equitable value chain for artisans and communities.

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### I. INTRODUCTION

In the last 20 years cultural and creative industries have shifted from the periphery to the core of development thinking as engines of growth, jobs, exports and identity (UNCTAD, 2010; UNESCO, 2005). In this area, handicraft trades are in a unique position; their products are at once functional items and symbols of cultural values – historical, aesthetic and community – that are embodied in them. Handicraft is thus explicitly included in many national strategies and programmes in the field of cultural and creative industries, such as Vietnam's Strategy for the Development of Cultural Industries to 2020, vision to 2030 (Prime Minister of Vietnam, 2016) which includes handicraft among the 12 cultural-industry sectors and sets a target of around 7% GDP contribution from the cultural industries by 2030.

Nevertheless, many handicraft industries continue to be formed as traditional production clusters instead of a full-fledged cultural industry. Their abilities are generally good at manufacturing skills but not at design, branding, modern distribution and experience-based service. Consequently artisans, who create cultural value, often receive a small amount of the value added along the value chain, while traders and intermediaries receive the bulk of the value added. The central issue this article seeks to tackle is this paradox: those who possess cultural and creative knowledge are paid the least on the economic scale.

The article suggests that this paradox can be best understood and dealt with by taking the value-added theory to the cultural-industry value chain. The value-added theory focuses the analysis on the value added and capture stages in the chain of activities and the reasons for the higher value added associated with intangible activities (design, branding, marketing, experience). The article aims to answer three questions: (1) how to conceptualise the handicraft value chain as a cultural industry; (2) where value is added and captured along the chain; and (3) what strategies can be pursued to shift the handicraft value chain toward higher value-added and cultural authenticity?

The article is conceptually and policy-driven. It presents an analytical framework which can inform the research, policy design and practice for craft villages to be turned into cultural industries, especially in developing countries like Vietnam where there are many craft villages but few opportunities for value capture by the craftsmen.

## II. METHODS

This study is conceptual, model building type of study and not an empirical hypothesis testing type of study. It aims to combine existing theory and policy evidence to develop an analytical framework that explains value creation and capture in the cultural industries of handicrafts and provides a basis for developing strategies for handicrafts upgrading.

There are three ways. The first is documentary analysis, which involves looking at research on value chains, value added theory, cultural and creative industries, and handicraft development, as well as pertinent international conventions and national policy documents. The second is policy analysis, which looks at the goals, instruments and possible effects of cultural-industry and craft-development policies, and focuses specifically on the distinction between the aim of cultural-industry development, and the spread of value along the cultural-industry chain. The third is conceptual modeling, where the value-chain theory and value-added theory are linked together in a staged value chain model and a value-added (smile) curve to identify the points of value creation and capture in the value chain of handicrafts. This framework will be analytically transferable and testable in future studies.

## III. RESULTS

### 3.1. *Theory of value adding and value chain*

Value-added theory is an analysis of the processes of value creation, distribution and capture of economic value along the chain of events that encompass the product from conception to its final application. Value added in national accounts is the value of output minus the value of intermediate consumption, and in strategic and development analysis is the value of output generated by a particular activity over and above the value of output generated by the same activity in the absence of the activity. Porter (1985) proposed the firm as a value chain comprising primary and support activities, and value as the quantity buyers are willing to pay and margin as the difference between the value and the cost of the firm. Kaplinsky and Morris (2001) developed this into a way to map the entire value chain from design to production, to marketing and distribution and to after-sales services, and to analyse the distribution of value within the value chain.

Global value chain analysis (Gereffi, Humphrey & Sturgeon, 2005; Gereffi & Fernandez-Stark, 2016) also revealed an unequal distribution of value and that governance structures shape who benefits. One of the most influential definitions of value-added theory is the “smile curve” that was first described by Shih (1996) and later formalised in economic geography by Mudambi (2008): value added is high at the intangible activities at the beginning of the value chain (research, design, creativity), is high at the end of the value chain (branding, marketing, distribution, services), and is low in the middle of the chain where the tangible activity of the physical production occurs. Those firms that stick with the low middle reaps little, while those that go to the high end by upgrading reaps more. This curve serves as the analytical focus of the present article.

