SOME SOLUTIONS TO DEVELOPMENT OF VIETNAM'S FOOTWEAR SECTOR

by PHAN KỲ VŨ

Vietnam is striving for an export revenue of US$16.7 billion in 2001. While the world potential markets such as Japan, the U.S., and the EU shows a sign of decline, the target is hard to reach. The footwear sector recorded an export turnover of US$1.7 billion in 2000 (ranking third behind crude oil and garments). In the first six months of this year, the sector earned only US$747 million, a year-on-year drop of 3.7%. In June 2001 alone, its export saw a slight rise, registering US$135 million and topping the list of exports in the month.

The Vietnam Footwear Corporation plays the leading role in the sector. However, its yearly output is only equivalent to the production of a foreign-invested business. In the first half of the year, the corporation's export turnover reached only US$56.4 million, or 73.2% of the figure in the same period. Other indicators also went down , for example, industrial output value was 74% and turnover 76% as compared with the same period. Many argue that the year 2000 is the peak of the Vietnam footwear sector.

I.SOME FACTS

1.After 10 years of implementing open door policies, since 1992 up to now, the Vietnam footwear sector has registered an annual growth rate of 15-20% in terms of industrial output value and export earnings. It has become a cutting-edge industry since it exported a volume worth more than US$ 1 billion per year in 1998. The sector processed footwear for the former USSR and some East European socialist countries in 1980s. When the socialist bloc collapsed, it halted production for export. Therefore, it is a significant progress that the sector has so far 200 large companies including 170 footwear makers, some 30 producing materials for the sector. These businesses annually roll out 280 million pairs (270 million for export) of various kinds of footwear, above 30 million articles of valise and bag..and employ 350,000 workers across the country.

The Vietnam footwear sector has targeted at an export value of US$3.1 billion by 2005 and US$4.7 billion by 2010.

2.In spite of initial achievements, the Vietnam footwear sector still processes footwear for the middlemen because 80% of its enterprises choose to sign subcontracts with foreign partners. This is attributed to the weaknesses in making markets, innovating technologies and importing materials. It cannot take the initiative in business planning and its profits are low due to dependence on foreign contractors. Although the sector's labor price is cheap, most of workers have not been trained in technical profession, skill, and working style. As a result, the productivity is not high and the product is not delicate. Human factor- one of the country's advantages when starting industrialization- with cheap labor price has revealed basic weak points due to unskilled workers and gradually become an obstacle to the development process.

3.Most of materials must be imported (80% of the demand)

a.Regarding leather, because there are no large-size animal farms, abattoirs are scatterred, people are used to eat meat with skin, the country has to spend more than US$100 million on importing 80% of the leather needed for production

b.Although local enterprises has begun to produce leatherette, its quality and variety are not abundant and the production meets only 20% of the need for leatherette. Therefore, local manufacturers must import US$250 million worth of this kind.

c.Other materials including various kinds of canvas, thread, glue, soles, and mechanical parts used for making shoes must be imported, so the business efficiency is low and Vietnam becomes a consumer market for regional countries such as Taiwan, South Korea, Hong Kong and China.

4.Factories are old-fashioned because they were built in 1980s and are not suitable for installation of new modern production lines. As a result, they are not attractive to customers, especially in the current harsh competition. Most of their equipment is 15-20 years old, obsolete and imported from Taiwan and South Korea. The sector still hires a large quantity of unskilled workers, so its output and quality have not yet increased and costs not yet reduced.

II.SOLUTIONS

1.Markets:

To build an export market strategy on the basis of promoted competitiveness, at the same time uphold local market shares, and avoid being defeated by foreign goods.

a. The EU market consumes 15% of the world footwear output and a half of which is imported by orders. The EU used 1.687 billion pairs in 1995, 1.59 billion pairs in 1997 and 1.67 billion pairs in 2000. In spite of annual per capita consumption of 4.3 pairs, it is a market requiring high quality, modern design and color.

Vietnam sold shoes worth 373,683,000 euros to the EU in 1997. In 2000, the figure soared to 1.4 billion euros, accounting for 78% of the sector export turnover. The EU will be a potential market for the Vietnam footwear sector due to its population of 365 million in 15 countries. Nevertheless, many difficulties and challenges sparked off in fierce competition against Chinese products in the first half of 2001. The EU has imposed anti-dumping tax on footwear imported from China, Indonesia, and Thailand since December 1995, Vietnam thus enjoys a preferential tax rate of 13.58-14% while the standard tax rate ranges from 30 to 35%. When China is admitted to the WTO, this advantage will be lost, and the competition becomes harsher. By 2003, the EU will terminate the GSP tax rate for Vietnam's footwear and the country will face greater challenges.

b. In respect of the U.S. and North American markets: The U.S. is the world's biggest footwear importer with an average import volume of 1.5 billion pairs worth some US$14 billion because it has a population of 260 million and per capita consumption of 6-7 pairs every year. According to statistics of the U.S.

