

ADVANTAGEOUS CONDITIONS FOR DEVELOPMENT OF EXPORT-ORIENTED CLOTHING BUSINESSES

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Vietnam clothing industry has an old-established tradition, it has supplied goods for both domestic and foreign markets. At present, it is the second largest foreign-exchange earner of Vietnam (after oil industry) and becomes a leading industry. This industry has a high RCA (3.61) and its advantages could be seen in the following facts:

1. Geographical position: Vietnam is in Southeast Asia—the region that has the highest growth rate in the world (its average growth rate is from 6% to 8%). Vietnam has an area of 331,689 km² and a population of over 72 million people. It's by the route connecting Northeast Asia and South Asia, Middle East and Africa. Its shoreline is 3,260 km long with many ports allowing liners to come and go all year round. It is also on the road and railway connecting China and Cambodia, Thailand... As for air traffic, there is the Tân Sơn Nhất international airport which is rather equally distant from Hà Nội and other big cities in the region.

This geographical position allows Vietnam to expand the international trade relation and attract foreign investment in order to develop the economy and exportation.

2. Investment attractiveness: compared with other industries, the clothing business requires small investments. In fact, one can pay only US\$500 in equipment and US\$300 in overhead cost to create a new job, and then, one can retrieve investments within five or seven years. That is why many clothing companies cooperating with foreign partners have come into being within a short period.

| Foreign investors | Projects | Investment (US\$ m.) |
|-------------------|----------|----------------------|
| Taiwan | 12 | 38.60 |
| South Korea | 15 | 19.50 |
| Hong Kong | 13 | 17.34 |
| Others | 19 | 54.36 |
| | 59 | 129.80 |

These projects are realized in 13 provinces of the country (four in the North, six in the South and three in Central Vietnam and Highlands). The most attractive localities are: HCMC (36 projects), Đồng Nai (10 projects), Hà Nội (8 projects). Products of these companies are diverse, besides clothing for export, they also produce travelling bags, backpacks, umbrellas, sport bags, zippers, elastic, needle for sewing machine...

3. Abundant and cheap labor: this is one of advantages of Asian countries, including Vietnam, in com-

parison with other regions. In 1995, Vietnam's population topped the 72 million mark, 35 million of which are of working population. The annual birth rate is from 1.8% to 2%. According to estimation, by this rate, Vietnam's population will be of 81.1 million people by 2000, 87.6 million by 2005 and 100 million by 2010.

Because of a low basic wage rate, the wages paid to Vietnam workers of clothing industry is from 2 to 18 times lower than what received by their counterparts in other Southeast Asian countries, and from 100 to 150 times lower than wages paid to German, Japanese or American clothing workers.

Average monthly income of Asian clothing industry workers (US\$).

| | |
|-------------|-----|
| Vietnam | 40 |
| Indonesia | 83 |
| Thailand | 100 |
| Malaysia | 120 |
| Singapore | 415 |
| Hong Kong | 612 |
| South Korea | 767 |
| Taiwan | 772 |

(Source: Credit Lyonnais)

4. New investments in equipment and technology: Learning from the experience of Asian countries, especially from China who had invested US\$1.2 billion in modernization of its clothing industry and increased export turnover of this industry by 24% annually, hundreds of millions dollars were invested in Vietnam clothing industry since 1992 in order to help it reach the advanced stage of the world technology, with the result that Vietnam could export clothing to developed countries such as Japan, Ger-

many, Canada, France... From 1993 on, around 18,000 specialized machines for the clothing industry were imported into Vietnam every year and the amount of machines used in this industry has totalled more than 100,000 ones now.

