

Major Export Markets of Vietnam's Footwear Industry

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Crude oil, textiles and garments, and footwear are Vietnamese major exports in the 1980s. With the advantages of a wealthy source of laborers, cheap payment, rather low requests of professional skills; Vietnam soon became an interesting environment for footwear investors in the region and in the world. Up to 2004, the whole country has about 300 factories and enterprises producing footwear with over 400,000 laborers, most of which are located in industrial zones and suburbs of big cities: Hà Nội, HCMC, Hải Phòng...

Today, Vietnam footwear has been exported to over 40 countries and territories in the world. Its increasing export value has made the industry become one of the third biggest generators of foreign currency for the country. Vietnam is also one of the world's biggest footwear exporters (behind China and Italy).

Table 1: Footwear export value of Vietnam from 1992 to 2004

Year	Export value (US\$ million)	Growth	
		Value (US\$ million)	%
1992	2.00	—	—
2000	1,465.00	1,463.00	732.50
2001	1,520.00	55.00	103.75
2002	1,620.00	100.00	106.58
2003	2,490.00	870.00	153.70
2004	2,604.00	114.00	104.58

Source: Department of Import and Export – Vietnam Ministry of Commerce.

Table 1 shows there was a period of time when footwear export value made great leaps from the low starting point of US\$2 million in 1992. As a result, this product affirmed its important role in the group of 9 key export products of Vietnam. In detail, the footwear export value in 2001 was US\$1,520 million (increasing US\$55 million or 3.75% compared to 2000). Right after that time, footwear export value kept growing up to US\$1,620 million in 2002 (increasing by US\$100 million or 6.58 % compared to 2001); 2003 was considered to be the golden age of Vietnam's footwear when its export value grossed US\$2,490 million, up over 50% or US\$870 million within a year; and the record of export value in 2003 was broken by the *new achievement* in 2004 with US\$2,604 million (up US\$114 million or 4.58%). In average, the export value of this industry in the latest period (2002 – 2004) was US\$2,238 million, posting an annual growth rate of over 20% and accounting for 10.7% of the total export value of Vietnam in this period.

The major export markets of Vietnam footwear are the countries in EU: France, Germany, United Kingdom, Poland... taking over 70%; followed by the US; 10%; Japan 6%; South Korea 4%; Taiwan 4%; and Africa and other countries 4%

The EU

It's clear that the leading export market of Vietnam footwear is the EU, making up over 70%. It has been the traditional market of Vietnam footwear, especially since the day when the two sides signed the Commercial Cooperation Treaty on July 7th, 1995. Vietnam's footwear has been shipped to EU freely without quota imposition as well as import permission. In 1996 Vietnam ranked third in the list of footwear exporters to the EU (behind China and Indonesia), since then, its export value has steadily increased both in volume and value. Europe has become a real impetus for the Vietnam's footwear industry.

Table 2: The export value of Vietnam's footwear into the EU market from 1995 to 2004

Years	Export value (US\$ million)	Growth	
		Value (US\$ million)	%
1995	481.30	—	—
1996	664.60	183.30	138.10
1997	1,032.30	367.70	155.33
1998	1,043.10	10.80	101.05
1999	1,310.50	267.40	125.64
2000	1,683.50	373.00	128.46
2004	1,822.80	139.30	108.27

Source: Vietnam Ministry of Commerce 2004

Table 2 reveals that the export value of Vietnam's footwear into the EU market faced a fast growth from US\$481.3 million in 1995 to US\$1,822.80 million in 2004 (increasing about 4 times), the average growth rate of this period was about 26.14%/year. However, besides these satisfactory export achievements, in mid-2005 (July 7th, 2005) Vietnam's footwear began encountering new challenges that may contract Vietnam's market shares or make it even lose this traditional market because of the suing of EC (European Community) about footwear dumping.

The EU policies of protectionism on Vietnam's footwear:

Nowadays, the footwear industry in Europe doesn't develop so fast as in 1990s because of many reasons in which the main one is high wages of employees (about US\$9/hour) and its source of natural leather is narrowed due to effects of many serious regulations on ecological environment. As a result of this, with the demand of about 2 billion pairs of shoes each year, taking 30% of the world's demand, EU imported over 50% footwear from Asian countries: China (including Hong Kong), Vietnam, Indonesia and Taiwan, the rest of about 45% is from EU producers.

Up to July 2005, China has been the biggest footwear exporter to Europe (accounting for 33.4%); followed by Vietnam (about 20%); Indonesia (14%) and Taiwan (11%). On the other hand, with the open import system of this market as well as the application of the General System

of Preferences (GSP) to partners from developing countries, all of kinds of products, in general and footwear, in particular from Asian countries quickly occupied the Europe market at fast speed. Concretely, within the first 3 months in 2005, China exported to this market 257 million pairs (# export production of Vietnam in 2004), increasing 2.8% compared with the same period last year and the price was 28% lower, similar to China, Vietnam's footwear increased from 92.8 million pairs in 1996 to 120 million pairs in 1997 (increasing 30%) and up to 156 million pairs in 1998 (increasing 30%) and amounted to 200 million pairs in 2004 (increasing 28.2 % compared with 1998). The average growth rate in this period was 29.4%. The considerable expansion of market shares has really affected the footwear industry of European countries. Therefore, right in 1997, 1998, European Shoes Consortium (ESC) started suggesting the European Community (EC) to control the quantity (by applying quota or increasing import tax) on footwear in order to ensure the stability of the native countries' market shares.

