Some Measures to Promote the Competitiveness of Vietnam's Footwear Industry in the WTO Era

by PHÙNG NGỌC BẢO

The Vietnam's footwear industry has seen a boom in business and production over the past ten years. Its growth rate had recorded 18% per year since the last years of the previous century until 2003. This indicates its sharp competitive edges. Nevertheless, from 2003 to late 2006 when Vietnam became an official WTO member, the industry expansion had slowed down with an annual rise of 15% due to many reasons, in which the most adverse effect is the EU's anti-dumping lawsuits.

At present, Vietnam's footwear products are exported to more than 40 nations, including key markets as the EU, the US, and Japan. As much as 90% of the export value of the Vietnam's footwear industry comes from these three main markets.

The EU is the world's leading market manufacturing and consuming leather products, accounting for 30% of the global footwear sales. Nowadays, China is the biggest footwear exporter to the EU, representing more than 30% in volume but about 17% in value. Vietnam ranks second, making up 20% in volume and 17% in value (these figures indicate high values of Vietnam's exports to the EU). Vietnam's footwear exports to the EU commonly benefit from the Generalized System of Preferences (GSP) and are not subject to quotas. As a result, many foreign investors prefer to invest in Vietnam, for example, Taiwanese, Hong Kong and even China because Chinese footwear exports to the EU are restricted by quotas although they are given the MFN status. The EU importers also know the fact, so they use many ways to control Vietnam's footwear exports. They wish to make direct contacts with Vietnamese businesses via governmental agencies such as the Vietnam Chamber of Commerce and Industry and the Ministry of Trade in stead of intermediaries. Therefore, Vietnamese entities are required to have a stable supply of materials and enhance their product quality by improved technologies and management.

The US is the second biggest importers for Vietnam's footwear. After the US grants the Most Favored Nation (MFN) status to Vietnam, Vietnam's export volume to this market sees a boom, so Vietnam ranked fourth behind China, Brazil, Indonesia and surpassed Italia and Thailand in 2004. American importers like to diversify their footwear suppliers and Vietnam is given an import tax rate of 3% on footwear products in compliance with the two countries' Bilateral Trade Agreement. These are Vietnam's advantages, but they also advise us to turn out high quality products with high value-added and not to produce low quality items.

As for Japanese market, in recent years the export volume of Vietnam footwear to this market have shown a sign of stagnation but no contraction because Japanese people start to use cheap footwear items and Japanese companies shift their production to Cambodia and Bangladesh due to lower costs. Japan does not impose quotas on Vietnam's footwear products, but it gives Vietnam the MFN tax rates. Vietnam's footwear has thus more advantages than other country's (excluding China which has the same preferences). Footwear exporters to Japan must abide by regulations on customs quotas in compliance with the Tariff Law and even provisions in the Washington Treaty (Convention on international trade in endangered species of wild animal).

In spite of different growth rates, the export volume and value of Vietnam's footwear products have seen a sharp rise from 2000 to the time of Vietnam's accession the WTO. This category has become one of top ten Vietnam's exports. Regarding ranks in the country's industrial export value, the footwear sector ranks third behind crude oil and garments, and it also accounted for 10% of Vietnam's total export turnover (US$3,039.58 million/US$32,000 million in 2005). Considering the global footwear export value, Vietnam is the fourth biggest exporter behind China, Hong Kong and Italia.

There are different arguments on Vietnam's joining the WTO, especially for businesses which like to exploit the WTO membership for their expansion. In my opinion, businesses must evaluate properly their strengths, weaknesses, opportunities and threats (SWOTs) in the process of integration. The Vietnam's footwear industry faces advantages and disadvantages in the WTO era as follows:

+Materials and components: This is the industry's main weakness although attentions have been paid to their production. There is not yet concert in production of footwear materials, components and products, so the industry must import a great deal of materials and components.

+Technologies and equipment: The industry still encounters obsolete technologies in footwear production. The tanning equipment is better: As much as 40% of machinery has good quality. The managerial and production technologies remain backward due to the industry's immature experience.

