Vietnam's Textile and Garment Industry Prospects and Challenges

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Textile and garment is one of the key industries of Vietnam over the past years. It not only helps to strengthen and develop an export-oriented economy, brings more and more foreign currency, forms a foundation to import big means of production, and helps the heavy industry develop but also gives jobs to over 2 million people (taking 25% of total 8 million workers in Vietnam). Twenty two percent (22%) of them work for state-owned enterprises, 30% for foreign-invested companies, 38% for private firms, and 10% for small factories. However, their average salary remains too low, US$55/month (US$0.26/h), the lowest among the countries in the region such as: Indonesia: US$0.32/h, Pakistan US$0.37/h, India US$0.58/h, China US$0.7/h, Thailand US$1.18/h, ...

In early 2004, the whole country had about 1,050 textile and garment factories equipped with some 10.500 textile machines of various kinds, most of which are old, having low capacity so they can't provide enough cloth for garment production. Although in recent years, the textile sector imported 1,500 modern machines to upgrade garment products. It's just enough to meet about 15% of the garment needs; the rest must be imported from foreign countries, mostly from China, Taiwan, Korea ... or imported after the assignment of the exporters who processed goods in Vietnam. (Most of the garment export items are processed (70%) or half-processed).

Nowadays, Vietnam's garment products have been exported to over 40 countries and territories in the world, including the US: 52%; Europe: 27%, Japan: 12%; and other countries: 9% (2004). After many years of extensive and intensive investments, although Vietnam's textile and garment industry still faces limitations in equipment, technology, and export capacity, it has ranked 8th among 130 countries exporting garment products in the world, after China, Turkey, India, Mexico, Pakistan, Indonesia, and Thailand.

1. The US market

The US is a big potential market with the population of 293 million (equivalent with 65% of the total population of 25 countries of the European Community) with different religions, races, and having the highest average rate of annual income in the world (US$36,000/person/year) so the annual import demand of many products into this market has risen up to US$1.300 billion. Discover the big potentials and various requirements of this market, in the past time, Vietnam's exporters have made great efforts to penetrate deeply into this market and have gradually won a significant position on this target market. Right after the Vietnam -US Bilateral Trade Agreement (BTA) was signed (July 13, 2000) and became effective on December10, 2001, the export value to this market has rapidly soared at a record speed, from the 6th country of Vietnam's export value in 2000 rose to the 3rd, in 2001 and 2002; and the first in the years 2003, 2004.

Table 1: Vietnam's export value to the US market from 2000 to 2004

Year	Total export value (US$mil.)	Position	Including garments		Remarks
			Export value (US$mil.)	(%)	
2000	733.00	6th	60.00	8.20	
2001	1,065.00	3rd	50.00	4.70	September11, 2001
2002	2,453,00	3rd	971.00	39.60	
2003	4,554.00	1st	2,989.00	65.60	
2004	5,275.00	1st	2,245.88	42.60	52% of total Vietnam's garment export value in 2004

Source: Vietnam Ministry of Trade

The above table shows within 5 years from 2000 to 2004, Vietnam's export value into the US market recorded rapid leaps from US$733 million in 2000 up to US$5,275 million right after the following 5 years (increased US$4,542 million or 7 times as high as in 2000), in which, garment product is one of the most favorite products to many American consumers, and they are fast consumed (the following are aquatic products, footwear, handicraft products,...), taking a big share of Vietnam's total export value into this market in recent years (in 2000: 8.2%, 2001: 4.7%, 2002: 39.6%, 2003: 65.6%, and 2004: 42.60%). This industry will have more potentialities to develop than ever before, especially when Vietnam has become an official member of the World Trade Organization- WTO.

