

### Value of textile and garment exports to EU

(in million USD)

Year	Textiles	Garments
1993	4.5	245
1994	12.8	285
1995	5.0	350
1996	8.0	420
1997	6.0	450

Source: Viet Nam General Customs Department

However, what calls for attention is the fact that approximately 70 percent (in value) of textiles and garments exported to EU go through intermediaries like Hongkong, Taiwan, Republic of Korea, and Germany. This leads to the question of how to create a direct access to markets for our exports so that our products can be sold directly to the buyer without going through intermediate order makers, thereby reducing our dependence on them and at the same time improving our export efficiency.

A majority of garments exported to EU markets are those that can be easily produced (such as jackets and shirts). Very few enterprises are able to produce high value added products that require higher skills and techniques such as suits or high quality shirts. Consequently, even quotas are available for many items of that type, no enterprises are able to produce for export.

- For a number of markets for which quotas are not imposed such as Japan, Taiwan, Singapore, Russia and so on, Viet Nam's annual export value has been increasing rapidly. Japan is a big market and the value Viet Nam's textile and garment exports to Japan accounts for as much as 46.3 percent of its total value of textile and garment exports. However, the share of Viet Nam's textiles and garments exported to Japan accounted for merely 3 percent of the total value of the latter's textile and garment imports.
- U.S and North American markets. These are also major markets for imported textiles and garments. From 1993 to date, the value of Viet Nam's textile and garment exports to the U.S has increased rapidly.

### Viet Nam's textile and garment exports to the U.S

	(In million USD)		
	1994	1995	1996
- Garments	2.45	15.08	20.0
- Knitted wear	0.1	1.7	3.59

In the absence of the Viet Nam - U.S bilateral trade agreement, Viet Nam's textile and garment exports to the U.S were subject to high tariff rates. However, this is an important initial step for Viet Nam to access the U.S market, and to understand the laws and trading practices of a new market full of promise.

Many people are optimistic about the possibility to export textiles and garments to the U.S market after the conclusion of the Viet Nam - U.S bilateral trade agreement. However, many remaining impediments to Viet Nam's textile and garment exports to the U.S, such as regulations on quota and origin, should be taken into consideration in this regard. In addition, the competition between Viet Nam and other countries in the region, especially China, and countries which have border with the U.S like Mexico should also be taken into consideration.

*Quotes from Sai Gon Economic Review Issue No 30 dated July 20, 2000*

*Mr. Le Quoc An, President of the Board of Directors of Viet Nam Textile and Garment General Corporation (Vinatex), believes that within three or four years from the time when two countries granted normal trading regulation (NTR) to each other, Viet Nam's textile and garment industry will be fully able to reach an export value of one billion USD to the US market. He said, "At present, although the tariff rates imposed on Viet Nam's textiles and garments exported to the U.S are two to three times higher than those imposed on products from other countries, Viet Nam is still able to reach an export value of USD 70 million for these products in 1999. Once the tariff rates are reduced, the export value will certainly increase rapidly." > From the experience of Cambodia, only two years after the NTR was exchanged between the two countries, the value of textiles and garments exported from Cambodia to the U.S increased from zero to as much as USD 600 million in 1999. Mr. An confirmed that " Viet Nam's capacity for textile and garment production is greater than that of Cambodia and therefore there will be more opportunities for our country. "*

Competition from Chinese textile and garment industry is the greatest competitive challenge for Viet Nam's counterpart. More in-depth studies are required to make comparison of direct costs and efficiency of textiles and garments between China and Viet Nam. Some comparisons have been made between Chinese textile and garment industry and that of Viet Nam in several aspects. Following is one of them for readers' reference:

First, the Chinese textile and garment industry has a longer history than that of Viet Nam and the country started their export-oriented industry development at least a decade before Viet Nam did.

Second, after the normalisation of the Chinese and U.S relationship was made and as a result of international diplomatic and trade relations, China was able to negotiate with the U.S for a substantial increase in the quotas for its exports to the U.S during the 80s, making the country's quota-based quantity exceed any of that of other East Asian textile and garment exporting countries.

Thirdly, China enjoys special advantages resulting from the presence of Hongkong and, to a certain extent, Taiwan. China is able to inherit the quotas for textiles and garments left by these countries due to their loss of labour comparative advantage (increased labour cost). The textile and garment exporting enterprises in Hongkong and Taiwan has an incomparably high level as regards international textile and garment markets, including customs procedures and fashion demand. They are also able to transfer know-how to highly competitive enterprises in China, especially those located in the Southern coastal areas.

Fourthly, unlike Viet Nam, China's competitiveness benefited from its devaluation in 1994. This advantage and the country's low inflation rates resulted in considerable reduction of local costs as well as local prices compared to the international prices.

Finally, business costs seem to be lower in China than in Viet Nam while the two countries have about the same wage level. In addition, the charges to utilities and the tax rates in China are generally lower.

The positive aspects of the competition between Viet Nam and China should be taken into consideration. To some extent, this competition would encourage the development of the Vietnamese textile and garment enterprises in an efficient manner. The Chinese textile industry is taking strong steps in an effort to restructure itself and their experience should be looked at.

*Quotes from Textile and Garment Journal*

***Chinese Textile Industry - Restructuring Measures for Integration***

***..... In 1997, although the textile industry achieved remarkable results, it also revealed several problems as follows:***

*state-owned enterprises still operated with losses though the total loss was reduced by 2.2 billion yuan compared to that in 1996. The number of loss-making SOEs accounted for 51% of the total number of SOEs and the ratio between assets and liabilities increased to 76%. The key components of the textile industry were in a difficult situation. Statistics show that the cotton sub-sector incurred a loss of 1.3 billion yuan in 1997, a reduction of 810 million yuan compared to that in 1996. The capacity utilisation in the dyeing and printing sub-sector was as low as 50 percent and only one third of their production plan was fulfilled. This sub-sector incurred a loss of 380 million yuan which is similar to that in 1996. The number of loss-making SOEs accounted for 68 percent of the total SOES in this sub-sector, one third greater compared to that in 1996.*

*The domestic market is seriously affected by the competition from imported fibers. This sub-sector*

*used to be one of the profit-making sub-sectors of the industry, but has weakened in recent years and met with many problems regarding product mix, production technology, and a management style that leads to its less competitiveness compared to China's foreign competitors, especially the neighbouring countries and other countries in the region whose artificial fiber sub-sector is growing rapidly. These countries take advantage of currency depreciation to devalue their fiber prices in the Chinese market. At present, one third of Chinese artificial fiber are loss-making, another one third are operating at the break-even point, and the remaining one third are making little profit.*

*..... The textile industry has developed a plan for a period up to the year 2000 to remove 10 million obsolete spindles and accelerate the process of reorganising the facilities and assets of SOEs, reforming their personnel through merging, buying and forcing loss-making enterprises to go bankrupt, and improving SOEs' efficiency by shedding workers and at the same time providing jobs to redundant workers.*

*In order to see major changes in the industry, at the end of 1997, the Government ministries and agencies concerned developed a programme consisting of strengthening measures as mentioned below:*

- 1. To encourage the removal of obsolete spindles, the Government will provide a 3 million yuan grant aid and a 2 million yuan soft loan to every removal of 10 thousand spindles. The grant aid will be made up of transfers from the central government and the local government budget, 50 percent each.*
- 2. The State will give attention to the textile industry by abolishing its non-performing bank loans and requiring each local government to at least maintain the level of performance in 1997 while the new amount of expenditures is increased by 10 billion yuan to finance the replacement of spindles and the implementation of the project on reform of cotton yarn weaving enterprises.*
- 3. The State requires the textile industry to make a proper arrangement for redundant workers, encourage them to seek jobs from employment service centres and ensure adequate income for those workers to meet their basic needs, and provide them with retirement allowance and health insurance.*
- 4. Provide substantial support to textiles export. In 1998, the ratio of rebate on textile export tax is expected to increase by 2 percent compared to the standard level of 9 percent, and over 15 percent of quotas committed under the agreement between China and Europe and the agreement between*

*China and the U.S will be provided directly to enterprises entitled to do business with foreign partners.*

5. *The State requires enterprises comply strictly with the system in which "the State issues production permits and buys products permitted to be produced", controls new cotton rolling capacity while export is encouraged and entitled to obtain export credit and adequate export tax rebate.*
6. *The cotton supply system will be improved and the State allows the price of products to fluctuate within a range of 6 percent. The export-oriented products made from Xinjrang cotton as a substitution for imported cotton will enjoy tax exemption.*

(Quoted from Viet Nam Textile and Garment Journal, January 1999)

### ***Domestic market for textile and garment products***

With a projected population of about 88 million inhabitants by the year 2005 and nearly 100 million by the year 2010 and increased incomes, the demand for textiles and garments is expected to increase very rapidly. Some forecasts expect the demand for textiles and garments to increase by 6 to 8 times between now and the year 2005 and over 10 times between now and the year 2010.

The level of people's consumption also changes as a consequence of external influences. When the living standards of the people improve, they would necessarily demand for "delicious food and nice clothes". The preferences for design and fashion is no longer simple as before when their incomes were low, and will change year after year, particularly in urban areas. Some traditional garment products such as simple black silk trousers for females, and garments made from brown colour fabric for rural inhabitants and so on have also changed. The requirement for a diversity of colour has become apparent. There is also an increasing trend for consumption of ready-made garments whose demand tends to exceed that of tailoured garments. People have been increasingly recognising the advantages of ready-made garments in the aspects of their convenience, their fit with consumer's preference, and their cheaper prices compared to those of tailoured garments.

Another issue that is relatively pressing is the very cheap price of imported textiles and garments flown into Viet Nam, especially smuggled products, second-hand clothes, etc. flown into Viet Nam through various channels, that adversely affects locally produced goods.

On the other hand, the system of wholesale and retail trade of locally produced textiles and garments is not yet organised and in fact left open for private traders' control. Domestic enterprises have not been able to establish distribution channels right in the domestic market. The relationship between production and distribution and that between wholesale trade and retail trade are required to be established properly

so as to enable textile and garments producers to control the domestic market.

### 3. Some features of Viet Nam's textile and garment industry

*(1) The production scale remains small, a majority of equipment and machinery is obsolete, and the industry's competitiveness is low. A dynamic garment industry exists besides an inefficient textile industry*

Viet Nam's textile and industry occupies an important role in the national economy, ensures domestic supply of one kind of essential goods, and has a comparative advantage for export promotion. The export value in the year 2000 is estimated at nearly USD 2 billion, placing the industry among the top exporting industries. The export value of the industry in this year even exceeds that of petrol. The industry absorbs a large portion of the workforce which accounts for 22 percent (over 500 thousand workers) of the total industrial workforce.

Although the industry sees an annual output growth of more than 10 percent, its production size remains small with per capita yarn production of merely 0.8 kg and that of fabric of less than 5 meters. Equipment and machinery currently used in the spinning and weaving segments is obsolete, thereby failing to provide fabric as an input for export-oriented garment production.

As of late 80s, there were 860 thousand of spindles in 13 SOEs in the industry. A majority of equipment was made in 60s and used for over 20 years. Over the past years, a number of too old equipment was improved, innovated or removed and replaced by new ones, and yet the rate of replacement was merely 5.2 percent. Since old and obsolete equipment and technologies accounts for a majority part in the industry, although the quality of products has seen some improvement, their output fails to meet adequately the demand for high quality yarns, making the industry still rely on imported yarns. The coverage of combed yarn spinning technology merely accounts for 3 percent while carded yarn spinning technology still dominates the spinning industry. Technology for PE mixed yarn spinning accounts for less than 16 percent.

A majority of equipment formerly used in the textile industry is composed of narrow width shuttle automatically changing weaving machines that were imported from China and used for a large number of years. Consequently, the quality of products has been declining and the ability to diversify products is very limited. Over the past years, new machines, including some modern weaving machines, were imported to replace the old ones, and to upgrade the quality of textile products. During the past decade, about 1500 new non-shuttle weaving machines (for example: rapier loom, airjet loom) out of the existing 10,500 weaving machines were imported for the textile industry, meeting roughly 15 percent of the weaving capacity.

In recent years, more investment has been put into the dyeing and finishing segment of the industry, but the SOEs got most of the investment. This investment has contributed to improving the quality of and diversity of products of which there are new items that were unable to be produced before. Nevertheless, the investment is scattered and yet to be regarded as complete due to the shortage of capital.

Given the need to produce for export, investments have been continuously put into the garment industry for the purpose of production expansion and equipment replacement. Most modern sewing machines currently in use are those with high speed ranging between 4,000 and 5,000 circles per minute. The industry is also equipped with machines of special use like double needle sewing machines or zig-zag hem-stitching machines, etc. There are sewing line for producing only one product, such as shirts, trousers and jeans, sewing lines and the washing and pressing system.