Footwear Industry Association, 70% of footwear imported into the U.S. came from China in 2000. Vietnam ranks 16th in the list of countries selling footwear to the U.S. The exports including products of Vietnam-based Nike and Reebok Companies and fabric shoes cost some US$200 million. When the Vietnam-US trade pact is effective, local footwear producers will face many favorable conditions to export their products to the U.S. and North American markets but also have to compete with a potential rival like China.

c. Other markets:

+ To reestablish relations with traditional markets including Community of Independent States (former USSR) and East European countries with a combined population of 300 million and per capita consumption of 5.4 pairs. These markets do not require high quality but local goods have to compete with Chinese counterparts in prices. These economies are on the way of recovery and their demand for footwear is increasing. Russia imports high-quality footwear from Italy and cheap low-quality one from China. The Russian footwear demand rises more than 15% per year.

+ Asia accounts for 55% of the world population and consumes 4 billion pairs, an average of 1.5 pairs/person/year. Japan is the biggest consumer with 400 million pairs/year. Vietnam sells US$500 million worth of shoes to Japan. Recently, the HCMC-based Bình Tiên Footwear Company has shipped footwear to the southern provinces of China – one of the world biggest footwear makers as well as consumers.

d. Local potential market

In 1996, the country used up about 1.4 pairs/person or above 100 million pairs. In 2000, the consumption soared to 200 million pairs, an average of 2.5 pairs/person. It is estimated at 4 pairs/person/year by 2005. That means a local consumption of 300 million pairs. However, the problem is how to win just on the home play field.

It is time for the Government's policymakers to take part and create generators for the footwear sector development. They are required to give assistance to footwear exporters' trade promotion. Vietnamese businesses (including foreign-invested ones) are making great efforts to produce and sell on their own and step by step cancel subcontracts with the middlemen. The Government should help them introduce their products overseas and seize opportunities to gain a firm foothold on foreign markets. According to the Finance Ministry's Circular 62, Vietnam Embassy's trade departments are permitted to enjoy commissions due to their brokerage. This is right but will increase prices of Vietnamese goods. The Government's assistance stated in this circular is also not enough for local businesses to stretch to foreign markets.

2.To sharpen competitive edges of footwear companies

+ To have to manufacture materials for production domestically because the cost of materials makes up 85% of the product cost, and reduce material imports from the country's export competitors including Taiwan, China, South Korea. The Government is required to give incentives in term of investment capital, taxation, import substitute policy, and so on.

+ To remove irrationalities in regulations on wages and payments to the state budget or trade union member fee (2% of the total income of workers).

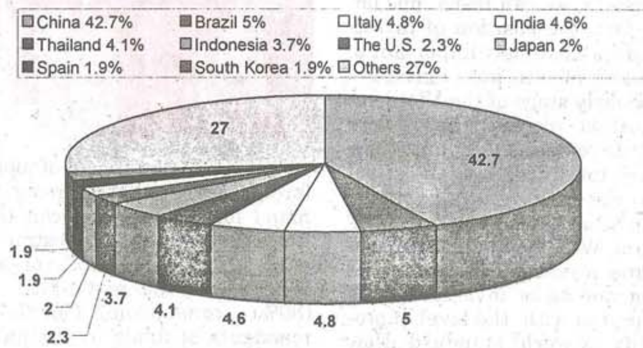
+ To cut prices of electricity, water, land rent, and fees paid to the customs office and post office.

+ To restructure the enterprises' working capital. According to the Finance Ministry's disclosure, 64% of working capital of the corporations 90, 91 come from short-term loans and only 36% from long-term loans. This figure is also much lower in private, shareholding, provincial state-owned enterprises.

3.Training human resources

The sector should train high skilled workers, engineers, fashion designers, salespersons specialized in foreign trade, and managers for modern factories in line with the sector's development strategy.■

Figure 1: TOPTEN FOOTWEAR MAKERS IN THE WORLD

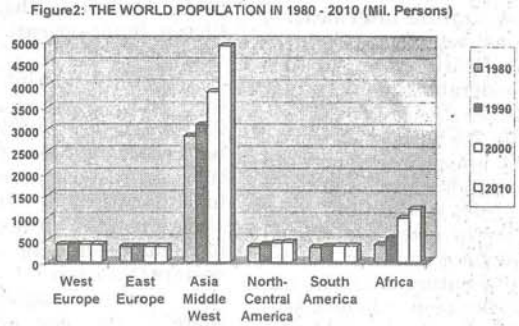


THE WORLD FOOTWEAR PRODUCTION BY 2005 (est.)

Production by 2001	The world	North and Central America	South America	Europe	Asia and the Far East	South Pacific	Africa
million pairs	14,061	670	864	1,518	10,623	17	369
%	100	5	6	11	75	1	3

Source: The World Footwear – January-February 1999

Figure2: THE WORLD POPULATION IN 1980 - 2010 (Mil. Persons)



Source: SATRA – October 2000