Also from the above table, the garment export value to the US market in 2001 compared with in

2000 dropped by US$10 million (or 16.7%) because of the effect of the terror on September 11, 2001. Besides, Vietnam's garment exporters have attitude of "waiting" for the day of the official effect of the Vietnam-US BTA (on December 10, 2001); they didn't want to export their products in early 2001. This also caused the reduction in export value compared with 2000. We can clearly see that right in the first year after the BTA, the garment export value to this market has increased fast compared with 2001, up to US$971.34 million (20 times as high as the year 2001), in 2003 up to US$2,989 (up by US$2,018 or 3 times as high as the year 2003). However, in 2004, this sector's export value faced some slowdown because the US government cut some quotas for "hot" categories in the list of Vietnam's garment export items and the WTO will abolish completely export quotas at the beginning of 2005. These events have made some of Vietnam producers change their focus on other potential markets: the EU, Japan, African countries. All these problems slashed Vietnam's garment export value to the US market in 2004 compared with 2003 (down by US$744 million or 25%) and caused the rate of export value of this sector between Vietnam and the US down by 23% compared with 2003.

In comparison with the garment export value into the US market before the year of BTA, within the next three years, (although the US still imposes quota on some kinds of Vietnam's garments), this sector's export value still grew to US$2,196 million (in 2004, it was 45 times as big as in 2001). The rapid growth in both export volume and value of some Vietnam's garment products somehow impacted American manufacturers (the US garment import demand has risen by US$70 billion/ year) so the US Department of Commerce made use of Vietnam's "weak point" which is not a member of the WTO yet - to lower quotas regularly. This forces Vietnam's garment companies to encounter more difficulties because they have to pay higher import- export tax (average 29 –30%), and also they are given limited quotas. The US is really big but full of "regulations".

From this effective protectionism, the US Department of Commerce (DOC) has put Vietnam into harder situations, particularly from January 2005, the quota regulations on textile and garment items imported into the US are completely exempted for the WTO members and some of which are Vietnam's major garment competitors: China, India, Pakistan, Cambodia, ... while Vietnam garments are still imposed by high import tax (29% - 33%) - a great difficulty to the Vietnam textile and garment industry in the next time.

With its limitations in competitiveness and productivity, Vietnam's textile and garment enterprises have been facing challenges in both periods: quota and non –quota periods. During the quota period, the quotas providing for Vietnam are often lower than those of the other countries (China, India, Pakistan...) and according to the objections of the US producers, this low quota is regularly cut (in 2004; cut 4.5% of quotas, equivalent to US$80 million compared with 2003), especially for the "hot category" on the textile and garment market (338/339; 647/648; 643/635). In the non-quota period for the WTO members (from January 2005), as "an intending member" of the WTO, Vietnam's garment products exported to this market were still subject to quota as before.

The export conditions of Vietnam's garments to the US market are even more difficult, the gap of comparative advantages of Vietnam against other countries is wider in the worse situation to Vietnam. The biggest factor is China, even when China hadn't been a member of the WTO (the country joined the WTO on December11, 2001), it obtained a large market share of clothing on the US market with large-scale production (more than 170,000 garment companies, 160 times as high as Vietnam in quantity). With lower prices, China's garments have far higher competitiveness on the world market; moreover, enjoying non-quota policy for the WTO members, China again has more conditions to boost up its garment export value into this market. In such a favorable condition, the China share of garments in the US market could go up from 32% in 2004 to 50% at the end of 2005. As a result, American manufacturers have recently asked the US government to restrict China's imports and re-impose quota on some China's hot cats such as 338/339, 347/348, 352/652, and they are considering quota imposition on eleven groups of products of this country. This is a good opportunity for Vietnam's clothing to take the place of China's limited market share.

Besides China, a big competitor, Vietnam's textile and garment industry today has been struggling against other exporters who are members of the WTO in the region: India, Bangladesh, Indonesia, Pakistan, Cambodia...with their advantage of being exempted from quota. Others enjoy tax relief of the EU thanks to the recent tidal wave disaster. These countries have boosted up their garments export into this market, for example, India's clothing exported into the US market could rise from 10% to 12% in 2005, contrary to our country, in the first six months of 2005, after 6 months of carrying out the new quota system, the garment export to this market fell 30% compared with the same time last year and the planned figures took US$3 billion.

