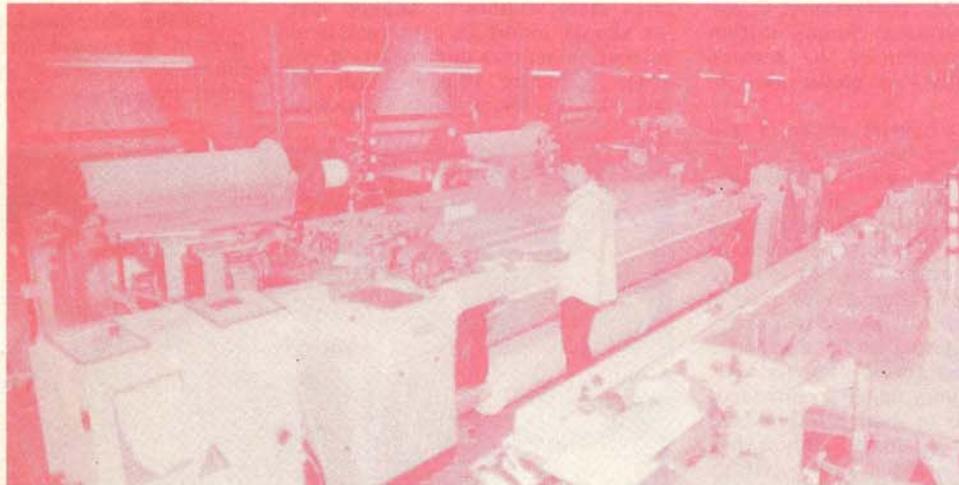


# VIETNAM'S CLOTHING INDUSTRY POTENTIALS AND CHALLENGES

by MEcon. NGUYỄN TÂN VÀNG



**A**ccording to the plan, Vietnam could get admission to the WTO by early 2005 but some foreign experts at the Geneva negotiation round in April 2002 thought that Vietnam could do so in six to twelve months earlier because of its high growth rate and favorable conditions. This possibility means both opportunities and challenges to local industries.

Clothing is one of industries that earn high income in foreign exchange for Vietnam but most leading companies in this industry are state-owned ones with clumsy management and they need improvements in business performance.

According to statistics, the per capita clothing output in Vietnam is 2.35 meters of cloth a year. In other words, the domestic market consumes some 188 million meters of cloth every year. Export of clothing needs some 13 million meters. In addition, Viet-

nam often imports clothing to do subcontracts for foreign partners. In 2001, Vietnam imported some 25 million meters to make clothes for export. Thus, the aggregate demand for clothing in Vietnam is some 216 million meters a year while the total output from some 2,500 clothing factories is only 130 million meters and Vietnam has to import some 85 million meters.

Import price of a meter of cloth is around VND45,000 (US\$2.69 a yard). When the tariff reduces from the present 30% rate to 0% as required by international and regional agreements, the national budget will lose some VND1.161 million in import tax a year. The average selling price of a meter of imported cloth on the domestic market is VND45,000 + 13,500 = 58,500, but it is more attractive and competitive than the local one. To make up for decreases in import tax take, local pro-

ducers must promote export to make the best use of opportunities offered by international trade agreements.

According to the Ministry of Trade, the import and export businesses in Vietnam in 2002 (up to July) are as follows:

- Import value: US\$10.1 billion.

- Export value: US\$8.7 billion (thus, the trade gap is US\$1.4 billion and one of reasons is the fact that the volume of imported cloth rose by 264% as compared with the same period last year.)

- Export of clothing in the first half of 2002 rose by only 4% and earned US\$1.02 billion.

## 1. Problems

### a. Raw materials:

- Most raw materials for the industry are import goods and it's hard to believe that certain items made of imported materials under subcontracts to foreign companies are of higher quality and cheaper

than locally-made counterparts (because imported raw materials are cheaper). This will be a potential disadvantage for local companies when implementing AFTA and WTO agreements.

- Vietnam has 25,000 hectares of mulberry and is second only to China in terms of mulberry area. But some 200 tonnes of raw silk are imported from China every year by Vietnam Corporation of Silk alone and the whole industry has to import some 5,000 tonnes of raw silk a year while the price of local raw silk falls steadily from VND32,000 per kilo in 2001 to 23,000 in 2002. This situation is inevitable because local raw silk is of poor quality: only 30% of local raw silk is good enough to make silk of grade A. A quick survey shows that the local silk thread is some 700 meter long at most as compared with Chinese silk thread of some 1,200 meter long.

### b. Intermediate costs

These cost in Vietnam are higher than in regional countries, which affecting foreign investors' decisions on business opportunity in Vietnam:

- Telecommunication fee in Vietnam is six times higher when comparing with Singapore, five times with the Philippines and three times with Indonesia.