Modern technologies for computer-aided design and drawing for cutting have been applied in some places.

*(2) Garment export turnover remains high mainly due to subcontract and the industry still has to import heavily.*

In recent years, garment export turnover keeps rising and the industry has become one of the major export earners of the economy.

Processing for export is the key feature of the industry since Viet Nam is yet to be able to make its own designs, produce its own materials and create its own network in international markets. Under this mode of production, all textiles and other accessories (e.g. threads, buttons, labels, packaging etc.) are temporarily imported for re-export after turning into finished products. It is clear to see that the market is that of the contractor. The added value made on the export product is found mainly in the wages and salaries of workers and managers.

At present, 80% of garment export is from subcontracts. According to the Viet Nam Garment & Textile Corporation, the corporation's own export value in 1997 reached USD 475 million, out of which only 24% were from direct export. Leading companies within the corporation like Viet Tien, May 10 etc. based most of their operations on subcontracts.

This mode of production, however, is necessary in the initial stage to help the industry secure jobs and learn the art of export marketing. Vietnamese garment industry's strategy is to quickly turn to direct export of its own products and to enhance its own effectiveness.

To direct export(FOB export), the industry has no other way but to overcome existing shortcomings in marketing and over-dependence on foreign partners. It also has to make up the current loose linkage between textile and garment manufacturing sectors within the industry. The current approach of investment-production oriented should be redirected to market-effectiveness oriented. The industry's enterprises should overcome their own weaknesses, actively explore markets and offer new designs to attract customers.

Other important points in the industry's strategy also include upgrading the current outdated equipment and technology of the textile sector, creating exportable garments and forging a close and cohesive linkage between the textile and garment sectors. For FOB export, the Vietnamese textile & garment industry has to overcome the following four weaknesses:

- Labelling,
- Designing,
- Increasing the domestic contents in a product, and
- Enhancing product's competitiveness.

(3) *Almost all materials used in the textile sector is imported*

Virtually all inputs to the textile industry, such as cotton, polyester yarns, etc. are imported from abroad.

Following are the main figures for the last few years:

	1991	1995	1999
<b>Manufacture</b>			
1- Yarns (thousand tons)	40	59	74
2- Cloth (million metres)	280	263	317
<b>Import</b>			
1- Cotton (thousand tons)	32.5	68	77
2- Threads and polyester (thousand tons)	26.3	93.8	160
3- Cloth (million metres)	20	72	505*
<b>Material production</b>			
1- Cotton (thousand tons)	2.86	4.1	5.2
2- Silk (thousand tons)	0.78	1.4	-

\* USD million

### Cotton cultivation

The cultivation of cotton in the last few years has been maintained on over 10,000 ha of land. The low effectiveness of this sector results in its low pace of development. Under the Central Cotton Company's estimation, to develop the cultivation area, it is necessary to have cotton productivity bypassing the cost productivity, which is now 690 kg of seeds wool per hectares in Dong Nai Province or 840 kg/ha in Son La Province etc. Secondly, cotton must have its own competitiveness comparing to other harvest on the same area at the same time, bringing about higher effectiveness on one unit of cultivation land. After years of cotton development, the sector has been able to (i) locate cotton's ecological demands and land availability for the cotton development land fund; (ii) pinpoint the appropriate cultivation techniques and seasons in Viet Nam's conditions, applying mixed cultivating regime and effective plant protection methods; (iii) create new cotton varieties with higher productivity for Viet Nam. Cotton hybrids give an average of 1.5 tons of seeds wool per hectare and about 2.5-3 tons/ha under good watering. The quality of cotton fibre is now equivalent to American average fibre. According to statistics, real cotton productivity has been increasing twice in the past 6 years. In the Southern cotton-potent provinces, average productivity has reached 850kg of seeds wool per hectares while that of the Central Highland and Southeastern provinces reached 900-1000kg/ha.



## Silk

The cultivation of mulberry for silk production has also been developed in the last few years and now covers about 25 provinces in all areas of the country. In 1986, there were only 4,700 hectares of mulberry in the whole country and the cultivation area peaked in 1994 with 30,000 hectares. Now it remains stable at 20,000 hectares.

Silk processing has made some progress with the total capacity of existing silk unwinding equipment reaching 1,870 tons/year in which Japanese automatic equipment gives about 810 tons. Annual silk production is now 1,000 tons, giving a total export turnover of USD 5-6 million/year. Mulberry cultivation, cocooning and silk manufacturing are intertwined that gives a final effectiveness. However, it should be noted that Viet Nam's silk production is not without difficulties. To overcome this, Viet Nam needs to promote the traditional silk production wards, manufacturing silk for domestic consumption and export.

## Synthetic threads

Viet Nam could develop a petrochemical industry based on its oil and gas production. At present, there are some projects in PE threads production using foreign investment by Hualon Co. Ltd. and Samsung Co. Ltd. By implementing these projects, it is hoped that Viet Nam would have sufficient synthetic threads for domestic consumption after 2000 and reduce its import.

### (4) *Foreign investment in the textile and garment industry*

By the end of 1998, there were 68 projects in the textile sector and 71 projects in the garment sector as follows:

Year	Number of projects in the textile sector	Number of projects in the garment sector	Investment capital in the textile sector (in thousand USD)	Investment capital in the garment sector (in thousand USD)
1988	0	2	0	1,400
1989	1	0	11,607	-
1990	2	1	22,925	954
1991	4	4	13,192	6,129
1992	9	9	62,435	30,996
1993	9	10	477,684	20,157
1994	5	2	30,599	1,200
1995	16	16	346,906	24,898
1996	12	16	132,135	32,363
1997	5	11	27,616	25,809
1998	5	4	43,020	7,512
Total	68	71	1,168,019	151,418

Regarding investment forms, most of the projects are 100% foreign owned. In the textile sector, 60% of projects are 100% foreign owned and account for 80% of the sector's total capital. Most major projects are of this type. In the garment sector, these figures are 54% and 60% respectively. Joint ventures in the textile sector account for 35% projects and 8% capital. In the garment sector, these are 46% and 40% respectively.

South Korea, Malaysia and Taiwan are countries having most investment projects in the textile sector while Taiwan, South Korea, Hong Kong and Japan lead in the garment sector.

As regards the location of the projects, most of them are found in the Southern areas of Ho Chi Minh City and Dong Nai Province, accounting for 80% of projects in the textile sector and major investment projects in spinning, textile, dye & print, PE threads production etc.

As for the scale of investment, projects of over USD 10 million account for only 20/180 or 11% of all projects in the textile and garment industry. Some of major investment capital like the Hualon complex textile-thread-dye project show slow pace of implementation since investor(s) invests and explore the market at the same time. Most projects are medium or small ones. In some particular cases, investors even brought in obsolete or used equipment to exploit their full life and cheap labour of Viet Nam. The small scale of investment might be suitable for the textile and garment industry but also shows some precautions by the investors who only want quick money and do not look for long-term business. In the last two years, investment shows signs of pausing in waiting for the Viet Nam-US Trade Agreement. It is hoped that the signing of the Agreement would push up investment in the industry to grasp the opportunity to explore the vast and potent American market.

*(5) R&D, personnel training etc. are yet to meet the demand of production and business development*

At present, the industry has got only two R&D facilities, i.e.: (i) Textile Research Institute and (ii) Garment Research Institute.

The first one employs 125 people of whom 90 have graduate and post-graduate degrees, undertaking some applied researches. However, the linkage between research and production remains limited due to the small number of order from enterprises. Small State budget for this institute, its obsolete and poor infrastructure, lack of retraining for researchers and technical staff, brain-drain etc. contribute to its inability to expand research activities, not to speak of research on new technology. Some researches were detached from production and thus, could not be applied.

The Fashion Institute was established on the basis of the former Institute for Garment Research and has the responsibility of mapping out fashion strategy as well as making new designs for domestic consumption and export. It also has to disseminate information on fashion, designs and to train designers. However, the institute's facilities and staff are too small. Its Hanoi branch has about 13 university graduates while the Ho Chi Minh City branch has 4. Both lack fashion designers. Hence its limitation on fashion and designs

creation. The Institute only meets 10% of the market demand on fashion designs. In Hanoi and Ho Chi Minh City, a number of private showrooms regularly offer to the market new designs by their own designers.

All in all, studies on fashion design in Viet Nam are still at a very young and inexperienced stage without sufficient interaction with international designers and market. To move from processing to direct sales (FOB), it is necessary to enhance the stage of making new designs to offer customers abroad and should be the thrusting task of the industry today.

Just like R&D, training and re-training are of much importance, especially when the pool of engineers and professionals are yet to meet the industry's demands in terms of quality and quantity. Only recently the Hanoi Polytechnics and Hanoi University of Industrial Design have allocated specific courses in textile and garment engineering and design making. Against this backdrop, students could not have sufficient basic training in the area and are not up to latest scientific and technological progress in the world. New staffs have to spend 3-5 years after joining the industry to be able to make some use of their professional knowledge. At the same time, they show certain weaknesses in applying their knowledge and lack good command of foreign languages.

A close cooperation between research institutions, training schools and enterprises has been paid due attention. Some able candidates shifted to work for other undertakings. Despite its old age, the industry has just 32 post-graduates out of whom none possesses a doctorate.

*(6) Though dynamic, the private sector possesses small potentials and backward technology*

According to statistics, the private textile and garment sector has about 57,000 spinning poles acquired from used equipment of the public sector, 6,000 textile machines and looms. In the whole country, there are some 200 private and limited companies, 100,000 families employing 400,000 labourers. Textile machinery include mostly old type wooden looms or discarded equipment from the public sector. In Ho Chi Minh City, the non-public sector does not have modern equipment but is very flexible in meeting market demands and thus, reaps high business efficiency at low investment cost. This is also the result of making full use of the labour force, economising all production costs and taking the advantage of the City's pool of specialists.

In some provinces, a number of traditional wards are still able to maintain their age-old production of traditional items but in a new form more attached to the market.

The private sector's garment production develops fast recently while the cooperative sector sees its decline and has to turn into limited liability companies. These enterprises have the capability of mobilising capital from the public at medium and small scales and turn out to be very dynamic in business. Most of them are of the 100-300 labour scales. Their common features might be:

- Compact management that gives quick decisions and good estimation of the situation;

- Maintenance of product quality and customers' trust;
- Active marketing;
- High capacity in capital mobilising and efficiency.

#### 4. Issues on Viet Nam's textile and garment industry development policy

##### *(1) Enhancing competitiveness for effective integration into the region and the world*

Enhancing the industry's competitiveness is a prerequisite to boost textile and garment export, especially the prospective American market where the toughest competitor for Vietnamese textile and garment products is China.

Major importers of Vietnamese textile and garment products include the EU, Japan and in the future, the US. In all of these markets, China tops in the same products. The trading regime for textile and garment products in these countries remains the same for both China and Viet Nam, not to mention the MFN status that China enjoys in America. In this context, it is of much importance that Viet Nam must enhance its competitiveness in terms of cost and price, quality and delivery of goods.

To encourage export, the Government has already applied the 0% tax on textile and garment exports. However, it is necessary to continue lowering the input costs and raising productivity so that Vietnamese products could compete with Chinese or other countries' products. Further, the creation of a level playing field for all enterprises, all sectors are also important in facilitating the cut of unnecessary costs. A study shows that despite Viet Nam's low labour cost, other costs in the production chain in Viet Nam remain high, especially in terms of transportation. Hence its low competitiveness against other countries, including China.

Enhancing the competitiveness should start from efforts of each and every enterprise which in turn requires them to strengthen their managerial capability. This is particularly important to public sector enterprises where efficiency is low. A recent survey discloses that most enterprises in the industry get low profit per turnover ratio. This is an alarming sign for the development of these enterprises. Therefore, there must be measures to consolidate public enterprises, to enhance production and business efficiency.

##### *(2) Developing the inputs: material production, spinning, cloth making, printing and dying to guarantee quality cloth for export garment production and domestic consumption*

The current supply for domestic consumption remains low, at 1kg and 5 m/capita. In the long run, the need for development of production for domestic consumption is of much importance and huge. Cloth demand for export garment manufacturing is met mostly by import and thus, decreasing the industry's

export efficiency. Upgradation of present technology of businesses and investment into the enhancement of inputs of the textile sector have become a must.