Market structure

The unbalanced export market structure is also a big challenge to Vietnam's textile and garment industry nowadays. In the first years of entering the US market which hadn't applied the quota system, the enterprises had concentrated their whole strength on tapping this market.

Therefore, until 2004, Vietnam's garment export value to this market had risen up to 52%, approximately twice as high as the traditional EU market and over 3 times on Japan market. Due to Vietnam's excessive concentration on the US market, many EU and Japan importers change direction to China and India, especially the countries having more competitive advantages than Vietnam due to their WTO membership. Consequently, Vietnam is suffering its contraction on the US garment market and trying to expand on the traditional markets (EU, Japan) in limited conditions as compared with potential competitors such as China and India.

Processing export items:

Most of Vietnam garment exports are processed or half processed for foreign partners. Now when the US abolishes quota for WTO members, Vietnam must cope with more troubles in getting processing contracts because in previous years, with quota imposition, the relating countries ordered processed products in Vietnam thanks to its low price and Vietnam's quotas on their target markets. This is one of the negative problems in the past time: selling quotas to foreign countries, forged original certification, quota arrangement among companies and localities ...

Today, thanks to the abolition of export quota, Vietnam's previous partners in processing products will have more opportunities to select processing enterprises, or the countries that are having low labor costs such as China, India so that they can reduce the cost of transport, processing, warehousing, dependence on the time of processing in foreign countries ...

Applying "again" quotas:

Since the day the US government abolished the quota system (January 2005), China's garments have overflowed its market, causing great worries to the US manufacturers. Facing that situation, the US Department of Commerce applied "again" quotas to some kinds of garment products of China: cat 338/339 (women and men's cotton knitted shirts), 347/348 (women and men's cotton pants), 352/652 (cotton and synthetic fibered underwear). This is also a good opportunity for Vietnam's garment companies to get new processing orders and contracts from China because of limitation of these products on the US market. So, China had to find measures to export their products and one of these measures is to take a "by-pass" –They order or process and export products from Vietnam to the US market through Vietnam's quotas. By doing this, they can have big processing orders, and thus make huge contracts with Vietnamese partners and somehow help to solve certain difficult problems of the textile and garment industry. On the other hand, with high growth of China's market share from 32% to 52% in 2005, the US strategic plan makers also want to "regulate" this height of market share to balance the import structure among countries to reduce risks, avoid dependence on a certain country that can cause monopoly, and control bad effects on the domestic garment sector.

Rich countries continue to use quotas for limiting garment imports from developing countries. Their quotas become a "carrot and stick" approach causing disputes year after year. For instance, thanks to quota, Cambodia's clothing export rose from US$28 million in 1995 to US$1.5 billion in 2003.

2. The EU market

As a second important garment export market (after the US), taking up to 27% of total garment export value in 2004, the EU is a stable market and helps enhance the Vietnam's garment industry over the past years (Table 2). Since May 1, 2004, the European Community (EU) expanded the fifth time towards the Middle and East of Europe and increased the total number of members from 15 to 25, with the population of 450 million and very high per capita income of over US$15,000/year. As before, Vietnam's exports to the European Community are subject to GSP tax in all over the 25 member countries. With attempts from the both sides, Vietnam's garment exports to this market have been exempted from quota since January 2005.