- Cost of transport per container is three times higher in comparison with Singapore and Malaysia, and two times when comparing with Indonesia and Shanghai.

- When failing to meet standard required, Viet-

The income tax of 50% on foreigners working in Vietnam is high in comparison with the rate of 30% imposed by Indonesia, 37% by Thailand and 45% by China. This usually cause minus impression on foreign investors.

e. Human resource:

Vocational training centers fail to help technicians and middle managers meet requirements by companies. There are too many managers and too few workers and well-trained laborers. In short, the labor force in Vietnam is of poor quality and the education service must bear full responsibility for

tries and China. China as a WTO member and expiration of the Agreement on Textiles and Clothing by 2005 will have strong effects on the industry in the coming years.

**2. Some measures to develop the clothing industry**

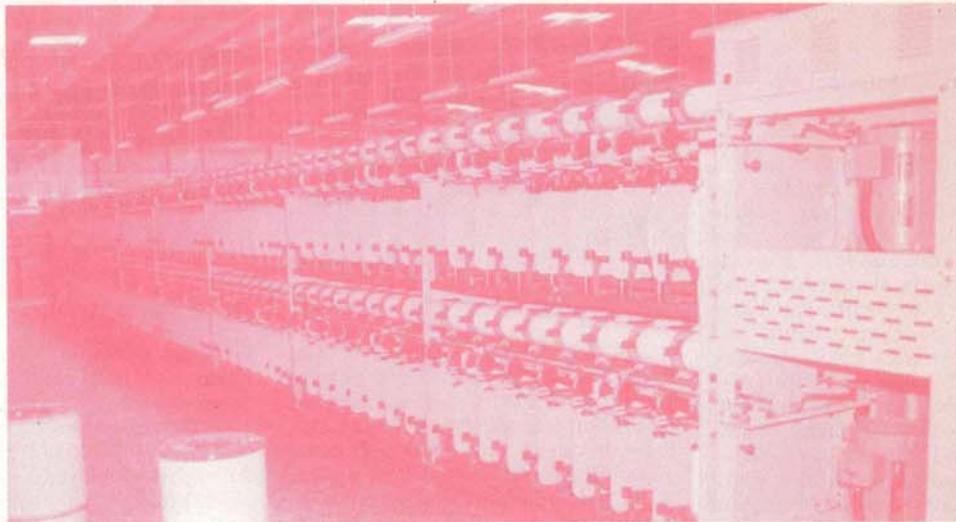
a. Human resource:

At present, the clothing industry employs some 1.6 million laborers. In the next five years, this figure must rise to 2.6 million to make the output rise by 40% (that is, to produce 86 million meters more) to meet the domestic market

Clothing companies must spend more time and money studying demand, tastes and customs of traditional markets in order to find out appropriate designs, and at the same time, give favorable treatment to local competent designers who could make good Vietnamese-style designs.

c. Anti-dumping measure

The government must beef up the machinery for struggling against dumping and commercial fraud when all trade barriers and protectionist measures are removed and local market flooded with for-



namese exporters are fined 5% of the value of clothing items exported.

c. Supporting industries:

Many supporting industries and services are still lacking in Vietnam with the result that procurement of accessories and substitute materials is costly and time-consuming. In most industries, the labor cost represents only 10% of the production cost as compared with 60% for costs of accessories and substitute materials. This makes the business opportunity in Vietnam less attractive in spite of the low labor cost.

d. Income tax:

this situation.

f. Design and package:

Most clothing items exported by Vietnam have foreign designs and package because they are made to orders placed by foreign companies. Both local companies and designers pay little attention to this aspect. And as a result, external factors account for some 80% of the export value made by the clothing industry.

g. Effects from regional countries:

Just because of its low productivity, the Vietnam's clothing industry takes only a 0.5% share in the world market. It also meets with keen competition from ASEAN coun-

demand. The number of clothing factories must rise from some 2,500 to 4,250 to achieve the planned export value of US\$5 billion by 2005 and US\$9 billion by 2010.

To provide new factories established in the next five years with laborers, the industry needs 1,750 executive managers, 3,200 supervisors, 5,400 technicians, 19,000 quality controllers and some 870,000 skilled workers. Such a demand seems beyond the reach of existing vocational education service. Great efforts are required from the industrial and education authorities.

b. Design

aign good, materials and machinery.

d. Supporting policies

In the early stages when the clothing industry is exposed to the free trade, the government must adopt many policies to help all local industries, including the clothing one. The effective policies are: giving tax incentives to invention and production of raw materials and machines; reduction in tax on capital investment and replacement of technology; providing business information; supporting marketing programs carried out in foreign countries; beefing up the vocational training service, etc. ■