Materials supply for the textile industry should follow two directions: (i) cotton development and (ii) construction of synthetic fibre factories. As mentioned before, the application of new technology has brought about the creation of new high-yield cotton varieties that allows cotton to bypass the efficiency barrier and reach a profitable level for cultivation expansion. Cotton no longer stands at the self-sufficient stage in some areas and now enters the stage of commercial production. On this basis, it is necessary to create the proposed cotton producing area to supply materials for the textile and garment industry. Farming promotion policies, credit and tax holidays are also needed for the development of such areas. The Government should keep on supporting R&D activities in the industry and issue guidance on the effective application of new technology to farmers. As regards synthetic fibres, the production should be planned quickly and effectively along the development of the petrochemical industry.

The production of fiber, cloth and their printing and dyeing should be facilitated so that enterprises could upgrade their present equipment and technology. Due attention should be paid first and foremost in the creation of quality products for the export garment sector like cloth manufacturing, printing/dyeing and finishing. Foreign investment into these areas should be encouraged.

The industry must be developed nationwide in a closely interacting system from material development and production to the last eye in the chain to enhance the added value domestically. Only this is the answer to a long-term vision and good development strategy. In a country of the size of Viet Nam where the population could reach 100 million by 2010, the size of the market is big. A short-term vision in the current poor condition of production, low investment... would not guarantee the industry's competitiveness in the export markets, especially when the economy becomes open to the world. There exist some arguments that it is not necessary to develop everything but a few that have the potential for high competitiveness and efficiency. Therefore, it might be good to see links established, not just quantitative balances. Enterprises should be able to enjoy a favourable business environment and should enhance their own self-resilience for further development. Only on these basis that the industry, both in the private and public sectors, could develop. This would add to the process of structural adjustment, forging closer and more effective links within the industry. China is doing the same where the Government assists with a small credit so that the industry could upgrade its facilities and implement its feasible projects.

(3) *Gradually moving into direct export (FOB), ceasing subcontracts and enhancing export efficiency.*

The following table shows a comparison between FOB and processing:

	<u>FOB</u>	<u>CMT</u>
+ Samples	active	from the contractor
+ Materials and accessories	self-decision	supplied by contractor
+ Production	active	passive, sometimes controlled
+ Risk	high	stable
+ Business efficiency	high	low

This clearly shows that direct export has high efficiency. If most of materials are to be produced domestically, the efficiency could be even higher. However, this situation requires that businesses must be very dynamic and active. They must also understand the market, fully informed and being able to establish their own networks and customers. They should further pool their own designers commanding good knowledge of big markets like the EU, U.S, and Japan.

The creation of good links, close cooperation and coordination between the textile and garment sectors would guarantee highly efficient direct export (FOB). Research coordination between these two sectors from market research to the making of concrete designs, colours, materials selection etc. is required. Based on the already produced materials, it is necessary to select the right designs to suit customers' tastes and vice versa. This two-way information should be regularly exchanged.

(4) *Furthering research on technological transfer and human resources development*

Technological renovation is an important factor contributing to the enhancement of business competitiveness of the manufacturing sector. New technology facilitates the boost in productivity and product quality.

Some would tend to think that the textile and garment industry is just a labour intensive sector and therefore new technology is not that important. The industry itself is an age-old one with constant technological renovations and high-tech has been applied to increase the level of automation, productivity and quality. The industry's review on investment drew the some lessons, out of which the most important two are:

- # Selection of equipment: this is very important and requires firm and sound technological knowledge in the field. The industry has got many painful experiences from the selection of cheap equipment that were outdated, unmatched with production requirements etc. and thus, brought about low

competitiveness.

- # Some businesses only invest in equipment and regard this as the key to high quality products while at the same time ignore the necessity of technological transfer, training and retraining, production organisation etc. Hence their failure in realising the proposed goals in terms of quality, productivity or efficiency etc. Their investment is thus inappropriate in increasing competitiveness.

These lessons show the importance of technological transfer and training. Besides, it should be noted that one must be serious in considering the technological aspects before expanding investment and renovation of existing enterprises.

Survey on business performance of textile and garment enterprises

	Name of enterprises	Capital per worker (mill.USD)	Sales per worker (mill.USD)	Profit/Sales (1997)	Profit/Sales (6 months of 1997)	Accumulative Loss/Capital (%)
<b>CENTRALLY MANAGED ENTERPRISES</b>						
<b>Yarn Weaving</b>						
1	Dong Xuan Textile Factory	62	59.6	1.26	1.2	0
2	Industrial Fabric Weaving Enterprise	30.6	39	0.8	-0.7	0
3	March 8 Weaving Factory	72	48.5	0.26	0.02	13.6
4	Hanoi Textile Company	56.3	72.5	0.23	0.7	0.5
5	Hai Phong Woolen Products Factory	36.8	14.2	0	0	32
6	Ha Dong Woolen Products Factory	38	22.2	12	-3.9	7
7	Nam Dinh Silk Factory	69.7	33.96	6.5	0.1	3
8	Nam Dinh Textile Factory	62.8	41.5	-0.02	-2.1	43.9
9	Vinh Phuc Textile Factory	63.5	31	0.08	0	0
10	Hue Textile Factory	106	89	0.02	-4.4	0
11	Hoa Tho Textile Factory	88	41.5	-19.6	1.8	7.3
12	Nha Trang Textile Factory	84	107	3	1	0
13	Thang Loi Textile Factory	67	77	0.2	0.13	0
14	Dong Phuong Textile Factory	87	67	6.6	0.2	5.1
15	Phuoc Long Textile Factory	90	71	0.85	0.84	0
16	Viet Thang Textile Factory	70	76	0.2	0.2	0
17	South East Textile Factory	63	130.7	1.3	0.75	0
18	Vinh Thinh Textile Factory	134	116	0.15	-17	0
19	Thanh Cong Textile Factory	129	92	0.13	0.12	0
20	East Asia Textile Factory	87	64	0.1	0.3	0
21	Phong Phu Textile Factory	76.5	134	1.8	1.8	0
22	Binh Loi Blanket Factory	56	22	2.8	0.7	0
23	Bien Hoa Wool Factory	27	24	0.9	0.3	0
<b>Garment</b>						
24	Duc Giang Garment Company	17	24	2.8	5.4	0
25	Garment Company No 10	21.5	31	5.9	8.6	0
26	Thang Long Garment Company	25	21	1.9	1.4	0
27	Chien Thang Garment Company	18	16	1.4	1.7	0
28	Ho Guom Garment Company	23	14	0.6	2.6	0.4
29	Export Garment Company	12	41	0.3	0.4	0
30	Hung Yen Garment Company	19.9	22.8	2.1	1.2	0
31	Nam dinh Garment Company	14.4	13.4	1.3	0.2	0
32	Ninh Binh Garment Company	10	3.7	-1.2	-65	1
33	Dap Cau Garment Company	16	17.6	1.8	0.6	0
34	M Thanh Son Garment Company	9.6	6.9	0.4	0.7	0.1
35	Hoa Binh Garment Company	16	20	4.5	4.2	0
36	Binh Minh Garment Company	18	26	11.1	13	0
37	Nha Be Garment Company	19	24	3.4	4	0
38	Phuong Dong Garment Company	20	21	12.4	8	0
39	Viet Tien Garment Company	72	96	3.5	4.6	0
40	Doc Lap Garment Company	19	22	0.8	1.5	0
41	Friendship (Huu Nghi) Garment Company	17	28	4.6	4.8	0
42	Dong Nai Garment Company	15	25	2.3	2.7	0
<b>LOCALLY MANAGED ENTERPRISES</b>						
<b>Garment</b>						
1	Garment Company No 40, (Hanoi)	24	15.4	7.9	6.2	0
2	Hai Phong Garment Company No 3	9.8	26	0.8	0.45	0
3	Hai Phong Garment Company	16.5	16.5	1.7	2.5	0



4	Hai Phong Garment Company No 2	7.6	16	3.2	5	0
5	Hung Thinh Garment Company	16.3	30	2.9	3	0
6	Son Ha Garment Company	1.5	11.5	3.5	2.2	0
7	Hai Duong Garment Company No 2	12	9.9	8.3	4.9	0
8	Hai Duong Garment Company No 1	8.4	8.6	1.4	1.1	0
9	Hien Street Garment Company	18.3				
10	Hung Yen Garment Company No 2	8.3	7.8	5.1	2.1	0
11	Binh Luc Garment Company	4.6	3.2			
12	Duy Tien Garment Company	7.7	4.9	1.5	1.6	0
13	Ha Nam Garment Company	21.6	31.7	0.4	0.1	0
14	Son Nam Garment Company	25.2	20	0	-9	6
15	Dong A Garment Company	13.3	7.6	0	0	0
16	Nam Ha Garment Company	8.8	11	1	0.3	0.1
17	Song Hong Garment Company	11	23	0	0	0.4
18	Thai Ha Garment Company	19			8	0
19	TB Th. Ha Garment Company	23	3	0	0	6
20	Dong Hung Garment Company	6.3	4	14	-46	0
21	Kien Xuong Garment Company	7	3	-3	-2	42
22	Hung Ha Garment Company	9.6	6	1	2	0
23	Thai Nguyen Garment Company	15	11	1	1	0
24	Phu Tho Garment Company	8	18	0	0.4	0
25	Viet Tri Garment Company	11.4	9.7	2	0.3	0.02
26	Song Hong PT Garment Company	15.7	31.8	0.2	-0.4	0
27	Phu Tho Garment Company No 1	11.6	17.8	3	0.1	2
28	Bac Giang Garment Company	10	5.5	1	0.1	0
29	Bac Ninh Garment Company	21.4	7.4	1	0.1	0
30	Quang Ninh Garment Company	22	10	2	4	5
31	Hoa Binh Garment Company	5.3	0.5	0.5	0.4	0
32	Thanh Hoa Garment Company	11.5	5.7	0.1	0.3	0.2
33	Bim Son Garment Company	8.5	8	1	0.2	0
34	Nghe An Garment Company	17	11.3	-4	-13	16
35	Thanh Cong Garment Company	26.5	6.1	1	-3	0
36	Thua Thien Garment Company	8.6	5.5	3	3	0
37	Hue Garment Company	16.3	14.2	2	3	0
38	Da Nang Garment Company	20	23	0.4	1	0
39	Quang Nam Garment Company	32	0	0	1	0
40	Hoi An Garment Company	9.4	7.6	0.4	0	0
41	Dien Ban Garment Company	19.7	5.3	1	0	2
42	Nui Thanh Garment Company	9.3	9	4	3	0
43	Truong Giang Garment Company	13.2	9.6	3	7	0
44	Binh Dinh Garment Company	12.6	7.3	0.3	4	0
45	Khanh Hoa Garment Company	9.7	15.2	2	2	0
46	Sai Gon Garment Company No 2	17.9	32	3	2	0
47	Tien Phat Garment Company	15.6	15	16	0	0
48	Phu Nhuan Garment Company	14.8	17.2	10	12	0
49	Sai Gon Export Garment Company	17	25.2	4	3	0
50	Sai Gon Garment Company No 3	16	29.7	4	3	0
51	District No 1 Garment Company	9.5	30	7	5	0
52	Tay Ninh Garment Company	26.8	19	9	16	0
53	Dong Tien Garment Company	15.7	35	3	4	0
54	Dong Nai Industrial Garment Company	15.7	28	1	0.05	0
55	Binh Thuan Garment Company	11.6	12	3	0	0
56	Long An Garment Company	11.6	12.7	3	3	0
57	My Tho Garment Company	9.7	11.4	6	6	0
58	Tay Do Garment Company	22	27.6	4	0.1	0

## **Development Perspective for Viet Nam's Textiles and Garment Industry**

Duong Dinh Giam

Ministry of Industry

### **1. Basic features of the textile and garment industry**

Textile and garment industry is a sub-branch of the consumer industry. It serves the dressing demand which is among two essential demands of the human's life.

Historically, the existence and development of the textile and garment industry has always linked closely to the human society's evolution. The more developed the society is, as well as the more urgent production problems can be resolved by science and technology, the more perfect the textile and garment industry will become and therefore, better serve the human life.

The textile and garment industry is in fact the combination of the 2 narrowly specialised branches that are textile and garment industries. Although these are the two different specialised branches, there is a close and inseparable relation between them. Without the garment industry, the textile products cannot achieve their final goal of meeting the human's dressing demands. And versus, the garment industry has utilized the textile industry as the only and unreplaceable source of material supply for its operation. The development of textile industry with various kinds of products will offer great opportunities for the garment industry to select its input materials. Meanwhile, the growth of garment industry with many designs will stimulate consumption and provide a good output for textile industry.