Table 2: The export value of Vietnam's garments to the EU market from 1995 to 2004 (US$mil.)

years	Garment export value to the EU	Vietnam's total garment export value (US$mil.)	%
1993	259.00		
1995	350.00		
1996	420.00		
1997	466.10		
1998	650.00	1,350	48.15
1999	555.10	1,600	34.70
2000	609.00	1,900	32.05
2002	553.00	2,500	22.12
2003	750.00	4,202	17.85
2004	1,166.13	4,319	27.00

source: HCMC Service of Planning and Investment

The above table indicates that the garment export value to the Europe markets during the last 10 years (from 1993 to 2004) has been increasing firmly from US$259 million in the first years to US$750 million in 2003 and then reached US$1,166 million in 2004 (up by US$907 million, or 5 times as high as the year 2003). However, there were still some years when the export value to this market had unusual decline, for example in 1998, the export value fell to US$555 million (down by US$95 million), the most important cause was the

Asian financial crisis in 1997. In the period from the end of 1997 to 1998, in the textile and garment industry there were more investors and importers from the countries which suffered direct impacts from this financial crisis. As a result, Vietnam garment export value had drastic recession as mentioned above. There was another period when the export turnover dropped remarkably to US$56 million in 2002. China was the main factor that caused the reduction. The country's WTO membership in 2001 along with the advantages from the EU's quota abolition gave more favorable opportunities to its garment industry to expand its market share in Europe. Consequently, this places more hurdles to the countries having less competitive advantages than China in this market such as Vietnam, Bangladesh, Pakistan...

Since the implementation of BTA in late 2001, local businesses started to change their focus on the US market and belittle the EU market, this led to a decrease of 30% in export value into the EU market within 5 years (from 1998 to 2003). Until businesses clearly noticed the hidden risks on the US market: the anti-dumping law, quota imposition, import tax when the US officially abolished the quota system for the WTO members in January 2005. In the meantime, the Vietnam's garment industry has got advantages from the EU market such as having GSP, reduction of the export quota to the EU and the most wonderful thing was that since May 2004 the EU includes 25 countries with the population of over 450 million (1.5 times as many as the US). It will become a market that provides more potentialities than ever before for export items, especially for garments. This is the main reason for Vietnam's return to the EU market from the US. In fact, within a year Vietnam's garment export turnover to the EU grew up to US$1,166 million (up by US$416 million or 55.47% in 2004 compared with 2003).

However, entering the EU market, Vietnam has to compete with a very "heavyweight" rival in garment export – China, a WTO member which has more competitive advantages than Vietnam. Moreover the designs, prices and production scales of China's garments have never stopped overwhelming Vietnam's products on this market. In addition, enjoying non-quota system for WTO members, the countries which have huge garment industry like China no longer need to order processed products and use export quotas of other countries. They produce and export by themselves, make good use of their low labor costs to lower the prices and thus promote their competitiveness in the world's garment markets.

Vietnam Textile and Garment Association has planned to turn its export markets towards the EU, Japan, Africa, and remain a moderate market share in the US, for example, in 2005 the share of garment export to the EU market would be 33%, Japan 20%, the US 37%, other countries 10% and try to reach US$5 billion, up 15% year-on-year.

However, in reality, in the first quarter of 2005, the total export turnover of Vietnam's garments was only US$900 million, far too low compared with the planned target (US$1.25 billion/quarter), in which the export earnings from the EU market didn't increase but fell down 3% year-on-year. (Germany: down 24.3%, England: 26% France: 20%). This clearly reveals that the competitiveness of Vietnam enterprises is very limited in many fields. Besides the "weak point" of not being a member of the WTO yet, Vietnam's garment industry has been coping with too many difficulties when it is in a real competition on the international market, particularly the competition in designs, prices... In the textile sector, Vietnam enterprises have to import totally chemicals, dye substances, and most of cotton and fibers from foreign countries (the local sources of materials are poor, or they do not have enough quality to produce some kinds of cloth that need high technology). In the garment sector, 80% of businesses' materials must depend on foreign supply and some other middle expenditures are also higher than in other countries in the region: storing, traveling by sea, hiring containers, communication charge or "procedure" fee ... These are the most important causes that make the price of Vietnam's garment products higher than those made in the countries like China, Thailand, Indonesia ... These countries try to concentrate on self-supply capacity in materials, chemicals, additives for their whole production process, minimize unnecessary costs, lower prices of finished products, and enhance their competitive strength on the world market.

