

Measures to Develop Vietnam's Footwear Industry

by MEcon. NGUYỄN TẤN VƯỢNG

1. Export markets

The European market: It has been the main export market of Vietnam footwear since 1995. However, the export into this market becomes slow down due to direct effects of the *dumping lawsuit*, which started at the beginning of July 2005. Vietnam's export companies need to focus better efforts on expanding their market shares with the proposed measures as follows:

- Taking the initiative in the *dumping lawsuit* of Vietnam's footwear on the Europe markets: Vietnam Ministry of Industry should cooperate with Vietnam Footwear Association and footwear exporters to plan a complete project so as to willingly give support in each stage of the investigation as the EU requires. We must be willing to provide information and fully cooperate with specialists of the Europe Bureau of Investigation in answering the *dumping questionnaire* as well as the *question on the spot*. This is very important in selecting adequate information for settling the case. If there is not enough cooperation of enterprises in the list, the final conclusion will be based on the information of the "prosecutor", and this will cause a lot of troubles to Vietnam. Ministry of Industry and Vietnam Footwear Association should encourage all of the domestic footwear export companies to participate in the case because the final rate of import tax of Europe may be imposed on the whole footwear products imported from Vietnam after this suing. Furthermore, the determination in pursuing this case has a great meaning in Vietnam's footwear export in the next few years because the rate of anti - dumping tax will hardly be erased and it will be applied in a long time until the market share of the export country is very small. Vietnam Footwear Association should work with the Ministry of Trade and Vietnam Lawyer Association to set up a specialized organization for the suing. In reality, up to now there are no units specialized in the international

lawsuits, consequently, since 1994 through 22 lawsuits relating to Vietnam's export products on the world market (*in which there have been 9 cases produced by the EU*), all of the failure and loss is always to Vietnam's exporters! We must take positive actions in dealing with the lawsuits and think that it is one of the important professional competences of the international trade.

- We need to concentrate on fully exploiting main markets including Germany, the United Kingdom, France, and Belgium. We should also widely promote commerce in the 10 new member countries of EU especially those in the former Eastern European block such as Hungary, Czech Republic, Poland ... and establish rep offices in Spain, Netherlands and Italy ... at the same time.

- We should update footwear fashion on the Europe markets in order to keep improving quality and models so that they are suitable with this group of fine consumers' taste. This is said to be the most logical *hiding strategy* because Vietnam's footwear can't directly compete in price with products of the same kind from China that are crowded on this market.

- Vietnam's footwear export enterprises should carry out direct export order so as to increase *real interest* of the achieved rate of export turnover, limit or step by step terminate the processing export to middle partners as today.

- We should do research to market unique footwear products made from high technologies and ingenuity of Vietnamese workers. We must avoid directly facing high-qualified products that have been famous in Europe for a long time and low price products from China.

- We need to pay more interest to prices and types of footwear from neighboring countries exported into the Europe market such as Thailand, Indonesia, India, Sri Lanka ... because at the moment these countries are having more advantages than Vietnam in import tax rate due to effects of the recent tsunami disaster.

The US market: Nowadays, the US is considered to be an alternative market of Vietnam's footwear in case its market shares are contracted in Europe due to the anti-dumping lawsuit from the beginning of July 2005. So to boost up the export value of footwear into this huge market in the short coming time, Vietnamese exporters should study and take these particular measures:

- Attract more American companies to invest in Vietnam's footwear production: Vietnam Footwear Association and export enterprises should seize good opportunities, for example, high production costs in China (due to increasing the value of the Yuan) and Indonesian political disorders, to draw American investors into Vietnam.

- Make the best use of large population of Vietnamese residents in the US (*about 1.5 million*) to shorten the process of market investigation and access so that we can directly supply goods to big distributors as well as networks of retail trade in the US.

- Vietnam footwear export enterprises should diversify types of their products in the US market. This is a huge market with various demands (*there are up to 20% of the population who are overseas people from many countries living in the US*). As a result, export enterprises should keep studying and presenting new models suitable with each particular market segment especially in the condition that country has limited footwear imported from China since the beginning of 2005.

- We must be sure of delivering goods properly in accordance with regulations in the signed contract. Because the US is the market consisting of many retail systems, there are fewer goods in stock; timely delivery is one of the important factors that affirm the prestige of Vietnam's enterprises when exporting goods into this market.

- We should start establishing the trade name for Vietnam's footwear in the US. This is a very important thing in occupying markets; stabilizing and increasing real interest in

export sales. Moreover, Vietnam's footwear products today have many advantages to establish trade names on this market because in reality, the American consumers have already accepted the quality of Vietnam's footwear for a long time under the makes of Taiwan, Korea, Singapore and American famous producers which have trusted and invested in huge production in Vietnam for many years such as Nike, Reebok...