As an independent industry, the textile and garment industry has its own basic features, that are:

#### ***1.1 Textile and garment industry is an industry that produces unreplaceable products***

Most of industries produce replaceable products. Take the domestic electric appliances as an example: instead of using electric fan, people can use bamboo fan or even do not use any fans. Similarly, as for electronic products, instead of using a television set (for audiovisual demand), people can use only a radio (for acoustic demand). On the contrary, the textile and garment industry's products cannot be replaceable, i.e. people can only substitute a type of cloth with another type for their dressing demand, but cannot have nothing to put on.

This is the most basic feature of the textile and garment industry. This feature has made textile and garment products essential to the human life. This feature also governs all the activities of the industry, and

therefore decides the industry's most important task of ever better serving the human demands.

### ***1.2 Textile and garment industry is an industry that produces short life cycle products***

Among consumer products, textile and garment products often have short life cycles, unlike processed food with the eating taste is often determined and stays stable during a long time period. This can be explained by the high fashionableness of textile and garment products. Such products are used not only simply for covering the body, but also for setting off the elegance and beauty of the people who put on the clothes. It is a common mental habit that everyone likes to be innovative, creative, even original and impressive. Therefore, textile and garment products have to continuously change in order to meet such demands.

In addition, textile and garment products are also influenced by such factors as culture, tradition, customs, religion, climate, sex, age... Therefore, these products are often varied and diversified.

The seasonality of the textile and garment industry is very high, therefore products for a season will hardly be consumed during other seasons. This is an important feature that manufacturers should capture in order to organise the production so as to timely meet the consumers' demands.

In brief, the textile and garment products' changeability is a very important feature, that reminds the industry's manufacturers to be precautious and not too passionately chase existing results, while ignoring continual changes in the market demands.

### ***1.3 Textile and garment industry is an industry that does not require too complicated technology, has low investment rate, short pay-back period and is suitable for small and medium production scale.***

The textile and garment industry is an industry that occurred and developed early in the human's development history, partially because its technology is not too complicated. As compared with other industries, particularly the heavy industry, the textile and garment industry has a much lower investment rate, e.g. 1/10 of the mechanical industry's rate; 1/15 of the electricity industry's rate; 1/20 of the metallurgical industry's rate.

Even in the group of consumer industries, it costs only USD 15,000 to create a new employment in the textile industry (from spinning, fabric weaving, dying to finishing stages); USD 1000 in the garment industry, as compared with USD 30,000 in the paper industry.

The pay-back period of the textile and garment industry is also shorter than that of many other industries: The pay-back period is 10 to 12 years in the textile industry, 5 to 7 years in the garment industry. Meanwhile, the pay-back period in heavy industries is often 10 to 15 years.

Thanks to the industry's uncomplicated production technology, easily trained workers, some production stages can be organised at households. Therefore, the industry has existed and developed in almost all the developing countries and attracted a large portion of their workforce. It's also because of the industry's

technological characteristics, even if it is modernised, many production stages will have to be manually implemented in the short and long run. Therefore, together with the development of the textile and garment industry, the number of workers attracted to the industry will increasingly higher, not taking into account the number of workers in other related industries such as mechanical, manufacturing, chemical industries and especially in agricultural sector, which supplies input materials for the textile and garment industry.

***1.4 Textile and garment industry is an industry that has undergone several production movements among countries and regions worldwide, as well as internally within a country.***

The textile and garment industry is an industry that has early participated in the international commodity market as well as undergone several production movements among countries and regions worldwide. Looking into the development history of the world's textile and garment industry, we can see that it firstly occurred and developed in England in as early as the late 18th century, and then was shifted to other European countries in mid-19th century. Japan adopted and developed strongly the industry in the 30s of 20th century. Then, the industry was shifted to other Asian countries and marked by the new industrialized countries' (NICs') success in 60s and 70s of 20th century. Currently, the industry is in the movement to less developed countries such as China, Viet Nam, Thailand, Indonesia, the Philippines... In the future, when these countries no longer have their comparative advantages, particularly the advantage in labour cost, the industry will probably shifted to other less developed countries.

Internally within each country, the textile and garment industry has also been shifted from a region to another. Initially, the industry was often concentratedly developed in urban areas thanks to the advantages in infrastructure, high labour skills... After that, as the advantage in labour cost has gradually been eroded, the industry has to shift to other less developed urban areas in order to maintain its comparative advantages, or even to rural areas in an attempt to minimize its production costs.

This movement has happened naturally and indispensably. This is also an important feature that manufacturers should take into consideration, otherwise their existing advantages will disappear and they will be excluded from this highly competitive playing field.

***1.5 Textile and garment industry is a sensitive industry, its products are often strictly protected***

Before the issuance of the agreement on textile and garment products, an important achievement of the Uruguay negotiation round, the international trade of textile and garment products was regulated by special trading forms, based on which most of importing countries have established quantity restrictions against the imported textile and garment products. On the other side, popularized tax rates imposed on these products are often higher than those on other popular industrial products. Such barriers have greatly affected the production and trading of textile and garment products all over the world.

In the past, as well as at present or in the future, textile and garment industry was and will always be a

sensitive industry with strictly protected products. Such a protection exists not only in textile and garment exporting countries where, as in common thinking, domestic production is strictly protected, but also in powerful countries like the US, EU countries... where the textile and garment industry is not developed or was previously developed but then shifted to other countries and regions worldwide. However, the existence of such barrier in developed countries is not for protecting their domestic production, but for dominating and controlling developing countries by restricting these countries' comparative advantages. These restrictions are created in such forms as import quotas, rules of origin and labelling... It shows us that capitalistic exploitation has developed to a more sophisticated level, i.e from monopolistic capitalism to a new form in which weak countries must depend on power countries.

This is among very important features that the countries who want to join the international textile and garment exporting market should take into consideration in order to set appropriate policies.

The aforementioned features are the most basic features of the textile and garment industry. They decide the production organisation process and directly affect the industry's production efficiency. The study and clarification of these features play an important role in determining the development orientation and recommending appropriate solutions.

## 2. Preliminary analysis of Viet Nam textile and garment industry's development during 1991 - 1999

### 2.1 Scale and pace of development

#### 2.1.1 Regarding quantity and structure of products

Table 1 Main products' outputs of Viet Nam's textile and garment industry  
(including FDI sector)

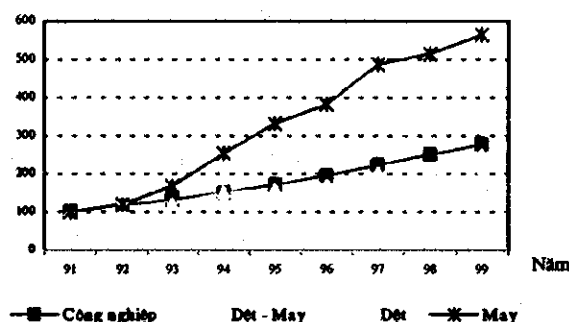
Products	Unit	1991	1995	95/91 (%)	1999	99/95 (%)	99/91 (%)
Whole fabrics	1000 tons	40.26	59.22	147	73.73	124	183
Finished silk	100 m	280	263.00	94	317.0	121	113
Canvas	1000 m	1,870	2,058.00	110	15,057.0	732	805
Knit wear	100 units	26	30.18	116	30.44	100	117
Knit wool	Ton	728	1,165.00	160	2,273	195	312
Jute carpets	1000 m <sup>2</sup>	604	239.00	40	700.0	293	115
Towels, scarfs of all kinds	100 units	109	276.00	253	351.0	127	322
Garments	100 units	106	171.90	162	304.94	177	287

Source: Statistical year books from 1991-1999

Both quantity and structure of products have considerably changed, from spinning, fabric weaving to sewing stages, including the manufacturing of additives for domestic production and exports.

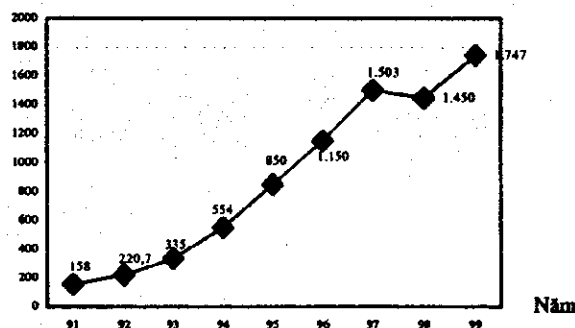
### 2.1.2 Regarding production and export value

Chart 1 Vietnamese textile and garment industry's production value growth



Source: Statistical year books from 1991-1999

Chart 2 Vietnamese textile and garment products' export earnings



Source: Ministry of Trade

The garment industry's production value has sharply risen (at the rate of 25% per annum), however the textile industry's production value increases inconsiderably (at the rate of 5 - 6% per annum), therefore slowing down the overall growth rate of the textile and garment industry to 12 - 12.5% per annum - lower than the industrial sector's overall growth rate of 13.5% per annum.

Export earnings rises by an average rate of 35% per annum, higher than the national export earning's growth rate of 27.5% per annum.

## 2.2 Development investment

Domestic investment during 1991 - 1999 (by Viet Nam Textile and Garment Corporation's (Vinatex) enterprises) was VND 5000 billion, of which 2 - 3% is budget's fund; 15 - 20% is left from depreciation fund; the remaining is lendings from domestic and foreign sources. This figure has not taken into account

other hundreds of billion dong invested by non-state and local state enterprises, or co-invested by joint-ventures between state enterprises and other economic sectors.

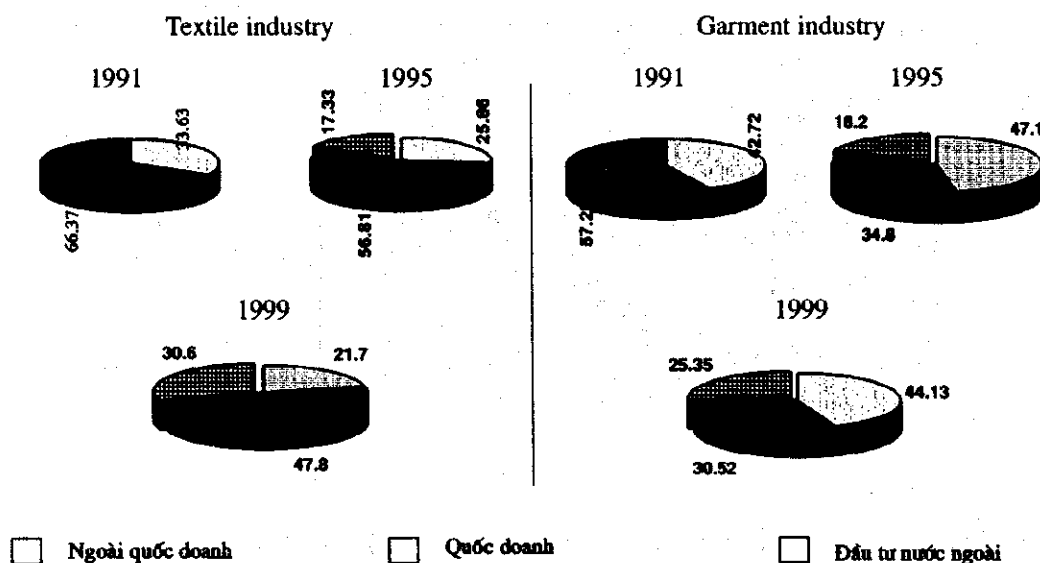
Thanks to the investment, only central textile and garment sector has managed to improve its spinning capacity from more than 50,000 tonnes up to 75,000 tonnes, fabric weaving capacity up by over 40 million metre and sewing capacity up by threefold.

By the end 1999, foreign investment in the textile industry records the project number of 68, the total investment of over USD 1.5 billion; while these figures of the garment industry are 95 and over USD 210 million, respectively.

FDI projects mainly focus on the south of Viet Nam. Moreover, the tendency of declining foreign investment has been continuing, particularly since 1998 and there has not been any sign of recovery.

### 2.3 Regarding ownership structure

Chart 3 Industrial production value structure by economic sectors



## 3. Challenges and opportunities for the development of Viet Nam's textile and garment industry

### 3.1 Challenges and shortcomings

#### 3.1.1 Failure to meet the domestic market's ever higher and varied demands

In 1999, the total industry's output recorded only 314.7 million m<sup>2</sup>, i.e the average consumption per capita was only less than 5m<sup>2</sup>/year.

According to a survey, the actual per capita consumption of textile and garment products (both for domestic consumption and industrial production) in Viet Nam is much higher. However, most of the

shortage in domestic supply is filled in by imported textile and garment products in different ways, including many types of products that have not yet been produced domestically.

