Measures to Develop Clothing Companies in Global Integration

by Ass. Prof., Dr. ĐÀO DUY HUÂN

Vietnam is an official member of the WTO now, so the most important problem for the time from now to 2020 is how the implementation of commitments ensures a sustainable development for Vietnam. According to the WTO commitments, Vietnam has to finish its transitional period and obtain the true market economy within 12 years, that is, by 2018. Will the socialist orientation exist is such a market economy? This problem must be solved in terms of logical basis and reality. Could Vietnam develop, by 2010, 500,000 companies that are strong enough to compete against their rivals from 149 member countries? These are worrying problems because they have something to do with the economic infrastructure for an industrialized Vietnam by 2020.

This article limits itself to effects of the WTO membership on the clothing industry because this labor-intensive industry has been affected by both new opportunities and challenges and has set forth the following targets by 2010 according to its development strategy:

- Export earnings of US$8 billion;
- Employment for four million laborers;
- 230 million knitwear units, 1,200 million garment units; and an eco-friendly clothing industrial park.

In the past few years, the clothing industry has gained footholds in many markets, including the EU, the U.S., and Japan. And it will face earliest and strongest effects because commitments to cut taxes on clothing products required by the WTO and AFTA are effective now. Before the WTO, the clothing industry met with great difficulties in all export markets caused clothing products from China. After the WTO, the competition will certainly be keener.

The textile business will certainly meet with the keenest competition. Taxes on polyester from ASEAN countries have risen from 0% to 5% while cloth from non-ASEAN ones fallen from 40% to 12%, which means that imported cloth is cheap enough to compete with locally-made one in the domestic market, while local factories, due to their poor capacities and product quality, couldn't bear comparison with their counterparts in China, South Korea and India. This forces clothing companies to adjust their strategies otherwise their market shares will lose to foreign ones and many of them have to go out of business, especially private ones because they lack necessary capital to modernize their production lines and improve the product quality, thereby enhancing their competitiveness. These companies include many small-scale private textile factories in Districts Tân Bình, 11, and Bình Tân; and even state-owned ones, such as Thắng Lợi, and Việt Thắng.

Another problem is the fact that the struggle against smuggling in recent years, when the duties haven't been cut or reduced, hasn't been effective with the result that Chinese clothing products flooded the market. When Vietnam carries out its WTO commitments, China, as a WTO member, with low production cost, better designs, and lower import duties, will be able to sell their products at prices of 10-20% lower than one offered recently. And its market share will reach 65% or 70%. This will be a great challenge to local clothing companies.

In addition, according to the AFTA agreement on duty cuts, the import duties on textile products from ASEAN countries reduce to the 0-5% bracket by early 2007, which will make their exports more competitive. Fortunately, the textile industry is not well developed in most ASEAN countries. Thailand, for example, has to import 80% of its demand for fiber and its clothing is more expensive than Chinese one. Import of clothing from the ASEAN countries, therefore, could hardly increase but it offers more choices to local customers. To deal with these rivals, local companies should differentiate their products in order to avoid competing against cheap products.

When the American government allows the PNTR for Vietnam, the US import quota will stop to be a barrier to Vietnamese clothing products, but finding a firm foothold in this market is no an easy task. Experts from major exporters of clothing products, such as Việt Tiến, May 28 Quân Đội, and May 10, say that quotas on import of similar products from other countries were removed in 2005. This means that these countries have gained some market shares in the past two years and Vietnamese companies have a long way to go before they gain some shares from their rivals.

As for garments from Vietnam, American import quotas are to be lifted and import duties will be cut be many countries, so Vietnam has a chance to promote its export of these products without facing quantitative limits. If production costs are cut and designs are diversified, garment companies can gain more earnings from this market that consume some US$60 billion worth of garments.

According to analysts, the added value of the clothing industry accounts for only 20-25% of the export earnings. In 2005, the export earnings reached some US$4.8 billion but the industry spent some 3.6 billion on raw materials and its before-tax income was only 1.2 billion. Thinking through, no countries take off by developing the clothing industry, but this industry can create many jobs, make use of domestic resources and meet part of demand from both local and foreign markets. However, local companies couldn't secure the local supply of raw materials and machines while their managerial machinery is obsolete. These factors and many others prevent the industry from contributing more effectively to the economic growth.

The present difficulty to clothing companies is their role as subcontractors for foreign companies. Garment companies buy raw materials and deliver their products at Vietnamese ports. They get some US$4 on average for a shirt: they keep US$1.4 for wage, overheads and some locally-made materials and send US$2.6 to foreign suppliers of cloth and other materials recommended buy their foreign partners. This means that local companies get only a small profit from the very big sales.

Shirts under famous brands such as GAP, J.C. Penney, Target, Sears are usually sold at US$20 per piece at least. Many local companies have to get franchises or go into partnership with foreign producers with the result that they receive only a small profit while the lion share of the profit goes to foreign producers or middlepersons. In the past decades, local companies that have no national brand, distribution network and no ability to make their own designs could only sell their products in the domestic market and receive subcontracts from foreign partners if they have enough facilities and resources. They have realized these difficulties since the first days of the economic reform but failed to work out strategies to deal with them.

Pho to by Huỳnh Thơ

Within a period of 12 years, Vietnam has to convert into the market economy and clothing companies have a lot of difficulties to deal with. In a flat world, companies with poor competitiveness will be on the brink of ruin. To survive the global competition, clothing companies should pay full attention to the following matters in the coming years:

- Developing or recruiting competent managers and armies of skilled laborers who have good knowledge of competition in the flat world.
- Linking improvements in productivity and laborers' income with investment in modern production lines with a view to producing new products.
- Building the corporate culture based on transparency, self-discipline and responsibility with a view to encouraging everybody to implement commitments about ISO9001, SA 8000 and WRAP for the whole system.
- Moving clothing factories from big cities to provinces in order to make use of cheap labor and local materials; and finding out market segments for each factory.
- Registering trade marks of clothing companies in ASEAN and WTO member countries.

In short, clothing companies should realize their opportunities, threats, weaknesses and strengths; and gather full knowledge of WTO commitments, especially ones that have something to do with the clothing industry and export of its products, in order to work out appropriate strategies for their future developments. It's worth noting that many companies still know nothing about problems posed by the accession to the WTO for Vietnam while many others are too optimistic about their future success. The Government had better take full responsibility for helping the industry survive the international competition and maintain its development.■