However, with the available advantages of developing countries in Asia: cheap payment, (# US\$0.5/hour, 18 times cheaper than in Europe), wealthy sources of materials, average quality... The countries including China, Vietnam, Indonesia, Taiwan and even European investors (in Asia) have made the best use of these *absolute competitive advantages* to export and increasingly deeply entered the EU market in many ways: directly importing, processing importing, investing importing..... This has really worried the native footwear producers in European countries. In fact in July 2005, their market shares have been considerably narrowed. There was only about 35% but before, there had been 50%. This is the key reason for the suing of dumping of footwear on the European markets to the three countries: China, Vietnam and India officially beginning in July 2005.

The US

This is the second biggest footwear importer in the world (about 10%), and Vietnam ranks fourth in the list of footwear exporters into this market (China: 68%; Italy: 8%; Brazil: 7%; Vietnam: 2%; other countries: 15%). Although footwear export value of Vietnam into the US market has increased rapidly over the past years, especially since the Bilateral Trade Agreement (BTA) was signed by the two countries (on July 13, 2000), products exported from Vietnam enjoyed the tax of *Most Favored Nation* (MFN), the rate of import tax into this market was much lower in which import tax on footwear reduced from 30-35%, down 8.5 - 15%, compared with the big demand of this 290 million - people market (every year,

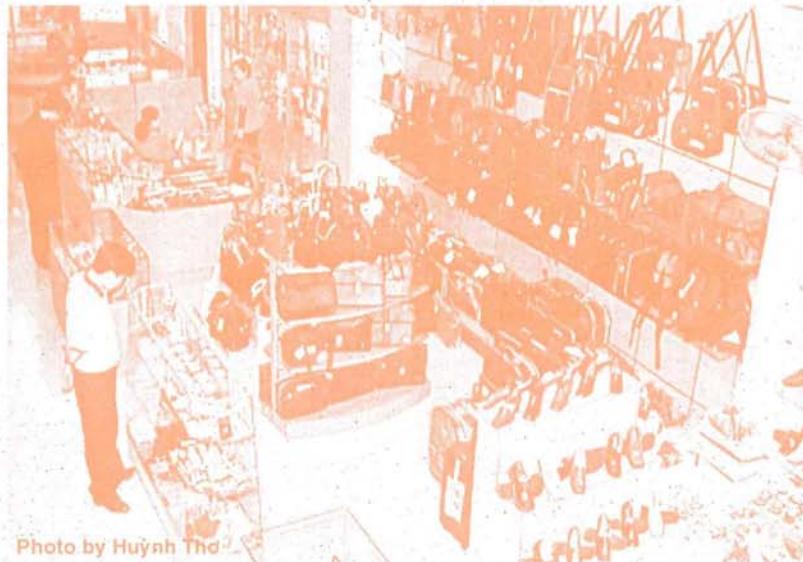


Photo by Huynh Tho

they consume about 2 billion pairs of shoes, Vietnam's footwear production only meets over 40 million pairs (about 2%) and occupies a small market share in the group of customers in the middle class and Asian people in the US. Therefore, despite advantages of the US market (we received MFN, there are large and various kinds demand, consumers don't request high quality as in Europe and Japan, to tell the truth Vietnam's footwear export companies are wasting important commercial opportunities from potential markets to replace the EU market in case of its unfair decisions of suing. Although it has not ended yet, bad effects will surely happen to Vietnam's footwear in the short coming time.

Japan

This is the third biggest export market of Vietnam's footwear (taking 5% export production behind Europe and the US and Vietnam is in the third post among the footwear export countries into this market today (China 68.7%; Italy: 9.5%; Vietnam: 3.6%). Having the biggest demand for footwear import from Asia (# 700 million pairs of shoes of all kinds/year), high payment (# US\$7/hour) and rare material sources, every year this country must import about 5% (# 35 million pairs of shoes) of total footwear needs from other countries.

Table 3: The export value of Vietnam's footwear into the Japanese market from 1995 to 2004

Year	Export value (million USD)	Growth		Average rate of growth in the period 2000- 2004 was 12.23%
		Value (US\$ million)	%	
2000	65.720	—	—	
2001	71.970	06.250	09.51	
2002	85.630	13.660	18.98	
2003	86.853	01.223	01.43	
2004	103.380	16.527	19.03	

Source: Vietnam Ministry of Commerce.

Table 3 indicates that the export value of Vietnam's footwear of all kinds into the Japan market kept rising over the past years (2001 - 2004). If in 2001 we only earned from this market about US\$65.72 million, in 2004 this figure was US\$10.38 million (increasing US\$37.66 million or 57.3%) and thus the average growth rate of export value of Vietnam's footwear into the Japan market was about 12.23% in this period. However, Vietnam only occupied a small market share of about 4%, too far lower than other competitors: China (68%) and Italy (9.5%). Therefore, the market share expansion is really a challenge to the Vietnam's footwear industry. ■