### 3.1.2 *Tiny and unstable export markets*

#### a) Regarding quota markets

Viet Nam is considered to hold the most advantages in these markets as compared with other markets. Although we have gained some achievements at the entry to these markets thanks to such preferences as ever higher quotas, high convertibility among commodity groups, ability to use ASEAN's redundant quotas..., such preferences have actually failed to improve Viet Nam's competitiveness against other countries in these markets. Specifically as follows:

- + The quantity of quotas that we are enjoying is still much lower than many countries: e.g. 5% of China's quotas and 10 -20% of ASEAN's quotas
- + The number of commodity groups that are restricted by quotas is still higher than other countries: e.g. 29 groups for Viet Nam, as compared with 20 groups for Thailand and 8 groups for Singapore.

In addition, the weak competitiveness of Vietnamese textile and garment products also reflect in the following aspects;

- + As we have just recently penetrated into these markets, the number of direct customers is still small. Despite being granted quotas, most of Vietnamese enterprises have to export through a third country in order to approach the EU market. Such commodity lots, as stipulated by the EU, shall not enjoy tax preferences. It is because of this restriction that many enterprises failed to sign the contract and "wasted" their quotas.
- + Although the number of quotas is limited, many high-technically required categories are still left vacated as no enterprises manage to meet requirements.

#### b) Regarding non-quota markets

Vietnamese textile and garment products exported to these markets also face many disadvantages as compared with other countries' products, e.g:

- + Our export earnings of these products to the US market is still tiny (e.g. USD 26.4 million in 1997 as compared with the US's import earnings of these products of USD 44,646 million in the same period). Meanwhile, the same period's export earnings of China, Mexico and Hongkong are USD 5,998 million (accounting for 13.4%), USD 5,246 million (9.9%) and USD 3,973 million (8.9%) respectively. In 1999, Viet Nam's export of textile and garment products to the US rose sharply, yet stayed at over USD 70 million.

Our biggest difficulty in exporting these products to the US is high tax rates imposed on imported goods. This can be explained by the fact that we have not been granted the Most Favoured Nation (MFN) status, or the Generalized System of Preferences (GSP) as most of our input materials are



imported and the trade agreement between the two countries has not been officially approved.

The US market often prefers to import textile and garment products in FOB term (direct selling). Meanwhile, Vietnamese enterprises tend to prefer sub-contracts, and therefore it will be very difficult to penetrate into the US market.

- + In Japanese market, our products have gained high credibility and the export earning to this market tends to increase strongly over the past years. However, being worried about this increase, Japanese enterprises have recently proposed their government to impose the quota regime on Vietnamese products. If such proposal is approved, it will further hamper Vietnamese products' competitiveness in the future.
- + In Eastern European and SNG countries' markets: These are the traditional markets for Vietnamese commodities in general, and our textile and garment products in particular. Previously, they are considered to be quite easy markets, but the situation has recently changed. Their tastes and requirements for quality have been heightened. In these markets, though we have not yet approached big customers, our textile and garment products have been consumed in considerable amount thanks to a broad retail network (mainly established by overseas Vietnamese). Recently, there have been many signs that this retail network has changed to consuming commodities from other countries such as China, Turkey... This can be partially explained by lower prices and more various designs of these products.

Another difficulty for Vietnamese products is that transport rates to these markets are quite high due to far distance from our country while the rail transportation (via China) to Eastern Europe is still blocked. This has played a role in raising our production costs and lowering the products' competitiveness.

Although all quota-related advantages or disadvantages (if any) shall be abolished by December 31, 2004, we will still face many disadvantages as we have not yet joined the WTO, specifically as follows:

- Being restricted by quotas even after the year 2004
- Being imposed higher tariff as compared with WTO members in some major markets

### *3.1.3 Poor designs; shortage of information, particularly the information on markets; therefore, exports mainly under the sub-contract form*

Our textile and garment enterprises have little information on markets and foreign production partners. Our network of commercial bureaus exists in almost all countries worldwide, however they have paid little attention on providing domestic enterprises with information on the market in general, and textile and garment market in particular, even the information on our big and traditional markets. Meanwhile, our enterprises are still financially difficult and cannot afford to participate in trade promotion events abroad, the information on international markets therefore is further limited. We have failed to foresee

and catch up with changes in designs and fashion to plan the production.

Presently, most of our textile and garment enterprises export products under sub-contracts (with the exception of Vinatex where 30% of exports is under the form of purchasing material, selling finished products), with a low localised content in exported products; imported material and additives accounting for over 70% of product's value, leading to low export efficiency; and the real added value gained from export of products represents only 25 - 30%.

#### *3.1.4 Unsatisfactory labour quality*

Viet Nam is considered to hold advantages in human resource for the textile and garment industry (with available quantity, low costs and good ability to absorb technologies...).

However, it is not really true in fact. It is easily noted that there is a big gap in workers' skills between domestic state and non-state enterprises.

The results of skilled workers' competition events yet failed to reflect the actual skill levels of the industry's workers as the number of skilful and highly productive workers is unconsiderable and mainly concentrated in the state sector, while the other majority are unskilful and therefore, unproductive (both in textile and garment industries). The average working productivity in our textile and garment industry is equivalent to only a half or two third of the regional average productivity. This has raised our cost prices and lowered the competitiveness.

Most of key staff in textile and garment enterprises are university or college graduates, with relatively high professional level, however their level in industrial- method management is still weak as well as they have few approaches to modern management methods. This has brought about a big obstacle against the production organisation and line arrangement in enterprises.

Weak skills are also reflected in the fact that, among many categories exported to the EU, most of enterprises only focus on some easily-made categories such as jackets, trousers, shirts... while high-technically required categories such as complets... are paid little attention.

### *3.2 Opportunities for Viet Nam textile and garment industry's development*

As aforementioned, challenges for our textile and garment industry's development on the path of international and regional integration are formidable. However, opportunities for the industry's development are also considerable, reflecting in the following aspects:

#### *3.2.1 Ever expanding markets*

##### *a) Regarding export markets*

The total annual trade value of textile and garment products in the international market records about USD 300 - 350 billion, accounting for over 6% of the world's total trade value. The growth rate of textile and garment products' trade has stayed high and stable during a long time period of about 10 years (from 1985 to 1995), and in 1995 reached the average general commodity trade's growth rate. In

1996, the share of the world's textile and garment exports to the total industrial exports gained 8.4% and its share to the overall exports gained 6.1%.

In general, the trade of textile and garment products spreads globally, but especially develops in 3 major trading centres (accounting for about 80 - 90% of the world's import and export value) that are Asia, Western Europe and North America.

The aforementioned information reveals that there is a huge potential for the textile and garment export markets. Particularly for Viet Nam, the unblocked US market will offer a great perspective for our textile and garment exports.

This is an opportunity that we have long waited. If we miss to grasp the opportunity and prepare all the conditions for our exports at a big quantity to this market at the beginning, we will be fall into severe quota restrictions as we have faced in the EU market.

Other markets such as the Middle East, Latin America, Africa are new markets that textile and garment exporting countries are looking in. Viet Nam should shortly examine to penetrate and establish a standing in these markets.

b) Regarding domestic markets:

Our current population is nearly 80 million and is going reach 90 million by 2010, the domestic market therefore offers a great potential for consumption products, particularly textile and garment products.

According to rough estimates, if our per capita GDP reaches USD 600 - 800 by 2005 and estimated USD 800 - 1000 by 2010, our annual consumption of goods will be raised to USD 250 - 350 per capita by 2005 and USD 350 - 400 USD per capita by 2010. As compared with the current annual consumption of goods of over USD 100 per capita, the figures will increase by 2 - 3 times by 2005 and 3 - 4 times by 2010. This shows that the demand for consumption goods in general, and for textile and garment products in particular will be very high in the coming years.

Therefore, Viet Nam's textile and garment industry should take appropriate measures to control the domestic market, avoiding the current situation where foreign products are dominant even in our "home market". Meanwhile, the opportunity for us to stand up does not last forever. The deadline 2006 for our integration with regional countries is coming, and Viet Nam's textile and garment enterprises are standing at a crossroad. We should shortly renovate ourselves so as to grow up and strengthen our position in the market, compete with foreign enterprises both in Vietnamese and regional markets, otherwise we will eliminate ourselves from the "playing game" if we continue to lean passively on the government's assistance. Every hesitation and retreat will lead to a lost opportunity and failure.

*3.2.2 Ongoing vigorous movement of capital and technology in the world*

As analysed in chapter 1, the global movement of capital and technology in the textile and garment industry is among the industry's basic features. At the moment, this movement tendency is at the 3rd

stage, i.e. from new industrialised countries to less developed countries such as China, Viet Nam, Indonesia, Philippines... Our FDI attracting policies is considered less attractive than other regional countries. Particularly, after the regional financial and monetary crisis, FDI inflows into Viet Nam in general, and into our textile and garment industry in particular, are declining seriously and yet failing to recover. Meanwhile, in other countries such as Thailand, Indonesia..., the pace of economic and FDI recovery is accelerating rapidly. As a fact of matter, without an attractive investment environment, investors will ignore Viet Nam and move to more advantaged countries and regions. In order to overcome such disadvantage, it requires not only the industry's efforts but also the government, through its policies and mechanism, to provide preferences in order to attract FDI into the industry and boost up its industrialisation and modernisation process.

### *3.2.3 Improving capacity in producing exported textile and garment products*

Thanks to expanding markets, our textile and garment export earnings have increased considerably for a long period. This success can be attributed to enterprises' great efforts in organising the production so as to meet requirements for quality and delivery time.

Presently, we are gradually losing our labour cost advantages against China and Indonesia, however in return, we are able to ensure the quality and especially the delivery within the shortest period. This is considered our textile and garment enterprises' biggest competitive advantage as compared with other regional countries.

Therefore, in the coming future, our enterprises should further improve the production organisation in an appropriate way so as to maintain our competitive advantages and preserve the workforce for the industry. This is both an opportunity and a challenge for the industry in the coming time.

### *3.2.4 Increasing trend of non-quota markets' expansion*

While facing many difficulties in quota markets, Viet Nam's textile and garment enterprises have, in many ways, gradually penetrated into non-quota markets, particularly the Japanese market.

In the current Vinatex enterprises' export structures, 60% of export earnings is gained from non-quota markets. Despite the modest value, this shows that Viet Nam's textile and garment enterprises, particularly Vinatex's enterprises, are really able to compete by the quality and price in the international market.

Such strength is not easy to achieve, therefore other enterprises, on such momentum, should follow the advance enterprises' experience examples so as to penetrate into non-quota markets and moderate the likely market tension in the coming time.

#### 4. Some concerned issues for the development of Viet Nam's textile and garment industry

##### 4.1 View point for strategy selection

There are many view points arising in the development course of textile and garment industry such as the view point on scientific and technological issues, ownership structure, export orientation... However, the analytical focus hereinafter will be on the most important view point, that is:

***Place the development of textile and garment industry in the overall development of industry and ensure an appropriate position for it in the following stage of industrialization and modernization.***

Textile and garment industry is a sub-industry in consumer product industry. Experience in many countries shows that in the initial stage of industrialization they based on textile and garment industry for taking off. The outcomes recorded by the Great Britain, Japan and NICs countries are typical example illustrating this.

In our countries, attributed to various reasons (including the fact that within the country there have appeared some new industries like oil and gas exploitation and other processing industries), the share of textile and garment industry has declined from 15.6% (1986) to 9.49% (1991) and 8.57% (1999) as compared to total production value by the industry as a whole. However, its share in nation-wide industry still ranks the 4th, after food and beverage processing, oil and gas exploitation and non-metal mineral product production industries.

The following table represents the share of textile and garment industry in nation-wide total industrial output value during 1986 - 1999.

