VIETNAM'S CLOTHING AND AMERICAN MARKET OPPORTUNITIES AND CHALLENGES

by Dr. VÕ PHƯỚC TẤN

I. AN OVERVIEW

The U.S. is an attractive and ideal market to exporters from all over the world. This is a market of 272 million people, representing 5% of the world population, most of them live in towns and cities: 2.9% of them live on agriculture, 26.9% on manufacturing industry and 70.2% on service. The American per capita income rose from US$21,116 in 1990 to US$25,900 in 1998, making it one of markets with highest demand and spending power.

Both foreign and domestic trade develop well here. Its annual imports and exports are worth over one thousand billion of dollars, accounting for 12% of the world export value and 14% of the world import value.

Table 1: American exports and imports (US$ bil.)

	1990	1993	1994	1998
Export	393.6	465.1	512.3	670.6
Import	495.3	580.7	657.5	918.8
Total value	888.9	1,045.8	1,169.8	1,589.4

Source: U.S. Dept. of Commerce

Of the American imports, 25% of these items could be made in Vietnam, such as crude oil, clothing, household appliances, toys, jewelry and gemstone, and seafood. Vietnam may import from the U.S. a lot of machinery and other capital goods needed for production of high-quality products for export. Many American goods are offered at prices lower than those from Japan and European countries.

II. DEVELOPMENT OF VIETNAMESE- AMERICAN TRADE RELATION

On Feb. 3, 1994, the American embargo against Vietnam was lifted, American companies were allowed to export essential goods to Vietnam. Meetings between representatives from Vietnamese Ministry of Trade and its American counterpart have been held with a view to promoting their trade relations. A lot of American and Vietnamese businesspersons have had chances to visit and make market researches in their partners' countries.

The American Government decided to normalize its diplomatic relation with Vietnam on July 12, 1995 and two parties started exchanging information about potential markets, laws, policies and procedures in preparation for a trade agreement. After eight rounds of negotiations, the two parties reached an agreement about main provisions of the Bilateral Trade Agreement relating to market access, intellectual property rights protection, export practices and investment. The signing of this agreement will be a landmark in the development of trade relation between two countries.

Table 2: Vietnamese- American trade in recent years (US$1,000)

	1994	1995	1996	1997	1998
Vietnamese exports to the U.S.	51,940	198,966	319,037	388,189	553,408
Vietnamese imports from the U.S.	172,220	220,047	298,547	239,317	200,050

Source: U.S. Dept. of Commerce

III. AMERICAN TRADE LAWS

1. The MFN status: The Article 1 of the GATT requires all contracting parties to apply such treatment to one another. The U.S. has offered this treatment (called Normal Trade Relation now) to most of its trading partners, including nonmarket economies. Under this treatment, tariff reduction and cut are offered to trading partners, so those who aren't offered this treatment have to pay tariffs from 6 to 12 times higher.

Table 3: Tariffs on clothing exported to the U.S.

Item	Duty rate (%)	
	MFN	Non MFN
Footwear	6	35
Cotton clothes	10	45
Sportwear	8.6	90
Shirt	20.6	45
T-shirt	19.6	90
Jacket	15.5	90

Source: U.S. Dept. of Commerce

After achieving MFN status, many Asian countries, such as Singapore, Hong Kong, Thailand, Indonesia, Taiwan, Malaysia, South Korea and China enjoyed an economic boom in the past few decades. The MFN treatment also allows people in developed countries to buy cheap consumer goods (such as food, footwear, clothing and electronics) from developing countries. Prices of these goods usually equal 40% to 50% of those offered by American or European producers.

2. Generalized System of Preferences: The U.S. Uniform Commercial Code allows the President to grant, or revoke, free rates of duty for goods from developing countries. At present, over 100 countries, including Thailand, Malaysia, Philippines, India and Pakistan, are enjoying the GSP treatment. Eligible merchandise will be entitled to duty-free treatment provided the following conditions, inter alia, are met: (1) the merchandise must be imported directly onto the U.S. from the beneficiary country, and (2) the cost or value of materials produced in the beneficiary developing country and/or the direct cost of processing performed there must represent at least 35% of the appraised value of the goods.