Besides some inborn limitations such as the weakness in competition, slowness in meeting orders, simplicity of designs, import of many materials, and higher prices, the next important factor is the EU's import duty. Despite the abolition of import quota, Vietnam's garments must be subject to an import tax rate of 12%. Further more, due to the EU expansion since January 2005, Vietnam enterprises are still facing another difficulty: the structure of economy and export items of these new member countries are somewhat similar to Vietnam's: garment, footwear, handicraft ... Therefore, when they have already joined the European Community, these countries will have better conditions to penetrate deeply into markets of the EC old members. To encounter the situation and make the best use of this potential market, Vietnam's enterprises should consolidate the traditional markets in both groups (the new member countries and old member countries), invest and do research to find out new market segments which are suitable with the competitive advantages of Vietnam's exports and exploit the capability of Vietnamese- overseas enterprises (Germany has about

15,000 Vietnamese overseas businessmen, Czech:10,000; Poland:10,000 and Hungary: 2,000) who are positive links for commercial promotion to remain a stable export position of Vietnam on this market.

Structure of the EU market:

The table shows that the Vietnam's garment exports get access to all over the 15 markets in the EU (on May 1, 2004 other 10 new ones were accepted as new members). The leading country in this community is Germany, taking nearly 47% of Vietnam's garments exported to Europe, one of the traditional markets in Europe for Vietnam's exports. From early years in the 1980s, following overseas students and workers, Vietnam's garments soon appeared on this market, those "pocket" orders were soon accepted by this market and since then, it has been the leading export market in the European Community. In addition, the number of Vietnamese-overseas businessmen living and working in Germany (about 15,000 people) plays an important role in promoting commerce, signing contracts, consuming products as well as reflecting acutely the market requirement, customers'

taste, and offering great help to Vietnam's enterprises in forming the commercial relation with this market.

In addition to Germany, France, the Netherlands, and England markets account for an average of 10% each. This is an important group of markets in Europe which has helped Vietnam to regulate the export structure and kinds of export products to foreign countries. The characteristics of this group are that they require products with high quality, various designs, and good sewing techniques and especially they must be fashionable, seasonal, convenient and suitable for the industrial features of these developed countries. These are fully potential market places, stimulating the way of thinking, creativity in designing and producing kinds of high quality fabric in the textile industry as well as improving designs, diversifying products, and improving professional skills in the garment industry. The rest are: Belgium, Spain, Italy, Denmark, Sweden, Austria, Finland, Ireland, Luxembourg, Greece, and Portugal... (totally taking about 22%). This is a new group of market that is in the period of surveying and showing products in order to explore customers' taste, although the market share is not quite big, these are good signs for Vietnam's garments: it has been accepted by a high standard market including the world most developed countries, in large expansion, this creates good conditions for deeper penetration and higher development of Vietnam's garments towards a "new" European Community which is a large, stable and diversified market with open policies.

Table 3: The structure of Vietnam's garment export market in the EU in 2003

	Market	Garment export value (US$ million)	%
1	Germany	351.75	46.90
2	France	81.00	10.80
3	The Netherlands	77.25	10.30
4	The United Kingdom	70.50	9.40
5	Belgium	45.75	6.10
6	Spain	38.25	5.10
7	Italia	33.00	4.40
8	Denmark	15.00	2.00
9	Sweden	14.25	1.90
10	Austria	11.25	1.50
11	Finland	4.50	0.60
12	Ireland	3.00	0.40
13	Luxembourg	2.25	0.30
14	Greece	1.50	0.20
15	Portugal	0.75	0.10
	Total:	750.00	100.00

Source: Vietnam General Department of Customs

Table 4: The export value of Vietnam's garments to Japan market from 1995 to 2004

Years	Garment export value to Japan (US$mil.)	Vietnam's total garment export value (US$mil.)	%
1995	290.50		
1996	315.80		
1997	325.10		
1998	320.00	1,350.00	23.70
1999	330.00	1,600.00	20.60
2001	588.00	1,800.00	32.67
2002	490.00	2,500.00	19.60
2003	470.00	4,202.00	11.19
2004	521.00	4,319.00	12.07

Source: HCMC Economic Institution; Vietnam Ministry of Trade; Vietnam General Department of Customs.