- Vietnam Footwear Association needs to update latest regulations of the US Ministry of Trade relating to footwear import: detail rate of tax on import and export for each type of shoes; testing regulations on the product ingredients (cloth, leather, plastic...); certificates of quality, original; regulations on packing, labeling, ... so as to widely announce export enterprises in order to limit to minimum the risk arising from the process of carrying out commercial contracts on this market.

The Japan market: This is the biggest footwear export market of Vietnam in the Pacific - Asian region (accounting for 5% of Vietnam's footwear export production). In the tense condition of the anti - dumping lawsuit on the Europe market, getting along with the US, Japan became an important support market of Vietnam's footwear when it may compensate the considerable loss on the European market today. To develop to maximum the potentiality of footwear consumption of this choosy and crowded market, in the immediate time, Vietnam's footwear should carry out these measures:

- Export enterprises should pay more attention to natural features and fashion tendency of this market. In Japan there are clearly 4 seasons, the weather is hotter and drier than Vietnam's. So when using materials to produce footwear for this market, we should notice the durability of main ingredients: glue, leather processing, thread ... as well as the fashion tendency which Japanese are much interested in, especially young people. Therefore, in addition to changing models for each season of the year, Vietnam's exporters should also care for the design of new models that are the result of the harmonious combination between Western fashion and Eastern one to meet the fashion need of this market.

- Designers of export footwear into the Japan market should notice the characteristics of Asian sizes. Therefore the best way is to import footwear samples from Japan to pro-

duce so as to cope with particular requirements of sizes from this market.

- Today, shoes under the famous names of Europe and the US are popular and they are often more expensive than Japanese as well as the same kind of products imported from other Asian countries. So Vietnam enterprises should cooperate in investing with Europe and the US to make the best use of this trend to increase production under the famous names of these investors such as Nike, Adidas, Reebok, and Puma...

- Footwear export enterprises into the Japan market should take the initiative in studying the rates of export-import tax on this product because the gaps among each type in the same batch of goods are very big from 6.7% to 27%.

- Besides the rate of import tax as mentioned above, footwear export enterprises have to clearly understand the specific regulations about Japan's footwear import: Washington Treaty about the control of products made of leather from rare animals, laws of Japan Industry Standard (JIS), and information about additive materials: thread, glue, artificial leather.

- The design experts of footwear sold in the Japan market should invest in studying the interest of footwear consumption of Japanese to combine it with the available models on the markets in order to create new models having particular characteristics of Vietnam's products and avoid wasting capacity as well as directly competing with China's footwear that are crowded on this market.

2. Self-supplying material sources

Material is one of most important factors that creates the value of a product and increases real profits in export value. In fact, although the export turnover kept growing and Vietnam has been the world fourth biggest footwear exporter, most of export products were processed or made by foreign-invested companies. So it's clear that the real interest from this kind of export was very low, only 4% or 6%. Besides technology, packing, input materials are considered as the most decisive factor to the quality of products, prices, and production capacity... But up to now Vietnam has not been able to manufacture materials and additive materials for production yet. Most (80%) must be imported from China, Taiwan, Singapore, and Korea... The defensive condition of *input* caused the non-stop increase in production

costs so; the producers can't take the initiative in *output*. This has badly affected on their trading strategies as well as limited negotiation advantages of the producers to foreign partners. To improve the conditions and gradually take the initiative in producing materials and additives, right now, the competent organizations should cooperate with enterprises to carry out these measures:

- Ministry of Industry should in cooperation with Ministry of Agriculture and Rural Development plan areas for cattle-breeding (cows, buffaloes, pigs, crocodiles...) which are in right technical process to secure a stable material supply for tanning factories in Vietnam footwear industry.

- Give priority to projects that promote the production of materials and additives in order to meet the requirements of the country's footwear industry.

- Step by step install specialized machines for producing footwear; and utilize new technologies in tanning, leather dying, sewing techniques, shoes making, material storing...

- Besides, Ministry of Industry should cooperate with Vietnam Footwear Association to create favorable conditions for footwear producers to select foreign material suppliers; and step by step put in use areas specialized in footwear materials and additives production.

3. Increasing value added of products

Ministry of Industry should work with Vietnam Footwear Association to set up regulations that encourage enterprises to export directly footwear to importers; little by little limit exporting processed products to increase their value added, and create better conditions to set up Vietnam footwear trade name on the world markets.

4. Fighting against trade fraudulence

Responsible organizations should have a close cooperation to examine imported sources of materials for processing products, to make export products, admitting temporarily to re-export. This is a problem that has existed in many forms and at different levels in Vietnam footwear industry these days. In case processing is considered as the main activity of Vietnam's footwear, all of the imported material additives as well as export products are 100% tax-exempt. However, overusing this pref-

erential policy (*internal preferential policy*), some enterprises used a lot of cunning tricks to over-import the materials and additives, declare unreal rate of loss, truncate the volume of export products... then use the extra, left materials to sell on the local market. This corners prices and badly affects on the business of true investors.