Under the U.S. laws, Vietnam may only enjoy this treatment after achieving the MFN status and joining the WTO and IMF. This means that after achieving MFN status, Vietnam has to bridge a wide gap between itself and other beneficiary countries in Asia to become eligible for this treatment. This means that Vietnam will meet with their competition even in the American market.

3. Other commercial laws: Exporters who want to enter the U.S. market should pay attention to regulations and requirements of domestic commerce, such as the Product Liability Law that imposes liability on producers or suppliers for damage caused by their goods or products; other laws that protect interests of consumers; antitrust and antidumping acts, etc. In general, the U.S. laws try to protect consumers' interests and ensure fair competition and opportunities for all companies or individuals.

IV. CONTROL OF IMPORT QUOTA ON CLOTHING

The U.S. is a signatory country to the Multi-Fiber Arrangement that allows importing countries to impose quotas on textiles from low-wage producing countries. The MFA provides a basis on which the U.S. negotiated bilateral agreements on import of textiles with 41 countries. Value of imports under these bilateral agreements represented some 80% of the value of textiles imported to the U.S. every year. Although agreements are signed, the U.S. still has the rights to revoke all offered quotas or preferential treatment unilaterally to avoid damage caused by rapidly rising textiles imports.

While negotiating about the bilateral agreement, the determination of quotas will be based on the value of imports attained during the preceding year. When the amount of imports reaches 100,000 dozens, the U.S. government usually becomes alert and as this amount rises, it suggests a bilateral agreement which usually fixes a starting quota of 200,000 dozens. So Vietnamese textile companies, during one year or two after the signing of the Trade Agreement, should try their best to increase exports to the U.S with a view to achieving a higher quota.

As for contents and principles of the textile trade agreement between the U.S. and exporting countries, the common regulations are as follows:

- Limits on quantities imported may be imposed separately or collectively on items.
- Textile is measured in meter, and garment in piece, suit or dozen.
- Quota on an item in the preceding year could be brought forward to the present year, and quota in the next year could be brought backward.
- In a year, quotas on different items could be exchanged for one another.

Table 4: American clothing imports (US$ mil.)

Imports	1990	1992	1993	1994	1995	1996	1997	1998
Textile	6,730	8,215	8,855	9,207	9,985	10,702	12,460	12,843
Garment	26,977	27,696	32,951	36,748	39,526	41,367	40,300	40,926
Total value	33,707	35,911	41,806	45,955	49,511	52,069	52,760	53,769

Source: U.S. Dept. of Commerce and Vinatex Corporation

V. POTENTIAL FOR U.S. IMPORT OF CLOTHING

Clothing is the biggest labor-intensive industry in the U.S.. Since 1970, the labor force of this industry has decreased by 40%, from some 1.4 million to 900,000 laborers. Most of them are working in 18,000 clothing concerns which were mainly concentrated in Los Angeles. Many economists predicted that the sewing business would cease to exist in the U.S. in the next decade. The 1994 NAFTA encouraged American clothing companies to invest in low-wage countries. Some 64% of American garment companies had their branches in Mexico and they only employed American workers of high skills to make garments of famous brand names. Thus, the U.S. has become a potential market for ready-made garments from developing countries. This market consumes some US$50 billion worth of garment every year, equaling the amounts bought by Japan and the EU put together.

The table shows that the American clothing imports rose by 59% in the period from 1990 to 1998. Developing countries in the Latin America and Asia all depend on the American market for their economic and export development.

Table 5: Clothing suppliers in American market (US$ mil.)

Supplier	1989	1993	1996	1997	1998
Mexico	1,518	2,380	3,490	4,900	6,906
China	2,87	6,186	4,533	4,982	4,427
Hong Kong	3,944	4,018	3,330	3,388	4,394
Taiwan	2,822	2,331	2,257	2,326	2,072
South Korea	3,671	2,538	1,692	1 893	2,033
Canada			1,650	1,986	1,469

Source: U.S. Dept. of Commerce

The table shows that Asian countries are main suppliers of clothing to the American market and the export value, especially from China and Mexico, rose continuously.