The Japan market

Following the above table, we are clear that the export value of Vietnam's garments to Japan market rose steadily from US$290.5 million in 1995 to US$521 million in 2004 (up by US$231 million or 80%). However, we can divide this long period of time into two periods: 1995 – 2001 and 2001 – 2003.

The 1995 – 2001 period:

This is the most stable period for Vietnam's garment export to Japan. The export value steadily increased at an average of 3.7%/year, the export value share in this market was quite high, 23.7%/year in 1998, 20.6% in 1999 and in 2001 up to 32.67% of the total garment export value of Vietnam in the world market. In this period, Vietnam's garment companies mainly focused on 2 large markets: the EU (about 40%), and Japan (about 25%).

The 2001 – 2003 period:

The garment export value to Japan market reached the peak at US$588 million in 2001: 32.67% of the total garment export earnings, two years later, these figures steadily dropped, to US$490 million in 2002, down by about US$98 million, US$470 million in 2003, down by US$20 million. Within 3 years the export value to this market saw a reduction of US$118 million (or more than 20% in 2003 compared with 2001). However, this is only a "local" limitation on Japan market. It was quite reverse to the development of Vietnam's textile and garment industry at that time. (The total export turnover of Vietnam's garments in 2003 increased 2.5 times compared with in 2001). Consequently, the proportion of export value to Japan market gradually fell by 11.19% in 2003.

The only one explanation to this problem was the change in export directions of Vietnam's garment companies, from Japan to the US. Then, right after the BTA became effective (December 10, 2001), the garment export value to Japan in 2002 fell about US$100 million (down over 17%), while at the same time, the garment export value of Vietnam to the US rose over US$900 million (approximately 20 times in 2002 compared with 2004). With the population that is 2.5 times as many as Japan, diversification in requirement, not requiring high quality products with more chances to contact big orders, this market completely attracted Vietnam's garment enterprises. In this period, they even ended their relations with other partners only to produce and supply their export products to big orders from the US! However, that attraction didn't last long once most of the big garment exporters in the world all focused on the US market (over 40 enterprises) in which the most powerful countries were China and India, with low market prices, various designs, high quality, higher capacity to meet big orders. These two countries took a lot of competitive advantages on the US market, particularly since the WTO's quota abolition in January 2005. In the meantime, Vietnam's garments on this market were subject to high import tax rate from 29% to 33% and fixed quota. It was the time for Vietnam's garment enterprises to "turn back" to consolidate its non-quota market- Japan. As a result, the turnover in 2004 rose up to US$521 million (up by US$51 million, 11% in 2004 compared with 2003).

Opportunity to develop Japan market for Vietnam's garments:

In the next time, the Vietnam's textile and garment industry will obtain many opportunities to strengthen and develop its market share in Japan thanks to the following major advantages:

- Enjoying the WTO quota abolition for garment export since January 2005, China's garment exporters turn to promote trade more strongly on large markets: the US, EU, and thus pay less investment on Japan market than before because of its small scale, choosy requirement, and less chances to have big orders. The relations between Japan and China has become strained due to recent political, cultural, and historical conflicts, therefore Japan's businessmen may bear a lot of direct risks. These two events may create favorable conditions for Vietnam's garment export to grow on the Japan market.
- Attract investment to develop the export value to Japan market: In addition to positive effects from foreign direct investment, this activity has also created good conditions to increase Vietnam's export turnover to the countries where the investors are from. The real example is China, besides its available advantages, it is also a country that attracts the most Japan's textile and garment investors among the countries in the region. This is a certain factor that makes the garment export value of China to Japan market remain from 80% to 85% in recent years.■