Table 2 Production value structure of textile and garment industry  
in Viet Nam's industry as a whole

Unit: %

Indicators	1986	1991	1995	1996	1997	1998	1999
The industry as a whole	100	100	100	100	100	100	100
Textile and garment industry	15.6	9.49	8.82	8.27	8.62	8.61	8.57
Of which: Textiles	13.4	8.01	5.97	5.39	5.40	5.53	5.56
Garments	2.2	1.47	2.85	2.88	3.22	3.08	3.01

Source: Statistical Year books during 1986 - 1999

In the group of consumer goods comprising paper, food stuff processing, textile-garment industry, leather and artificial leather, textile-garment products account for a considerable proportion:

Table 3 The share of textile and garment industry's production value  
in the group of consumer goods

Unit: %

Group of industry	1991	1995	1996	1997	1998	1999
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Xenuloz paper	4.84	4.27	4.44	4.60	4.58	5.03
Food stuff	71.01	67.91	67.96	67.55	64.05	63.27
Textile and garment	22.70	20.00	18.94	18.81	18.97	20.43
Of which: Textiles	19.55	13.54	12.35	11.83	11.89	13.25
Garments	3.15	6.46	6.59	6.98	7.08	7.18
Leather and artificial leather	1.45	7.82	8.66	9.04	12.4	11.27

Source: Statistical Year books during 1986 - 1999

- > From the table, it can be seen that textile and garment industry ranks the second in consumer goods group, after food stuff (including various sub-industries like alcohol, beer, cigarettes, cake, candy and canned food...) and stands far beyond the remaining. In recent years, the share of textile and garment industry in consumer goods group has been gradually declining due to the rise of leather and artificial leather industry, but still placed at high rank. In 1999, it regained its share recorded in 1995. In the future, thanks to increasingly expanded market, this industry will still maintain its current growth rate.

With regard to its contributions to state budget, the textile and garment industry has still lagged behind many others like alcohol, beer and cigarettes. However, it has its own dominants, reflecting in the followings:

- With regards to export earnings, the export earnings by the textile and garment industry over the past 7 years have increased and jumped to the second (after oil and gas) in ten major exports of our country, advancing far beyond other exports in consumer goods products.
- Furthermore, the textile and garment industry is a labour-intensive one, employed a large number of workers with not very big investment and has been in the process of receiving transfers from East and South East Asia countries. Our country is in the process of accelerating industrialization with the availability of labour who are easily trained and therefore this can be considered as a production industry with the best potential for development. With present capacity of attracting about 800 thousand employees which will potentially increase in the future, the textile and garment industry together with other industries has been greatly contributing to generating more jobs thus relieve the burden for the society.

Material sources for the development of textile and garment industry are cotton and mulberry which in our country are capable of further being expanded. The textile and garment industry will strive for meeting about 70% of cotton requirements by 2010 and promote the export of seri-products. This will increasingly create opportunity for the industry to raise its export earnings and attract more labour force.

With all these potentials and advantages, it is necessary to place the development of textile and garment industry in the overall development of industry and ensure an appropriate position for it in the following

stage of industrialization and modernization.

In the following stage, specially after 2010 and 2020 when our country basically becomes an industrialized one, textile and garment industry may no longer hold such an important position in the cause of socio-economic development of the country as compared to the previous stage. However, it will still play a big role in accelerating the development of agriculture and other economic and technical industries.

## **4.2 Some concerned issues for the development of textile and garment industry**

### **4.2.1 Formulation of a correct product strategy**

Product strategy is a package of organizational, economic and planning measures for undertaking market and demand research, production arrangement, goods preparation and selling in accordance with clients' demands at the least business costs. The product strategy is formulated based on market share research, potential of enterprise and analysis of competitors. The product strategy is reflected in product and structure policies and at the same time is the objective of investment and a ground for identifying investment schedules. It is noted that market research does not only stop at identifying the market's capacity, but the most important factor directly affecting the business efficiency by enterprises is that with the identified capacity the enterprises must define their niche markets, i.e. the most appropriate products for development and production.

The capacity of export markets is great as identified, even very great. However, it does not mean that we can meet all the market requirements and therefore if we can not identify an appropriate product structure suitable to our equipment capacity, production technology and skills by labour, not any product by enterprises can be exported.

Some people pessimistically argue that Viet Nam is not capable of meeting the requirements of export markets because these markets especially big ones like EU, Japan, the United States require very high quality and their fashion and mode change very rapidly with some modes requiring very complicated equipment and technology.

This is partly true because their requirements are high but very diverse. Their diversification is the very base for Viet Nam's enterprises to select and find out their niche markets. We are not capable of tracing after for meeting sophisticated fashion and modes because they change very constantly, but we will focus on meeting the demand of middle class sections which requires relatively good and middle level of quality, or focus on products for which the demands do not vary much among different social classes. For example, for knitwear, such requirements as fine combed cotton fibres, anti-shrinkage processing... are common requirements for knitwear T-shirts. Whether T-shirt consumers are of middle or poor classes, at all ages, will have no demands other than such requirements which can totally be met by our current technology. Therefore, knitwear products should be focused on.

As a matter of fact, knitwear products of such companies as Hanoi Textile and Garment company,

Thanh Cong Textile, Nha Trang Textile... have been exported in large quantities.

Denim fabrics, which is popularly called jean, of different products such as trousers, shirts, shorts, waistcoats... has not changed in composition and density over centuries. Viet Nam is capable of producing and exporting this kind of fabrics, for example Phong Phu Textile. Towels can also be considered a key exporting product of our textile and garment industry, as this product does not require too high technological level.

Another example for this argument is men shirt that has not changed much in design over decades. This product is very familiar with us, gains a big export volume but is still produced in the form of sub-contracting. If the investment is focused on producing fabrics for men shirts, it will not be too costly and concurrently, the weaving and sewing stages will be linked together in a closed chain. Presently, shirt fabrics produced by Viet Thang, Dong A is very popular in the domestic market and also available for exports.

Therefore, the determination of product structure for each export market is a hard job which requires our great efforts.

This opinion can face oppositions that our selection of easily-made products which are appropriate for our production level will be the same as other regional economies' production intention, therefore we will face fierce competition. Indeed, in a market economy, different countries having the same export product structure is inevitable. Therefore, if we wish to win the competition, the solution will be to take advantage of cheaper labour cost as compared with other regional economies, concurrently to improve our productivity and product quality (thanks to our hard-working and skillful labour force), and even to accelerate the delivery date... So far, although the price no longer plays the determinant role in competition, it will still be, together with the product quality, among the most important factors that decide the success in competition.

In short, the ability to identify niche markets in the international market is an essential requirement to each enterprise as well as the whole textile and garment industry in Viet Nam.

In domestic market, the determination of commodity structure is not very complicated. However, the difficulty lies in price strategy and production assignment.

As for price strategy, so far, many enterprises have still decided products' prices in different markets mainly based on their production and circulation costs, rather than on market demands. In the coming time, the price strategy should be revised. Product prices should be calculated based on the demand of each market, each region and even seasonally adjusted (e.g. winter commodities should be sold at lower prices in early summer) or adjusted according to the product's life cycle (at the beginning of the cycle, prices should be lowered for promotion purpose, as well as at the end of the cycle, prices should be decreased to reduce the inventory). That means prices will be very flexible and based on consumers' felt value.



The production assignment and specialization will provide the best condition for enterprises to plough their investment, renovate technologies and equipment and improve the workers' skills so as to better meet the market demands.

At present, in Viet Nam's textile and garment industry, the aftermath of a long period of unorganized development is reflected in too much diversified enterprises and a too little unified branch.

In fact, over the past years, we have made some efforts in establishing a product strategy, however it is still confined to papers and in conference rooms. The construction of a product strategy is mainly called for but has not been put into implementation as it is not based on the practical situation in enterprises as well as lacks a unified direction.

In the coming time, the product strategy should be established at as soon as the enterprise level and based on their comparative advantages. After that, the strategy will be generalized and revised at the corporation level, avoiding the market overlapping or abandonment.

The establishment of a product strategy should aim at identifying strategic products of each enterprise, forming a system of mutual supplementary products. If the production assignment is well conducted, the competition among enterprises, at least within the Viet Nam Textile and Garment Corporation (Vinatex), will be resolved.

#### *4.2.2 Build up a multi-layer industrial and technological structure, improve the co-operation and linkage between textile and garment industries.*

The trend of international and regional integration is irreversible. Therefore, in the coming time, the investment should go in the following basic direction:

##### *a) Heightened specialization in each enterprise and diversification on the whole branch's scale:*

Heightened specialization will be an important orientation for each enterprise's investment. Specialization based on the market demands and the branch's production assignment will lead to the fact that several enterprises have the same key products. In such case, we should take advantage of the economic scale in order to establish the linkage as well as to make best use of technological and equipment capacity of enterprises at close locations.

In order to fulfill this task, each enterprise, after identifying its key products, will focus its investment on weak stages that are determinant to its productivity and product quality. The corporation will have to assist enterprises in implementing their investment programmes when the enterprises face difficulties.

Diversification on the branch scale is the basis for the branch's production investment by multi-layer technological structure. In particular, some important links in the technological line that are determinant to the product quality, such as spinning and finishing, should be invested with modern technologies and organized on an industrial production scale. The remaining links such as product weaving, sewing... can be organized both in centralized and dispersed manners, with different technological levels from manual or semi-mechanical, mechanical to automatic, depending on each

product and target consumers. Multi-layer technology investment will save investment capital and provide an important precondition for the economic - technological linkage among enterprises, leaving aside whether an enterprise is central or local, state-owned or of other economic sectors in the same territory.

Moreover, such investment will take full advantage of domestic and external resources on different scales, both in terms of capital and labour, allowing to quickly meet various and ever higher domestic market's demands in terms of quantity and quality, concurrently providing an approach to foreign markets for export development.

b) Investment aimed at reducing the imbalance in the whole branch's production capacity and strengthening the linkage between the textile and garment industries:

The investment direction in the coming time will combine in-depth and in-width investments. Firstly, the focus will be in-depth investment so as to reduce the imbalance between links, especially between the 2 links of spinning and weaving. Concurrently, we should mobilize foreign capital sources to enrich the investment if possible. Specifically as follows:

- Spinning: The production capacity is quite high, however due to outdated machinery and equipment as well as the rough fiber percentage of 60%, the fiber supplies for knitwear and high-quality fabrics weaving still face difficulties. Spinners that have been in use for over 20 years should be gradually replaced, while spinners that have been newly invested since the 1980s should be upgraded.

Spinning enterprises should be re-planned towards deeper specialization, the investment should be focused on several enterprises that supply high-quality fibres for the whole branch.

- Fabrics weaving: Investment should be strongly focused on weaving in order to balance with spinning capacity and produce high-quality fabrics for export, establish the linkage between textile and garment industries. In order to meet the target, the investment should be towards deeper specialization in each enterprise as mentioned above, concurrently transferring outdated machinery to rural areas in order to take advantage of land, premise, labour... resources, following the policy on organizing the production by multi-layer technological structure.

In parallel with the discharge of some types of weaving machines, all other equipment such as starching, racking machines... should be renovated so as to be compatible with newly invested modern weaving machinery.

- Dying, finishing: 50% of the equipment need to be replaced in order to produce high-quality products such as fabrics for making shirts, jackets, trousers... Individual equipment should be restored, upgraded, supplemented in order to complete the whole line.

Dying and finishing is the stage that requires modern technology and huge investment capital. Therefore, investment should be concentrated at large scale following the principle of establishing

high quality and modern centres for printing, dyeing, processing and finishing in regions. Investment under this form will create conditions for both concentrating capital in modern technology and solving the problem of environmental pollution.

- Sewing equipment: Machines that have been in use for over 10 years and/or technologically outdated (representing about 20% of the total equipment) should be replaced as soon as in the early next century so as to ensure the production efficiency and catch up with the international fashion development trend.

Small garment enterprises should be strongly developed on the national scale so as to meet the trend of export market expansion and domestic market diversification.

The investment, aimed at reducing the imbalance in the branch's production capacity and strengthening the textile - garment linkage, should be reflected in focusing the investment on fashion design, including material design (fabrics sample) and product styling (fashion). In this area, instruments for technological design and testing production should be adequately invested to meet the requirements of carrying out researches and developing new products. Thus, the investment in modern machinery and equipment in production stages can bring about a practical output of new products for the market.

The textile - garment linkage can also be implemented through the co-registration of a single trademark in the international market by textile and garment enterprises (for garments made from domestic fabrics). Thus, the cost will be lower for both the two partners, concurrently textile enterprises will be provided with opportunities to access to international market while they have not yet had conditions for direct export of fabrics .

In conjunction with the in-depth investment, the branch should be in-width invested, the production should be developed so as to meet the target by the years 2005 and 2010. (These targets should be re-adjusted in line with the practical situation and avoid depending on subjective opinions or running after quantities, which will lead to unscientific investment orientation in the future). However, in order to reduce the imbalance in the whole branch's production capacity as well as the redundancy in individual enterprises' production capacity, there is a need for asset re-allocation among Viet Nam Textile and Garment Corporation's (Vinatex) enterprises, in line with the policy on heightened specialization. Moreover, even though enterprises have invested equipment and technologies in the production of a specific product but the efficiency is low and difficult to improve, both equipment and technologies should be transferred to more efficient enterprises. The overall branch's benefits should be of higher importance than the individual benefits of each locality or enterprise.