VI. PROSPECTS OF VIETNAMESE CLOTHING EXPORT

The Vietnamese clothing industry has made good progress in the past ten years with an annual growth rate of 14% and its products have been sold to such demanding markets as Japan, Canada and the EU. At present, there are 758 concerns producing and exporting textiles. The biggest one is Vietnam Textile Corporation (Vinatex) consisting of 39 subsidiaries that control some 30% of export earnings from textiles.

The value of clothing exports increased year after year by some 40% on average and topped the US$1 – billion mark since 1996. This industry become the second biggest earner of foreign exchange in Vietnam, after the oil business.

Table 7: Value of Vietnamese clothing exports to the U.S. market (US$ mil.)

Item	1994	1995	1996	1997	1998
Textile	0.11	1.78	3.59	5.326	5.053
Garment	2.45	15.09	20.01	20.602	21.347
Total	2.56	16.87	23.60	25.928	26.40

Source: U.S. Dept. of Commerce

Table 6: Clothing export value (US$ mil.)

Year	Clothing export value	Total export earnings	as % of total export earnings
1992	211	2,581	8.1
1993	350	2,985	11.7
1994	550	4,054	13.6
1995	750	5,200	14.4
1996	1,150	7,255	15.2
1997	1,349	8,759	15.4
1998	1,351	9,361	14.4
1999	1,682	11,523	14.6

Source: Vietnamese Ministry of Trade and Vinatex

Those data show that the importance of clothing industry to the national exports structure rose over years and investment in this industry was right and profitable.

Without the MFN status, Vietnamese clothing companies met with difficulties in getting an access to the U.S. market because duty rates on their exports are much higher than rates on counterparts from other beneficiary countries although their earnings from export to this market increased continuously. It is, however, an encouraging sign. We hope after achieving the bilateral trade agreement and MFN (or NTR) status, earnings from exports to the American market will equal what this industry has earned from European and Japanese markets (US$700 and 489 million in 1998 respectively).

In short, Vietnam could export more textiles to the American market. Agreement with the EU brought about more benefits making Vietnam's export to the EU rise remarkably in the past few years. Similarly, the increase in earnings from export of clothing to the U.S. is estimated by many experts at somewhere between US$0.8 and 1 billion when the bilateral trade agreement is signed.

VII. CHALLENGES TO VIETNAMESE CLOTHING EXPORTS

After the trade agreement is signed, Vietnamese clothing industry still faces great difficulties that

force it to make a lot of preparations before finding a foothold in this market. The U.S. market consumes both cotton and other fiber textiles in large quantities and American importers usually buy goods on the FOB term. This means that Vietnamese exporters have to deliver goods on time at the named port of shipment (usually American ports) and clear the goods for export. The American market includes many segments with different tastes and disposable income. The target segments for Vietnamese clothing exporters are groups of middle and lower classes who pay more attention to prices and design than to quality. In these market segments, Vietnam will meet keen competition from such Asian rivals as China, Thailand, Indonesia, and Philippines that have had firmer footholds in the market.

Problem facing Vietnamese clothing companies is to increase investment in new technology in order to produce goods of acceptable quality and competitive price. To solve this problem, they should pay full attention to the following issues:

- Making more investment in textile industry, especially production of knitwear (T-shirt or polo-neck sweater) which has been one of staple clothing products exported to the U.S. for years.
- Enhancing the work of developing new designs using local materials with a view to making products of Vietnamese brand names.
- Beefing up trade promotion and marketing activities by developing the army of marketing experts, opening branch offices; showrooms and retail outlets in the U.S., and securing help from the Government to get information about the target segments and take part in trade fairs.
- Improving the managerial skills of local managers by introducing the ISO 9000 and other quality control systems and equitizing state-owned clothing companies in order to exploit new opportunities to change technologies in use and integrate more fully into the world economy.■