Clothing Companies in Face of WTO Commitments

by MEcon. ĐẬU QUANG LÀNH

After getting accession to the WTO, Vietnam faces a lot of problems because the accession is not the most important one. Will it be able to allow Vietnam a sustainable development? Is there a real socialism-oriented economy in Vietnam after its 12-year effort to build it? Will there be some 500,000 local companies that are capable to compete against companies from 149 WTO members in this flat world by 2010? These questions are worth worrying because they will help constitute a basis for the industrialization and modernization from now to 2020.

Apparently, in carrying out WTO commitments, the agriculture, clothing, manufacturing industries and services, to name but a few, are sectors affected most in terms of opportunities and challenges. This article wants to discuss effects of the WTO commitments on the clothing industry, because it is the industry that earns some US$5 billion from its exports, supplies jobs to hundred thousands of laborers, and proves to be competitive enough in foreign markets, especially in Japan, the EU and the U.S.

This industry will feel the earliest and strongest effects because commitments to cut duties on clothing and fiber as required by the WTO and AFTA agreements have come into effect, causing great pressure on clothing companies. Before the accession to the WTO, the industry has met with keen competition from their Chinese rivals in all of their major export markets.

In this industry, the textile meets with the keenest competition because duties on polyester fiber from ASEAN countries have risen from 0% to 5% while duties on cloth imported from countries outside the ASEAN have fallen from 40% to 12%. This means that imported cloth will be cheap enough to compete against locally made one. Local clothing companies, because of their poor capacity and quality in comparison with clothing industries in such countries as China, India and South Korea, have to revise their business strategies otherwise they will see their market share to contract. Many textile companies, especially private small- size ones, will have to produce other goods or go bankrupt because of the lack of capital needed for modernizing their production lines and improving their competitiveness. Among them are small factories in Tân Bình, District 11, and Bình Tân in HCMC, along with some famous ones such as Thắng Lợi and Việt Thắng.

One of threats to the clothing industry in recent years is the fact that Chinese clothing products, due to ineffective anti-smuggling campaigns, have flooded the domestic market and accounted for a 60% share at times although the duties on such products haven't been cut. When the WTO commitments are carried out, Chinese clothing industry with its advantage of lower production cost and more diverse designs, can export their products legally to Vietnam at prices that are from 10% to 20% lower than ones offered in the past few years, because they also enjoy the WTO status. And as a result, the Chinese clothing industry may control 65% or even 70% of the market in Vietnam and constitute a great challenge to the local industry.

In addition, according to the AFTA agreements on tariff cuts, the import duties on textile products from ASEAN countries, from 2007, are reduced to the 0% - 5% bracket, which makes the ASEAN cloth much cheaper. These countries, however, are not important players in this field. Thailand, for example, has to import 80% of its need for fiber with the result that its cloth is still more expensive than the Chinese one. The demand for ASEAN clothing in Vietnam will not become higher, according to many estimates, but it represents only one more option for consumers. To survive this keen competition, local companies should differentiate their products and avoid competition against producers of low-end products.

After offering the PNTR to Vietnam, no American quota is imposed on the Vietnamese clothing products. But finding a foothold in this market is no easy task. Experience from such companies as Việt Tiến, May 28 run by the armed forces, and May 10, show that a lot of foreign exporters of clothing products have enjoyed this treatment since 2005. This means that they have divided the American market in the past two years. As late comers with poor capacity, Vietnamese clothing companies have to work out excellent strategies if they want to find a niche and gain some shares in this market.

As for garments, American quotas have

also been removed and tariffs cut by many governments. Garment producers have opportunities to promote their exports without limits on quantity. This means that local garment companies can find a foothold in the American market based on low production cost and differentiation of their products.

According to many analysts, the added value accounts for only 20% - 25% of the earnings from export garments. In 2005, garment companies earned some US$4.8 billion from their exports but they spent 3.6 billion on raw materials. Thus their pretax profit was only US$1.2 billion. Thinking through, no country takes off by developing the clothing industry and no clothing company get rich quickly. Their development can only help make use of cheap labor and local resources, and satisfy domestic demand and foreign one to a certain extent. Causes of low profit by the clothing industry are numerous but the main one is the fact that local companies couldn't ensure domestic supplies of raw materials and machinery, and better management.

Most clothing companies at present do subcontract work for foreign companies and deliver their products at local ports. Making a shirt brings them in some US$4. Of this sum, the local producers get US$1.4 for their labor, management, some locally-made raw materials and quota price. Foreign suppliers of raw materials and cloth take US$2.6 because the foreign company that places order forces the local company to buy raw materials from these suppliers. And as a result, the profit is small although the export value is big. If local companies couldn't improve their product quality and increase their share in the domestic market, they are likely to lose their shares to rival from other WTO member countries. In short, their business strategy must aim at increasing the local supply of raw materials, improving their shares in the domestic market and promoting export at the same time.

Photo by Huynh Tho

A shirt of famous brand name, such as GAP, J.C. Penney, target, or Sears, is usually sold at US$19 or 20. Many Vietnamese companies have to pay some money to get permission to have such brand names tagged on their products with the result that their profit is much smaller than one gained by owners of brand names and some middlemen. Great shortcoming of local clothing companies is the lack of brand names, designs and distribution channels. Since the economic reform was started, this shortcoming has been pointed out but no company has so far worked out strategies to deal with this problem.

In twelve years, Vietnam has to complete its transformation into the market economy. Clothing companies will meet with many difficulties when doing business in a flat world where ones with better products, after-sale services, low production cost and effective machinery will survive and develop while companies fail to achieve those standards will see their market share contract or even go bankrupt.

I think that clothing companies should realize exactly and clearly both challenges and opportunities open to them, and their weaknesses and strengths when Vietnam carries out WTO commitments. Not only managers, but also workers have to be equipped with knowledge of these commitments so all of them can actively engage in new action programs to ensure their development and survival. At present, many companies seem unaware of difficulties in store for them while many others feel optimistic about their achievements before Vietnam becomes a WTO member. It's worth noting that the business climate will change remarkably after the accession to the WTO, which requires changes in business strategies.■