

The leather industry in Vietnam is really an infant one because it came into being after all other industries. In 1987 when the May-19 Agreement between the Soviet and Vietnamese governments on the supply of instep to the USSR by Vietnam was signed, the leather industry became an independent one. After the collapse of the communist bloc, the industry lost its export market and development orientation while it had almost no domestic market because of low personal income in Vietnam in the early 1990s. It only recovered when the economic reform was launched and NICs decided to enter high-tech industries and transfer labor-intensive industries to China and Southeast Asian countries, including Vietnam where incentives were given to foreign investment after its Foreign Investment Law came into effect.

footwear grew only by 9.8%.

The industry has been also in the group of four biggest foreign exchange earners of the country besides oil, clothing and rice. It ranked third in 1999 and fourth in 2000.

In the development plan for the industrial sector in 2001, the Government wants the manufacturing sector to "develop at a higher speed as compared with 2000, mobilize all inner resources to achieve a higher and more stable growth rate in preparation for the next 5-year plan, accelerate R&D activities in order to introduce modern techniques and technology to local production and enhance the competitiveness of local goods and industries, creating a new dynamic for the socialism-oriented economy." The targets set for the manufacturing sector are as follows: a GDP growth rate of 7% or 7.5%; an increase of 13% or 15% in industrial output; an increase of 14-16% in ex-

mainly from European, American and Asian markets.

On the way to these targets, the industry faces many difficulties:

- Main export markets for the industry (Japan, the EU and the U.S.) are in economic recession and the spending power of the public is falling. Export earnings from the European market were US\$1,207.5 million in 2000 representing 82.5% of total earnings from the export of footwear and US\$791.5 million in the first seven months of 2001 representing 88.1% of the total earnings from export of footwear. The share of American and Japan markets in Vietnam's footwear export earnings rose from 12.7% in 1998 (some US\$135 million) to 17% in 2000 and fell to 12% in the first seven months of 2001 (US\$107 million). Thus, the general recession has affected the spending power in the export markets although the export of footwear

LEATHER INDUSTRY AND PROBLEMS WITH ITS SOURCES OF RAW MATERIALS

by MEcon. PHÙNG NGỌC BẢO



Because of these changes, the industry grew quickly in the early 1990s: its annual growth rate varied between 40% and 150%. In 1997-98, however, its growth rate fell to 3.7% because of the Asian financial crisis. It rose to 33.4% in 1999 when the Asian economy recovered. In 2000 when facing keen competition in the world market and general economic recession, earnings from export of

port value (value of exported manufactured goods, including handicrafts, is to reach US\$10.8 - 11 billion, representing 70% of the export value and increasing by 24-27%).

The leather industry plans to produce 300 million pairs of sandals in 2001 (33 million of which are from the Footwear Corporation), making a year-on-year increase of 15.3% and an export value of US\$1.9 billion,

from Vietnam isn't restricted by quotas imposed by importing countries. To achieve the set targets, the industry should export some US\$800 million worth of goods in the rest of the year, or some US\$160 million a month.

- The euro is falling as compared with the dollar while the European market represents from 85% to 90% of the Vietnam's footwear export.

- Central banks of many countries, especially regional ones, have cut interest rates to promote their export business with the result that footwear from Vietnam meets with fiercer competition on the world market.

These predicted difficulties mean that the set targets for 2001 need adjustment. The Vietnam Footwear Corporation, the leading company in the industry, couldn't avoid these problems besides ones of its own. In the first half of the year, its output was worth VND217 billion equaling 74% of its output last year and only 34% of the target set for 2001. Its total sales in this period reached VND327 billion equaling 76% of its sales last year and 37% of the year's target. Its export earnings were US\$56 million equaling 73% of its earnings in 2000 and 37% of the planned target. Its footwear output was 11 million pairs equaling 77% of its output in 2000 and 44% of the year's target. These data show that it could hardly achieve the targets planned for 2001 although it is the biggest company and plays the leading role in the industry. In recent years, the growth rate of the public sector have varied between 15% and 20% and this sector accounted for only 12% of the footwear output as compared with a share of 35% in the mid-1990s. These figures reflect the investment rate of the whole industry and this sector as well.

Besides external difficulties, the leather industry in Vietnam also has its own conditions that affect the effort to achieve both short- and long-term targets and development plans. In studying the business climate of the industry, we should assess exactly elements of the climate in order to work out the master plan for development of the industry. The business climate consists of many elements such as market, management mechanism, sources of raw materials, production capacity, technological level, quality control, labor force and its productivity, etc. Of these elements, the supply of raw materials from local sources has seen no improvement for years and up to now there has been no solution to this problem.

Raw materials could account for 70% or 80% of the average production cost of the industry, and Vietnam has to import 80% of necessary raw materials now. That is why all footwear companies become dependent on foreign suppliers and their competitiveness poor.

As for the tanned leather as the principal material for the industry, the local sources can supply only 12

million sq. ft. (the public sector supplies only 3.5 million sq.ft. although it has more factories and modern equipment than the private sector has). There is no factories that produce and supply leatherette, PU, PVC, etc. to the domestic market. Some factories in export processing zones could produce these goods but they export all of their output. Local suppliers could ensure sole of all kinds (some 212 million pairs a year) and cloths for some lines of sneaker and slipper. Vietnam still has to import cloth for high- quality shoes.

As for additional raw materials, no state companies are specialized in these goods. Some private companies

could supply cheap materials or spare parts. Local producers have to import most of necessary chemicals and ornaments.

Generally, the lack of sources of raw materials of all kinds for the leather industry makes the production cost higher and this line of products from Vietnam less competitive on the world market. In recent years, the industry has had to spend some US\$500 million a year on imported raw materials. In the long run, it's necessary to increase investment in production of these materials. The industrial authorities must work out plans to solve this problem as soon as possible ■