Table 1: Vietnam's major footwear importers in 2005 *(Before Vietnam's accession to the WTO)*

Nation	Export value (US$)
The US	611,050,253.20
The UK	472,830,764.40
Germany	310,815,173.30
New Zealand	239,883,609.50
Swede	195,954,567.00
France	180,407,778.40
Italia	162,056,054.20
Mexico	105,297,060.20
Japan	93,720,958.36
Spain	89,327,393.67
Canada	73,378,960.54
Taiwan	49,867,450.82
Switzerland	37,889,561.75
Australia	30,590,805.76
Austria	29,590,999.77
South Korea	28,674,683.08
China	28,324,753.65
Panama	25,878,848.50
Hong Kong	23,472,617.66
South Africa	21,174,372.32
Others	229,396,334.00
Total	3,039,583,000.00

Source: Vietnam Leather and Footwear Association

+Labor and productivity: The whole industry employs about 450,000 workers, female labor accounting for 80-85%. They are given mainly on-the-job training because there are not specialized schools. The number of technicians is on the decline and not yet offset, and 45% of them work for research institutes. Most of managers are not yet provided with basic knowledge and acquire less managerial experience in competition. The industry's productivity is low; especially in the state sector (the average productivity reaches more than 1,000 pairs/person/year while the Italian capacity is about 4,000 pairs/person/year).

+ Marketing: This is also a defect of the industry. It is due to many reasons such as footwear businesses' small and medium size, incapacity to make new designs, lack of capital, inability to join business and distribution channels of large groups. Moreover, they are facing a serious shortage of market information. Finally, they mainly churn out products for the third party's processing orders (accounting for 70%).

+Natural and social factors: The favorable geographical location has helped reduce transport costs for exports. The country's breeding and tanning sector has a lot of potentials for robust development. If it is well directed toward industrialization, it will gradually meet the demand for leather inputs of the tanning production. In addition, the politic stability has created big opportunities for investors.

When joining the WTO, Vietnam agrees to implement the WTO binding pacts and regulations. However, the country remains in early stage of development, so the WTO gives it a grace period. There are commitments directly or indirectly affecting the footwear industry as follows:

+ Non-market economy: Vietnam is considered as a non-market economy within 12 years (not later than December 31, 2018). This condition affects the sectors such as taxation, quota, anti-dumping...

+ Import duty: the current MFN tax rate on manufactured goods is permitted to reduce from 16.2% to 12.6% within 5-7 years. The current MFN tax rate on footwear is 50%, 40% in early years of WTO membership and 30% at least within 5 years.

+Commitments to open the market: Vietnam allows foreign organizations and individuals to buy shares from Vietnamese businesses with the suitable proportion in accordance with the process of market opening. This will create favorable conditions for the industry to increase capital and expand production.

As mentioned above, the footwear industry faces certain opportunities and challenges. The footwear businesses must choose proper ways for their expansion. The following are our suggestions:

1.Changing the status of fulfilling processing contracts for the third party into producing materials and products for export.

The Vietnam footwear industry has attracted a great deal of foreign partners due to its comparative advantages. Nevertheless, more than 95% of Vietnam's footwear products bear the partners' brands. Therefore, local businesses' added value is low (about 40%), so they are only paid for processing. They can invest in building facilities but cannot know direct importers. Moreover, they cannot train high skilled workers, and promote the efficiency of designing and marketing due to inability to specify the production costs. Their potential profits are limited, so they cannot change into the model of synchronous production line.

The above status quo shows the industry's major target is "changing from the form of export processing into complete production for export" in order to increase the business added value. To fulfill this task, businesses must make greater efforts in marketing and require supports from the Vietnam's Leather and Footwear Association.

2. Investing in production of the industry's materials and components

- As for leather tanning: Businesses should enhance the breeding and tanning sector in the trend of industrialization; the cooperation among companies producing leather, milk, canned food and promote the technological level and capacity of tanning enterprises.

-As for other materials: The industry should invest in production of imitation leather, PVC, PU, non-textile fabric, sole, brand, other components... Moreover, it must to make timely access to the world advanced technologies.