Besides, some enterprise have made advantages of the preferential policies of export markets for Vietnam's footwear (*the rates of preferential tax into the EU, the regulations of the Most Favored Nation into the US*) to import materials under the form of temporary import for re-export or importing to make export products but their main purpose is using the certificate of Vietnam origin to take illegal interests from the above preferential policies.

5. Trade name

Vietnam Footwear Association should coordinate with export enterprises to realize projects of forming trade name for Vietnam's footwear on the domestic market as well as foreign markets. This is one of the shortcomings in Vietnam footwear industry's competitiveness in the world these days. Although Vietnam is the world fourth biggest footwear exporter, most of the exports are under the makes of famous foreign companies: Nike, Adidas, File, and Reebok. The world customers thus seem to remain unfamiliar with some Vietnamese products that have their own characteristics: Biti's, Vina-shoes, Viet-shoes...

Besides on the domestic market, there are some limitations in capitals, professional skills, deploying circumstances... so the task of forming trade name on the domestic market is not professional. This makes bad impression on the customers... and the current encroaching of products from China, Thailand, and Korea... is the clearest evident for this shortcoming!

6. Investment

Ministry of Planning and Investment should help complete the laws on investment to deal with new conditions, especially foreign investment in Vietnam's footwear industry. Nowadays, Vietnam's footwear is offered some export preferences on many world markets: the system of popular preferential tax of the Europe, the Most Favored Nation status of the US... However, in the global trend of commerce, in the near future these countries will widen these poli-

cies to other developing countries. Then Vietnam's competitive advantages will no longer big as today and foreign investment will surely decline if right now we don't work out the clear and open laws on investment.

There must really be equality in investment factors: industry and profession, total capital, investment areas... in the regulations of preferences to domestic and foreign companies. Ministry of Planning and Investment should study and grant preferences *after investing* instead of *before investing as today* so as to limit the cases where the invested company cannot fully realize its project after having completely enjoyed all the preferences. This cause disorders to the general investment environment and bad effects to other enterprises.

7. Trade promotion

Ministry of Industry should cooperate with Ministry of Commerce and footwear enterprises to set up a detailed program of trade promotion to create favorable conditions for Vietnam's footwear today, we can't at once expand a wide trade promotion program to many regions in the world, so in the coming period (2005-2010), this industry should concentrate its trade promotion on potential markets including the US, Japan, Africa... and re-establish relations with the former traditional markets such as Russia, and Eastern European countries. There must be a flexible cooperation between Vietnamese commercial attachés and exporting companies in foreign trade promotion. Due to the need of expanding footwear markets in recent years, there are many Vietnamese companies carrying out trade promotion in foreign countries and there appear repeated activities of market investigation, data analyzing between Vietnam's commercial attachés and these companies. Therefore, to make trade promotion task bring real effects for the purpose of enlarging the export market, there needs to be co-operations and support between these two organs in which Vietnam's promoting companies will find favorable conditions to contact partners and exchange sufficient information relating to the system of policies and the trend of consumption.

8. Training

Vietnam Footwear Association should coordinate with Ministry of Education and Training in building

an army of highly-skilled officers for Vietnam footwear industry. Today, in the country, there has not been a school or center that is specialized in training design or footwear techniques of shoe making, the fulfilment of the processing contracts and domestic consumption are not regular and professional. Most of the companies produce in the way of imitating each other. They haven't deeply understood arts in designing so their models are often simple, boring and less attractive, thus not meeting the consumers' increasing requirements.

Besides, footwear enterprises should keep updating new techniques of shoe making as well as fashion tendencies of consumers in the world and take the initiative to invite specialists of this industry to Vietnam for short-term courses to upgrade professional knowledge for their own unit. Moreover, Vietnam footwear industry should notice the training for managing officers of enterprises. In fact up to now, there are about 300 footwear companies but none of them applies the management system of SA 8000 - a necessary standard to penetrate US market.

9. The Government's supports

While Vietnam's footwear industry is facing adverse conditions, the Government's supports are thus very important in its process of sustainable development, concretely:

- The Government should grant financial aids to the industry's trade promotion on potential markets, especially in Africa, Europe, and the US...

- Ministry of Trade should closely cooperate with Vietnamese trade attachés to build a *system of market warning* so as to remind footwear exporters *commercial habits* of some big markets such as Europe, the US so that they can minimize arising lawsuits as well as reduction of their import preferences from these nations.

- The National Tax Bureau should work with Ministry of Finance to study the tax exemption of some kinds of machinery for footwear industry; footwear samples so that the footwear enterprises can have more condition to newly equip their production lines to increase productivity and quality to win in the competition on the world footwear markets.

- Ministry of Planning and Developing should coordinate with the Ministry of Natural Resources and Environment to allocate land for the industry's production of materials, additives and commodities. ■