The investment objectives for each specific stage are as follows:

- The period from 2000 to 2005: The investment is mainly focused on capacity synchronization,

concentrated on weak and insufficient links so as to basically meet domestic consumption demands, preparing conditions for the bold move from sub-contracting export to the export in form of purchasing materials - selling finished products (FOB). At the end of this stage, the FOB export earnings will be raised to 50% of the total branch's export earnings (at present, Vinatex's enterprises have gained the share of FOB export earnings in the total export earnings as follows: Textiles - 70% and Garments - 36%).

Viet Nam's textile and garment industry should gradually establish its position in the international market by purchasing the copyright of well-known textile and garment trademarks, focusing on high-quality production and exporting to the international market. The successful example of Viet Tien garment company re-buying Pierre Cardin trademark should be broadly studied. However, this solution can face the difficulty of the serious copyright piracy in Viet Nam that will lead trademark owners to sue against Vietnamese enterprises on the copyright piracy. So far, no solutions have been found yet to resolve this problem.

In-width investment should be restricted if the current production capacity has not yet been fully exploited.

The period from 2006 to 2010: Investment should be focused on expanding the production, meeting the domestic demands in terms of products' quantity, quality and categories. Non-traditional technologies such as technical fabrics production, fiber and fabrics processing so as to create their desirable characteristics, or energy-, water- and material-saved processing technologies... should be gradually put into application. As for export markets, exports should be expanded to non-quota markets mainly by purchasing materials and selling finished products. Key textile and garment products' position should be strengthened in the international market.

According to specialists' calculations, the investment, both in-depth and in-width, in developing the textile and garment industry by the year 2010 will amount to billions of USD, equivalent to dozen thousand billions of VND. In the current context, 65-70% of the investment capital will be attracted from external sources, through the form of joint-ventures or 100% foreign-invested enterprises, or credit loans, grants... Domestic sources can meet only 30 - 35% of the capital demand. Therefore, in addition to attractive policies on mobilizing foreign investment capital, there is a need for special policies on encouraging domestic investment.

The current situation of the branch's state-owned enterprises is that, in spite of great demands, the enterprises are hesitant to invest due to high risks, troublesome evaluation and lending procedures.

c) Production arrangement in the whole economic-technological branch

Production activities should be organized and assigned on the branch scale towards strong specialization and co-operation. That means central state-owned and some local state-owned enterprises,

thanks to modern equipment and technologies as well as skilled labour, will take the role of producing sophisticated goods, providing materials (spinning) or sub-contracting, dyeing, completing products for other enterprises. Local small-size enterprises or other economic sectors will play the role as production satellites around big enterprises. Thus, the branch's network of textile and garment enterprises by all economic sectors will form a system to assist each other in developing.

The vertical production organizational structure including satellites proves very efficient: A mother company can include many satellites who produce the same products, which in turn will be gathered and sold under a single trademark of the mother company.

By this way, the mother company can get many benefits, such as lower labour pressure as it can hire labour when necessary without signing permanent labour contracts, concurrently big investment in equipment is not required. On the contrary, the satellites will get stable employment (thanks to the mother company's stable markets and advanced management experience), and will be partially assisted in capital by the mother company. An affiliate can play the role of a satellite for different mother companies.

In recent years, this linkage model has successfully applied in several textile and garment enterprises, particularly not only such state-owned enterprises as Viet Tien garment, Ten garment, Duc Giang garment, Hanoi textile, Phong Phu textile... but also non state-owned enterprises such as Hong Quan textile, Binh Minh textile...

However, in order to ensure the success, it is necessary to establish a close two-way relation between the mother company and satellite companies such as notifying regularly about production plans and exchanging opinions on products' quality.

- In order to improve the investment efficiency and strengthen the linkage among the branch's enterprises, textile and garment production centres should be gradually established in different regions and areas. In each region or area, some enterprises will take the key role in specific areas such as spinning, dyeing - finishing. The production organization can be as follows:

- + In concentrated areas, it is better to develop the horizontal specialization (fiber, weaving). Specialized textile factories of different sizes will buy fibres and weave mainly low- and medium-quality products for domestic market. In addition, some textile complexes (in vertical relation) will be constructed in order to specialize in high-quality fabrics for domestic and export demands.
- + In non-concentrated areas, in order to save transporting costs, the production should be organized in vertical relation (fiber - weaving combination) but not on a large scale, specializing mainly in products that do not require high technological level such as different kinds of towels, low- and medium-quality fabrics for domestic consumption.

Small enterprises should be strongly developed in conjunction with handicraft villages, particularly

villages traditionally specializing in embroidering, weaving and sewing... in order take advantage of rural labour and traditional experience.

- The capital accumulation process at Vinatex over the past time has been conducted smoothly and gained some achievements. These achievements, on one hand, can be attributed to the enterprises' investment in improving their production capacity through the establishment of member enterprises (operating as a satellite in provinces) so as to meet their development requirements, and on the other hand, can be explained by the willingness of ailing enterprises in merging with big enterprises. Moreover, Vinatex, in its development into a powerful corporation, has been strengthened in production capacity by the voluntary joining of many local state-owned enterprises.

In the coming future, based on experience drawn from the previous period, the branch's capital accumulation process will continuously be implemented through voluntary joining. Some ailing enterprises that cannot survive will join voluntarily in more powerful enterprises.

However, it should be stressed that administrative measures need to be utilized. The textile and garment production should be soon organized in a way so that there will be no distinguishing between central state-owned and local state-owned enterprises. Local state-owned enterprises will play the role as a member operating directly under Vinatex's direction and production assignment. In the course of proprietorship diversification, on one hand, existing state-owned enterprises will be equitised, on the other hand, the corporation will join its capital in new projects, including the equitised enterprises' voluntary joining in the corporation. Thus, Vinatex will gradually grow into a powerful corporation.

#### *4.2.3 Investment in material supplying regions and additives production development*

Materials and additives are production inputs. Without stable supplies of materials and additives, the production cannot develop in a stable manner. Moreover, it should be stressed that the textile and garment industry's development orientation is sharply export-oriented, while the export capacity is greatly affected by the origin rule (if domestically produced materials and additives are utilized, more export preferences of quotas, export duty... will be available). Over the past time, due to different causes such as limited technological level, capital and notably low production organization level, the production of materials and additives still face many shortcomings, although great efforts have been paid.

For recent years, this activity has been paid more attention. However, there has not been yet a comprehensive and compatible development strategy among branches and ministries. Therefore, in the coming future, a material development plan should be established for different kinds of fibres as well as for the production of some key additives, leading to basic self-supply of different kinds of fibres and some key additives for production in the future. Specifically as follows:

##### *a) Cotton*

Every year, in order to meet the production requirements, a large amount of foreign currency worth

USD 90,000 is paid for the import of 80,000 tones of cotton fibres (1999's figure), excluding nearly USD 200 million for fibber import. As being imported from different sources, the cotton quality is unequal, leading to complex mixture of materials and negatively affecting products' quality. If domestically produced cotton is utilized, we will be independent in material supplying, save hard currencies and balance the import and export earnings. Moreover, the land and labour potentials will be exploited in different regions nationwide.

Presently, the cotton growing area nationwide is over 17,700 ha and will be expanded up to hundreds of thousands of ha in the future. However, in general, the cotton growth is still at a low pace and faces many difficulties.

The utilization practice shows that Vietnamese cotton fibres are of the similar quality to grade 1 cotton (under the former Soviet Union's standards), but still need to be improved in terms of equality, ripeness and subagents.

In order to absolutely resolve the problem, it should be agreed that the cotton will be considered an important strategic industrial crop with a target that Viet Nam will self-supply 40% of cotton material for the textile and garment industry by the year 2005, and 70% by the year 2010. To meet the target, firstly, the cotton development should be included in national focal development programmes with policies on providing capital, credit, technology preferences, concurrently following basic issues should be resettled:

- Mobilize all capital sources from the centre, localities, public and even foreign sources for the cotton development.
- Draw up specific policies on agricultural extension such as providing capital assistance, lending capital in advance or protecting producers.
- Arrange the production co-operation, guarantee the stable and long-lasting purchase of products between Viet Nam Cotton Company and textile enterprises.

Viet Nam Tobacco Company's experience in developing tobacco regions should be learnt and followed.

b) *Natural silk*

Seri-culture is one of our traditional occupations. In 1992, the mulberry growing area is 35,000 ha with the output of 850 tones of very fine silk. However, due to inadequate attention, the silk growth is at a low pace with the output of only 1,400 tones in 1994. In recent years, the output has been raised up but still less than 2,000 tones and much lower than the demand. On the other hand, textile products made of domestic natural silk are still limited and of low quality. At present, we have only exploited this precious material mainly by exporting materials, leading to low economic efficiency. In the future, in order to improve the economic efficiency, equipment and technology should be provided for processing higher-quality products for export. There is a need for the technology to process waste silk

into spunsilk of which the export value is not much less than that of very fine silk.

c) *Synthetic fibres and dying agents and chemicals*

Presently, most of synthetic fibres are imported at the annual volume of about dozen of thousands of tones that cost about USD 50 million. Under the expected material utilization structure by the year 2010, in which mixed fibres account for 30% and synthetic fibres represent 30%, the demand for synthetic fibres by the year 2010 will amount to nearly 100,000 tones. Presently, there are two 100% foreign-owned enterprises specializing in synthetic fiber production. However, their production almost come to a standstill due to plummeting synthetic fiber price in the regional market. In addition, our main dying agents and chemicals must be totally imported. At present, Viet Nam has established an oil refinery project in Dung Quat to take advantage of its oil resource. Therefore, the production of synthetic fibres and some main dying chemicals by the year 2010 promises a bright future. The branch should make proposals to the Government as well as co-ordinate with state agencies in an attempt to accelerate projects' progress, allowing to partially self-supply such important materials as soon as possible.

d) *Additives*

The organization of additive production is still improper due to the lack of experience and a master plan, and therefore investment projects over the past time mainly go in individual direction of each enterprise (luckily, some projects have been successful). In the coming time, the additive production should be shortly re-planned, avoiding the spontaneous investment which will lead to such capacity redundancy as in the textile and garment industry over the past time. At the very first, the production should be focused on products of heavy demand such as buttons, hooks, zippers, labels of all kinds. The additive production does not require high technology but the problem lies in the lack of capital. An individual enterprise can have difficulties in production, however, with the branch's assistance or the co-ordination among enterprises, such shortcomings will be resolved in a few years.

In short, the investment in material and additive production will not only help us to be independent in production and improve the domestic production value for textile and garment products, especially export products, in order to receive origin preferences (such as the Generalized System of Preferences - GSP) at the entry into some major markets like the EU, the US... but also of great importance to us in creating employment for the rural area, transforming the economic structure in agriculture and accelerating the current agricultural and rural industrialization process.

Therefore, preferences and incentives such as prioritized quota allocation, rewards derived from the export subsidy fund should be provided for enterprises that utilize domestic materials in their exporting production. In addition, enterprises should take their initiatives in introducing to foreign customers the materials and additives that can be domestically produced in order to foster the exports and limit the imports. By this way, the domestic material and additive production will have great development opportunities.





**Viet Nam's Textile-Garment Industry in the Context of Integration:  
The Selection of Development Policies for the Future (The General Report)**

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## Preface

Textile-garment industry is considered as one of the key areas of Viet Nam industry development in the era of speeding up the national industrialization, modernization. Being one of the sectors that has the longest history of development, it has been considered as having rather-powerful potential for development. In the development process, under either the central-planning mechanism or the market mechanism with state management, government macroeconomic policies always play an important role in the Textile-garment industry's development and efficiency. New development circumstances create both opportunities and challenges for its development. The innovation of trade and industrial policy for providing policy support to the efficient and sustainable development of the industry is considered as an urgent task.

Hence, sponsored by JICA, the groups of National Economics University's researchers and Japanese experts have cooperated to study the issues titled "Viet Nam's textile-garment industry in the context of integration: The selection of development policies for the future".

The research objective is to estimate the impact of some government macroeconomic policies on the development of Textile-garment industry, and on this basis to put forward recommendations about innovating those policies for the development of Textile-garment industry in the context of new conditions.

## Part 1 Advantages and basic conditions for developing the textile-garment industry of Viet Nam

Textile garment industry is an important sector in the first period of industrialization in many countries including Viet Nam. Having specific advantages such as not so much capital needed for investment and short payback, labor consuming, and a wide range of opportunities to expand domestic and foreign markets with the participation of various economic sectors by ownership, at present textile and garment industry of Viet Nam is considered as a key and efficient manufacturing sector.