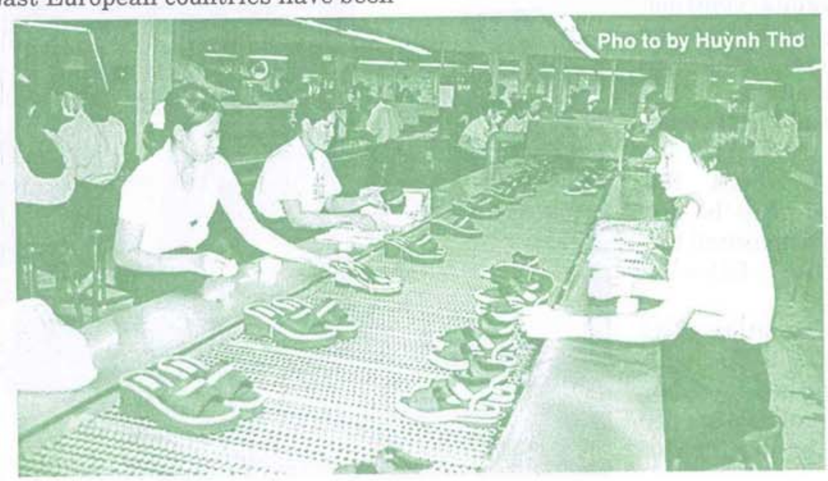
To attain these goals, the Government is required to offer aids to the industry such as giving soft loans, extending the time of debt repayment and delaying the time of paying income tax, especially for breeding projects.

3. Market development

- Strengthening traditional markets and expanding new markets for export: + The industry should reaffirm the EU is the traditional market, and best exploit this potential market. Vietnam is enjoying the GSP, and a tax rate of 10% after the anti-dumping lawsuits (if not, the tax rate will be 30%). On the other hand, the country's footwear export to the EU accounts for 20%, if the ratio increases to 25%, businesses cannot be given tax preferences and import quotas will be imposed. Just because of this, domestic businesses should make the best use of this condition to expand their market share.

+ The US is a fresh market and a target one in the near future, so footwear businesses must produce and export high quality goods to survive in harsh competition against Chinese products. It is also a demanding market, so they should regularly participate in fairs held by the World Footwear Association in the US. In these fairs, local businesses may make contacts with large partners as well as American retailers.

+ Russia and East European countries have been recognized as potential markets (large population, great demand for medium quality products and reasonable prices...). Nevertheless, Vietnamese and regional companies feel not assured in partnership due to large risks in payment method. Footwear items are exported to these markets mainly through non-trade ways. When the payment is guaranteed, they will become strategic markets for domestic businesses because Russia will be acceded to the WTO in the near future.



Pho to by Huỳnh Thơ

+Besides these large markets, the footwear sector should not ignore other markets when opportunities happen.

-Necessary conditions for the sector to enter and expand export markets are as follows:

+ Vietnam's economy is regarded as a "non-market economy". The Government should give priorities to local businesses to export their goods to the EU if there are chances.

+ The Ministry of Trade, Vietnam Chamber of Commerce and Industry, Vietnam Leather and Footwear Association should find opportunities to get access to American trading organizations which agree to give BTA preferential tariff to Vietnamese footwear businesses (import tax rate is 3% only). This is also a requirement of American importers.

+ Vietnamese and Russian governments should sign the bilateral trade agreement to guarantee the payment mode between businesses of the two countries.

+ Governmental agencies and Vietnam Leather and Footwear Association should make contacts with organizers of international footwear fairs to receive financial supports when taking part in fairs to seek partners.

4. Strengthening the organization and developing resources

- Strengthening the Vietnam Leather and Footwear Association so that it can help local businesses with access to market information and customers.

- The Government should establish a school specialized in training workers and managers for the footwear industry to solve the shortage in human resources.

In brief, these above-mentioned measures can be implemented only if there are great efforts of businesses together with essential supports from the Government and the Association. ■