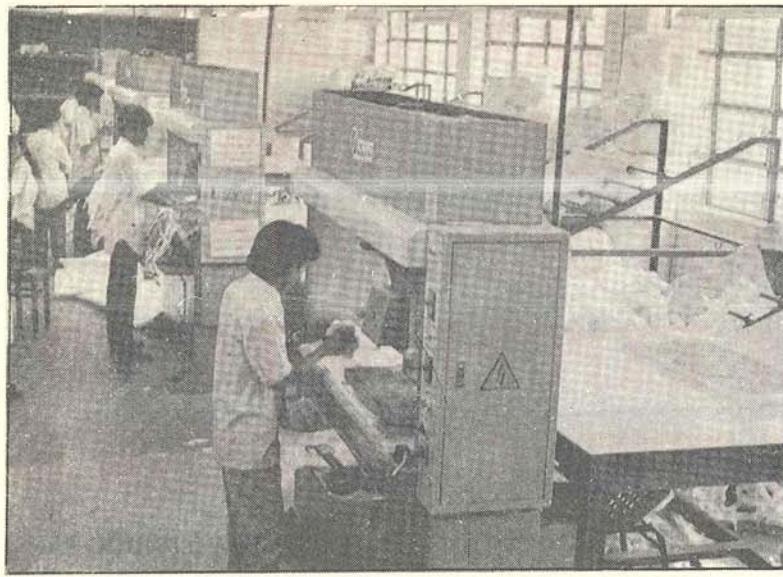
Generally, just because of the modernization of its equipment and technology, clothing exported from Vietnam with reasonable prices and acceptable quality became more competitive in the world markets. The export turnover of this industry has increased considerably in recent years: US\$221 million in 1992, 350 million in 1993, 560 million in 1994 and around 700 million in 1995.

5. Most clothing businesses in Vietnam are of small and medium scale: Besides advantages of cheap and abundant labor force, another advantage of Vietnam, and other Asian countries as well, is that one can easily organize small and medium scale businesses. Most clothing businesses in Vietnam have an investment of under VND10 billion and a workforce of under 500 workers. These businesses represented from 85% to 95% of total clothing businesses and produced around 40% of total clothing output. Compared with large scale companies, the small and medium scale clothing businesses in Vietnam have the following strong points.

- They produced a large quantity of clothing and earned a big export turnover.

- They have the ability to cope with changes in the market.

- They can create new jobs easily in any localities, from rural areas to cities, and make the best use of the labor force.



- They require small investments only. Their production cost could be reduced easily so they have chances to gain footholds in the world markets.

- Their technology, equipment, designs could be changed and improved easily.

- They can assist large scale companies by doing subcontract work.

6. Expanding international trade relations:

a. The agreement about clothing trade between Vietnam and the EU came into effect on Jan. 1, 1993. According to this agreement, Vietnam was allowed to export to the EU 151 categories of commodity, 46 of which were quota-free. In addition, there were 13 categories which Vietnam was subcontracted to by EU members. The total quota given to Vietnam was 21,298 tonnes with a total value of US\$450 million.

After the agreement was signed, Vietnam's clothing exportation to the EU increased considerably, from 10 categories to 55 ones in 1993. In 1995, 12 other categories were exported by Vietnam clothing businesses. Therefore, the clothing export turnover from the EU market increased from US\$250 million in 1993 to 285 million in 1994 and around 340 million in 1995.

According to the agreement, in the five-year period from 1993 to 1997, there would be an annual escalation of 1.5% to 2.5% in the quota given to each category. But recently, in response to suggestion of Vietnam Ministry of Trade, the agreement about clothing trade between Vietnam and the EU has been amended with the



result that the quota on 23 hot categories was increased from 20% to 25%; number of categories under quota was reduced from 105 to 54; number of categories subcontracting to Vietnam was doubled. It was estimated that these amendments had given Vietnam 2,500 tonnes more of clothing exports (equivalent to US\$100 million).

This agreement has contributed a lot to the development of Vietnam clothing industry. Clothing businesses, especially small and medium ones, could develop their production and gain footholds in domestic and foreign markets. When their products are exported, their production will be stabilized and they will receive help

from local authorities.

b. The normalization of the US-Vietnam relation will be a favorable condition for the development of Vietnam clothing industry. This industry will enter the American market when Vietnam is given MFN clause and benefits from American Generalized System of Preferences. The American market is very attractive because it consumes clothing items in large quantities.

Benefiting from the MFN clause, many Asian countries such as Singapore, Hong Kong, Thailand, Indonesia, Malaysia, Taiwan, South Korea and China could develop their economies very fast in the last two decades.

c. In July 1995, Vietnam became the seventh member of ASEAN. So Vietnam can find a foothold in this market. The intra-bloc trade is on the increase year after year, from US\$ 64.4 billion in 1993 to 92.6 billion

1995, while the trade with the rest of the world represented only 20% of trading value of this bloc.

Thus Vietnam businesses in general, and clothing businesses to be precise, can expand their trade relation with partners in the bloc.

In short, with different comparative advantages and favorable conditions in international relations, Vietnam clothing industry can develop better if existing resources are exploited reasonably and necessary measures to encourage its development are taken by the Government, and then, the clothing industry can become a leading industry in Vietnam.