### 3.2. *The handicraft trades are cultural industries that can be handled by the hands.*

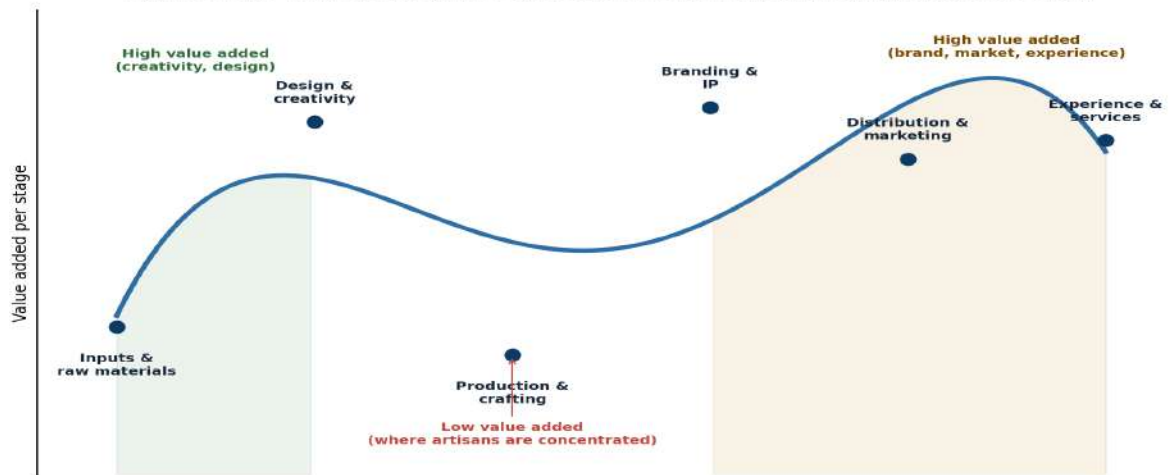
Handicraft products are a direct illustration of goods which have economic value and cultural value according to Throsby (2001), and of creative goods which are functional and symbolic, aesthetic according to Caves (2000). Such goods are located at the core of cultural industries that are competitive by virtue of their creativity, symbolic content and intellectual property, not mass production (Hesmondhalgh 2013). These two aspects are strengthened by instruments from the international arena: UNESCO (2003) Convention for the Safeguarding of the Intangible Cultural Heritage defines craft skills as living heritage and UNESCO (2005) Convention on the diversity of cultural expressions defines cultural goods and services as vehicles of identity and economic assets.

This dual nature has a clear implication with regard to value added analysis. The value of a handicraft product cannot be broken down into material and labour value, because it is just as much the intangible qualities that correspond with the high value-added ends of the smile curve, namely design, authenticity, story, brand and experience. Therefore, handicraft must be considered as cultural industry, with deliberate development of these intangible activities that are high value, not competing on the price of physical output, where craft cannot compete with the mass production of industry.

### 3.3. *A value chain model of the handicraft industry based on the value-added concept.*

Based on the above, the article suggests that the value chain for handicraft trades can be synthesised as follows: (1) inputs and raw materials (materials, artisans, traditional knowledge); (2) design and creativity (product development, adaptation, innovation); (3) production and crafting (manual transformation); (4) branding and intellectual property (identity, geographical indications, certification, protection); (5) distribution and marketing (domestic, export, e-commerce); and (6) experience and services (craft tourism, exhibition, education). The value added of these stages can be mapped, and the result is the smile-shaped curve in Figure 1.

Figure 1. The value-added (smile) curve of the handicraft cultural-industry value chain



Source: Author, based on value-chain and value-added theory (Porter, 1985; Shih, 1996; Mudambi, 2008).

### 3.4. Where value added is added and collected

The model shows that there is a structural mismatch between value creation and value capture. Artisans tend to be located at stage three, production and crafting, at the lowest point of the curve, which accounts for only a small proportion of the overall measurable value, but represents the highest level of skill. In contrast, the activities that create the highest value added at the upstream end of the chain are design and creation, and the downstream end are branding, marketing and experience, which are performed, or appropriated, by other actors, like traders, exporters and intermediaries. As a result, the cultural and creative knowledge holders benefit from a disproportionately low share of the total value, and those who have control over design, brand and market access enjoy a disproportionately large share of the value.

