Export of Clothing from Vietnam after Its Accession to the WTO

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1. Situation of the clothing industry

In the past few years, the world market for textile rose by 6% and for garments by 8%. The total clothing import in 2005 amounted to US$480 billion and this figure is estimated at US$700 billion by 2010. Competitive advantage is in the hand of Asian emerging economies with 50% of the market share controlled by China, 6% by India and the rest by some others, like Pakistan, Bangladesh, Sri Lanka, Vietnam and Cambodia. Vietnam ranks 16 among 153 exporters of clothing.

There are some 2,000 clothing companies in Vietnam today; 0.5% of them are state-owned ones, 25% are foreign –invested ones and the rest are private and joint stock companies.

Clothing is one of staple exports from Vietnam. With an average growth rate of 20% a year, the clothing industry account for 15% of the national export earnings and it's second only to the crude oil.

Regarding its products, up to the year 2006, the industry makes some 1.8 billion pieces of product a year and 65% of its output is exported. In 2006, its export earnings reached US$5.834 billion equaling 15% of the total export earnings making an increase of 20.5% over 2005. Of this figure, US$3.044 billion (55%) was from the American market; 1.243 billion (20%) from the EU; 628 million (11%) from Japan; and 107 million (2%) from the ASEAN. Most local companies, however, only did subcontract work or carried out FOB contracts based on imported raw materials (up to 70%) – particularly in 2006 when many companies changed from FOB contracts to subcontract jobs because of shortage of capital and worries about risk – with the result that the profitability of this industry was rather low.

Table 1: Production of raw materials for textile industry in Vietnam up to 2006

Product	Unit	Capacity	Share of demand met
Cotton fiber	Tonne per year	10,000	5%
Synthetic fiber	Tonne per year	50,000	30%
Short thread	Tonne per year	260,000	60%
Knitted cloth	Tonne per year	150,000	60%
Woven cloth	Square meter per year	680 million	30%

Source: Vietnam Textile and Apparel Association (VITAS)

As for export to the EU, the export earnings from this market reached a record level in 2006: US$321 million from Germany increasing by 35.68% over 2005 (the highest level ever seen); 220 million from the UK with an increase of 43%; 142 million from France increasing by 37%; 116 million from the Netherlands increasing by 46% and 109 million from Spain increasing by 30%.

While the clothing export to the U.S. and EU rose remarkably, the export to Japan rose slowly and that to Taiwan decreased. Earnings from Japan reached US$627 million increasing by 3.93% only.

In addition, the clothing export to the ASEAN also rose steadily increasing by 37% with the Malaysian market and 285% with the Singaporean one.

In the domestic market, the clothing accounted for only 7% of retail sales equaling US$1.8 billion. In this market, the clothing industry will face keen competition in terms of price, especially from China when the import duty reduces from 10% from 40% or 50% in the past.

Regarding name brands, some local ones have been registered and found a foothold in foreign markets, such as Vee Sendy by Việt Tiến, Novelty by Nhà Bè, F-House by Phương Đông, Jump & Bloom by Hanosimox, Pharaon by May 10, and Mollis by Phong Phú.

2. Difficulties

After Vietnam's accession to the WTO, the export market for the clothing industry is expanded and becomes quota-free. The industry, however, has to face other difficulties. Firstly, the trade barrier to the domestic market is reduced to the minimum level. From Jan. 11, 2007 on, the import duty on garments decreased from 50% to 20%, and on cloth from 40% to 12%. Secondly, it faces keen competition from major players in this field, such as China, India, Pakistan and Bangladesh because they enjoy many advantages (labor, raw materials, brand names and designs) while the Vietnamese industry lacks these advantages and has to depend on imported raw materials.

Moreover, technical barriers will be erected for reasons of anti-dumping law or environ-

mental protection. For example, the American Department of Trade has adopted a program to supervise clothing imported from Vietnam and started investigating signs of dumping.

Over 70% of orders for local companies are in form of subcontracts, therefore the added value is low because foreign buyers are responsible for designs and marketing, while the production cost in Vietnam is high due to poor infrastructure and high transport fee. Local companies lack skilled managers and workers, and competent designers and researchers. In addition, laborers tend to move to other industries for better pay.

3. Situation in 2007

According to the Statistics Bureau, the clothing industry in the first eight months earned US$4.084 billion from export making an increase of some 30% over 2006. In the first half of 2007, however, the profit was very small. Of the export earnings of US$3.432 billion, some 2.5 billion, or 73.2%, was paid for cloth, cotton and fiber.

In the first half, the biggest market for Vietnam clothing was still the U.S. Income from this market equaled 58.5% of the total earnings increasing by 34% compared with the corresponding period last year. Incomes from other two major markets also rose remarkably: 485 million from the EU with an increase of 17.6% and 271 million from Japan increasing by 13.4%.

Many experts in this field say the target of US$7.3 to 7.5 billion in export earnings set for the industry in 2007 is very feasible.

4. Measures to develop export markets

In the coming years, local companies had better pay more attention to the domestic market considering it as a basis and export ones as dynamic of development. Instead of concentrating in the American market, local companies should expand the export markets and refuse orders of low added value and efficiency. To achieve this aim, companies should increase investment in designs in order to make fashionable products that require high skills to meet high-end customers' taste.

More attention must be paid to production of raw materials for the whole industry in order to reduce the production cost and improve the competitiveness. There must be programs to cooperate with ASEAN countries and members of the AFTEX to improve their competition against such major players as China and India.

There must be programs to develop the human resource, especially laborers of competence who can make breakthrough in making designs, applying technical advances and IT to production and management, and developing creativity in doing business. Development of the human resource in terms of quality and quantity is sine qua non for stable growth of the whole industry.

Vietnam is considered as a major importer in the near future therefore it may face many anti-dumping suits and the like in the coming years. This means that local companies should cooperate with experts in international and commercial laws, and pay full attention to book keeping, and information gathering and publicizing.

The VITAS should undertake tasks that individual companies can't do, such as combining companies together in major programs to promote export and market extension, deal with technical barriers, build infrastructure and develop sources of raw materials.

The Government should adopt policies to support local companies without violating WTO rules by building the infrastructure, providing vocational training courses, encouraging R&D activities, supplying business information and developing depressed regions.

The clothing industry is worth supporting because it brings about big export earnings thereby helping ensure sources of foreign exchange for the industrialization and modernization, and supplies jobs to a great number of laborers. ■