This discovery redefines the main issue in handicraft development. It is not so much a capacity constraint but rather the role that the artisans play in the value chain and the governance of value distribution. It also explains why output subsidies or production expansion, motivated by a volume target, are likely to exacerbate the issue, rather than solve it: they strengthen the low-value middle of the curve. However, the strategic priority is to support artisans/craft clusters to enter the higher value end of the chain and gain control over it.

### 3.5. The strategies for value-chain upgrading are as follows:

Humphrey and Schmitz (2002) distinguish four types of upgrading, which can be applied to handicraft cultural industries. Process upgrading is to enhance process efficiency and quality, such as sustainable and greener production. Product upgrading adds more valuable designs, new product lines and enhanced authenticity and narrative. Functional upgrading shifts artisans and clusters to higher value-added roles like design, branding, IP ownership, and direct marketing and experience services, away from being pure subcontracted producers. Inter-chain upgrading is the transfer of craft skills to neighboring chains, including cultural tourism, interior design, fashion and the creative economy.

Specifically, these means investing in design and creativity capacity, strengthening collective brands, geographical indications and intellectual property rights protection, creating modern and digital distribution channels (including e-commerce and traceability), and crafting experiential services and tourism that internalise value downstream. Most importantly, upgrading needs to be accompanied by mechanisms that ensure a fair distribution of the value added to artisans/communities, in order to ensure that moving up the curve also improves livelihoods, not just the profit of new intermediaries.

## IV. DISCUSSION

The value-added approach has three implications for theory and policy. First, it changes the perspective of handicraft development from the capacity of production to the position and governance of the value chain. Policies that address only the volume and/or efficiency of production will have minimal impact on the incomes of artisans because they will be at the low value ends of the smile curve, while policies that bolster design, brand, market and experience capabilities will be at the high value ends. This shift in perspective is in agreement with the cultural industries principle that competitiveness is based on creativity and symbolic value and intellectual property (Caves, 2000; Hesmondhalgh, 2013) rather than on the basis of low-cost manufacturing.

Second, the approach reveals a conflict between economic and cultural value, one that cannot be avoided. The process of moving up the value-added chain, through commercialisation, if not well managed, can compromise authenticity, reduce design variations and remove products from their community context, thus undermining the authenticity which underpins the value of the product (Throsby, 2001; UNESCO, 2003). Thus, sustainable upgrading depends on the protection of cultural authenticity, respect for the rights of tradition-bearing communities and the limitation of the economic value added.

Thirdly, there is a distributional aspect. Value creation and value capture are misaligned, therefore, upgrading strategies need to be complemented by collective brands, cooperatives, associations, fair contracts, and intellectual property regimes that ensure that artisans are able to capture a fair share of the value they help to create. If there are no such mechanisms, functional upgrading can occur by moving the margins from old intermediaries to the new ones, thus leaving the artisans at the bottom of the curve.

In Vietnam and other situations, these implications indicate specific priorities: introducing handicraft in cultural-industry and creative-economy plans; investing in design and branding instead of production; protecting geographical indications and collective marks; connecting craft villages to cultural tourism and e-commerce; and integrating artisans into the high value function of the chain. They also recommend that public support must be linked with value-chain upgrading and value distribution, which must lead to the competitiveness and inclusive livelihoods that will come with the development of cultural industries.

The study is restricted due to its conceptual design. It does not provide an empirical measure of value added along specific craft chains; it is not an estimate of value added, but an analytical schema represented as a smile curve. To operationalize the framework, further research efforts should map and quantify value added levels, stage by stage, for selected craft trades, and compare the distribution of value across cases, to test the impact of upgrading interventions on value captured by artisans.

## V. CONCLUSION

In this article, a value-added perspective on the cultural-industry value chain of the handicraft trades has been developed. It combined value-chain theory with the value-added (smile) curve and cultural-industries scholarship, and introduced a six-stage model that demonstrated that the most value was added at the intangible upstream and downstream stages, and the artisans who focused on physical production took in the least value. Handicrafts as a cultural industry are not only about sustaining production, but also about functional upgrading towards design, branding, marketing and experience, which needs to be regulated to ensure cultural authenticity and fair value to the artisans and communities. The framework can be used for policy design and for future empirical research quantifying value added and testing upgrading strategies in specific handicraft contexts.

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