In the course of the country's socio-economic development, textile-garment industry has been of the Party's and Government's concern and assigned an important position in the development policies related to the consumer goods sectors. The document of 8th Party congress has affirmed the need "... *To strongly develop light industries especially textile, garment, leather, footwear, paper, handicrafts. To invest for modernizing of technological lines, improving the quality and competitiveness of product. To gradually change from the CMP forms of textile, garment and leather goods into buying raw materials for the export production, to pay attention on raising the marketing abilities in order to expand the market. To overcome the backward of the fiber and textile industries...*"<sup>1</sup> The documents of the 9-th Party Congress also indicate the need of "...*developing those sectors that have competitive advantages, and that have been able to share the domestic market of essential consumer goods and promoting export, such as agricultural, forest and seafood processing, garment, leather, footwear and some other machinery and consumer products...*"<sup>2</sup>

At present, along with the trend of regional and international economic integration, there has been a serious competition among the textile- garment producers aiming to win and control the market. After the first period of integration process, in preparing for the new period of a perfect and comprehensive integration, there are great challenges for textile-garment industry of Viet Nam. Therefore, the matter is to have a correct and comprehensive perception on advantages of this industry, in order to timely and effectively decide about orientation and policies for its development.

### 1.1 Human resource

This advantage can be explained as follows:

- ***Viet Nam is a country with clouded and young population in the region and in the world.***

By 1/4/1999 the population of this country is 76,327,900 persons, in which, people of working age is over 43.8 million.<sup>3</sup> The population of Viet Nam now is ranked as the 13th nation in the world and 2nd

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<sup>1</sup> Documents of the 8th Party Congress, National Political Publishing House, Hanoi, 1986.

<sup>2</sup> The draft document to submit 9th party meeting, page 42

<sup>3</sup> The draft strategy to develop education and training up to 2010 for modernization and industrialization (general document)  
- Ministry of education and training, page 2.

one among ASEAN countries (behind Indonesia). Every year about 1.5-1.7 million young people enter the labor force that contributes to the existing large and powerful working forces.

A rational, full and effective use of that plentiful labor force will create favorable condition for developing the textile-garment industry.

In addition, the numerous population can also form a large market that needs garment and textile goods.

- ***There have been positive movements in the quality of the human resource.***

This can be seen via obvious improvements on health, cultural standards and technical education and skills of human resource of Viet Nam in recent years.

On the health issue, if prior to 1990, the healthy status of Vietnamese people was evaluated as of average and weak level, since 1990 up to now there have been many positive changes. Malnutrition of children reduced quickly, the people's living standards have been improved so that increased kcal/ person/ day level.

The advantage in human resource of Viet Nam is also manifested through high cultural standard of labor force. Statistics show that the rate of literacy of labor force increased from 91.3% in 1989 to 94.9% in 1997. The rate of illiterate people reduced from 8.7% to 5.1% respectively. Nowadays, nearly 94% population over 15 year old are literate. All cities and provinces in Viet Nam meet National standards in erasing illiteracy and universalizing primary education. The average year of children going to school is 7.3.<sup>4</sup>

In comparison with countries in the region, while considering the difference on social economic conditions, the ratio of literacy and years of attending school of the Viet Nam's labor forces are rather high, even higher than that of China and Singapore with a higher than Viet Nam level of development. At the same time, the ratio of learning in school among the labor force is rather high (91.6% in 1997).

The changes in the structure of human resource by education levels has also changed positively, for the rate of primary and secondary school graduates increased from 30.5 and 8.9% (1989) to 60.51 and 14.14% (1997), the rate of those having not passed primary school is significantly reduced from 46.2% (1989) to 20.26% (1997) [see appendix 1]. Beside, appendix 1 shows that the structure of labor force by education levels in rural and urban areas becomes more and more rational, especially in urban area.

***Another element reflecting the improved quality of Viet Nam human resource is the professional, technical degree of labor force.***

Considering the quantity, the professional degree of labor force has been increased [see appendix 2].

However, there exist inconsistent problems in professional and technical education levels of Viet Nam's labor force, namely: the share of those with professional technical higher diploma increased more

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<sup>4</sup> The draft strategy to develop education and training up to 2010 for modernization and industrialization (general document)  
- Ministry of education and training, page 2.

than that of technician, technical worker, resulting in the situation when "trainers are more than workers, and lack of skilled workers". There has been a shortage of skilled labor, in 8 years, 1989-1997, professional technical force increased only by 2% and the share of those without professional techniques accounts for about 90% of labor force.

In 1996 in the industrial sector the share of labor without skills was 67% and that with low skills was 33%. The ratio of educated workers was low and the ratio of participants of professional schools fell (1). The education level of workers is low, at present there is still about 20% that have not passed secondary and 53% have not passed higher school education. Workers without foreign languages shares (86% in term of English, and 98% of other foreign languages). Workers with high skills (class 5 and onward) is less than those with lower class of skill, 25.10% versus 31.25% [see appendix 4&5]. Beside, there are some other limits about professional and technical levels between urban and rural areas, different regions and economic sectors [see appendix 6&7].

However, because textile-garment industry is to use simple labor with no demand for high professional technical level, we can affirm that although there are still limits that needs to be overcome, but Viet Nam human resource are of a basic and important advantage for the development of textile-garment industry in coming period. The problem is to have policies on effective and rational use of the resources in parallel with the organization of education and training forms aiming to raise professional and technical levels of the labor force.

*The worker prices in the Viet Nam's textile-garment sector is lower than that of other countries.*

The wages level in Viet Nam textile-garment sector calculated to USD at present is lower than that of countries in the region.

Table 1 Labor wages in textile-garment sector of several countries.

(Unit: USD/Hour)

Japan	French	USA	UK	Taiwan	Korea	Hong Kong	Singapore
16.31	12.63	10.33	10.16	5	3.6	3.39	3.16
Malaysia	Thailand	Philippine	India	China	Indonesia	Viet Nam	
0.95	0.87	0.67	0.54	0.34	0.23	0.18	

Source: Viet Nam Garment - Textile Corporation

However, there is an opinion that the wages of worker in the textile garment sector of Viet Nam is higher than that of several countries with developed textile-garment industry such as China and Indonesia with conclusion that Viet Nam has no competitive advantage in term of workers wage.

In our opinion, when comparing with Indonesia, we need to take in to account the depreciation of local currency (Rupiah) followed by the financial crisis in 1997 and rather high inflation in this country (in 1998 was 59.8% and in 1999 - 22.7%). The excess supply of labor caused by the restructure and merger process of enterprise after the crisis (in 1999 there were about 6.1 million labor waiting for job)

which obviously results in low wages in Indonesia. But considering for long term, when the economy of Indonesia becomes stable and developed, the wages will have raising trend and we may lose the current competitive advantage.

When comparing the wages with China, by our viewpoint, it is necessary to examine some elements: First, China is a country with strong development of textile-garment industrial sector in localities, rural areas—where there is rather populous and labor supply is always higher than demand; Second, it should have the discrimination of wages between textile and garment sectors because basically the textile sector needs only to use labor with low skill, popular labor, but the garment sector needs skilled labor. Meanwhile, the textile sector in Viet Nam is too small compared to other countries, especially to China, in reality we are now developing mainly the garment industry [see appendix 4]. Therefore, comparison of worker wages in textile-garment sector between two countries is not suitable, it is necessary to separate wages for textile and garment sectors in order to compare with consideration about regional elements (urban, rural area).

By our evaluation, when countries of ASEAN and other countries are still importing a certain amount of Vietnamese textile-garment labor, it clearly shows that the low *price of labor is still an advantage of Viet Nam human resource. But in coming time this advantage may be reduced gradually if we would not implement measures such as raising productivity and skill of labor to consolidate this competitive advantage.*

## **1.2 Investment features: Viet Nam's textile-garment industry does not require big investment and too complicated technology, with low capital ratio and fast payback, suitable for small and medium scale of Viet Nam**

Naturally the textile-garment sector is a small-scaled industry, therefore its capital ratio is much lower than that of other, especially heavy industrial sectors, equivalent to 1/10 of the power sector, 1/15 of the machinery sector and 1/20 of the metallurgical sector.

In manufacturing industry of consumer goods in order to create a new job, the textile industry needs only about 15,000 USD, the garment industry needs about 1,000 USD, while the paper sector needs nearly 30,000 USD.

Moreover, due to short time of manufacturing and selling products the payback period of the textile-garment industry is much lower than that of other industries. Commonly, the payback period of the textile sector is 12-15 years, of the garment sector is from 5 - 7 years, while that of other industries is over 15 years, even more in such industries like steel sector.

Because of not too complicated manufacturing technologies and easy training of labor for the textile-garment sector, the production organization of textile, garment enterprises in forms of small and medium scales is quite suitable for the Viet Nam's geographic, economic and social conditions. This is also an



advantage for the development of textile-garment sector in coming years.

### **1.3 Tendencies of shifting from developed to developing countries**

As a late coming country, Viet Nam has favorable conditions in inheriting achievements of developed industrial countries. Hence, the tendency of shifting the garment-textile sector from developed countries into developing countries with the competitive advantages in labor force and prices has created for Viet Nam opportunities to develop this industry.

The development history of garment-textile sector of the world is also the history of transferring the textile-garment industry from developed regions to less-developed regions due to the impact of comparative advantages. This does not mean that garment-textile production no longer exist in developed countries but it has approached to a higher level, that is producing higher quality and value commodities containing high technology and intellectuals.

Studying the development history of the world garment and textile industry, we see that it early appeared in the United Kingdom at the end of XVIII century and there has occurred the first shift from the U.K. to other countries in Europe. The second shift is from Europe to Japan in 1950s in the period of the post 2nd world war.

From 1960s, when the production cost in Japan significantly increased and there was lack of human resource, the garment and textile industry was transferred for the third time to Newly Industrialized Countries in Asia such as Hong Kong, Taiwan, Korea. Up to 1980s, when Eastern Asian Countries gradually shifted into production of high-tech goods such as: Automobile, civil engineering, electronics... the comparative advantage lost, together with the speeding up of capital investment to overseas countries, NICs and developed countries have forced to shift this industry to developing countries such as ASEAN, China and South-Asian countries.

Process of garment-textile transferring has been also implemented among inner areas of a country. Initially, the garment-textile industry is always focused on urban areas due to advantages in infrastructure, labor skills, trade. However, it has been gradually lost the advantage on labor and worker price, to keep the comparative advantage, the garment-textile industry must shift step by step to less-developed urban areas and rural areas.

Therefore, the shifting process of garment-textile industry is obvious, so making maximum use of this shifting process is an advantage and fundamental condition to develop the garment-textile industry in coming period. The notable issue is that Viet Nam is obligated to implement policies, measures of "taking a short cut—going ahead of world trend movements", on the one hand its is to meet the shifting process from other countries, on the other hand it is also necessary to train high-skilled workers, investing into technology and science to produce the commodities with high intellectual content, high grade of quality like in high - development stage of the garment-textile industry in developed countries.

#### **1.4 Long tradition: Garment-textile industry owns long-traditional in Viet Nam and currently it holds a certain position in the World market, especially markets of developed countries**

The historical documents show that, the Textile industry was initially formed in XII century in Red River delta.

In this place, areas of raising silkworms sashes Hung Yen, Thai Binh ... Cotton plant was also cultivated in mountainous areas of the North of Viet Nam and in some provinces such as Ninh Thuan, Dong Nai . But up to 1889, it marked the official development of Textile Industry in Viet Nam since the French established Nam Dinh Textile industrial zone.

After the 2nd World War, textile-garment industry strongly developed, especially in the South with advanced equipment and technology of Europe and in the North with technology of China, Soviet Union and Eastern Europe. Rebuilt Peace in 1975, under the renovation lines of the party, textile and garment has been increasingly developed and holds the significant position in the development structure of industrial production of Viet Nam.

The History proves that Vietnamese people have the old-aged tradition on textile and garment. From the feudal period there were many handicraft village formed and manual craft organizations. Generally, industrial organization of this period included 02 forms: State form governed by the feudal state, traditional form focused on internal streets and surrounding wards and communes. Besides, it is also mentioned handicraft village, in peasant household-villages as the secondary job in the family.

Textile villages in West Lake at present such as Trich Sai, Bai An, Yen Thai, Nghia Do has been renown in the dynasty of Ly Cong Uan (1010). In "*Du Dia Chi*" Book in century XV, Nguyen Trai listed name of Nghia Tan and Thuy Khe villages that were famous from Ly, Tran dynasties for fresh silk weaving technology and according to "*An nam chi nguyen*" written by Cao Hung Trung a Chinese author, in Viet Nam in XV century, the weaving worker of the country produced white silk with width (of 1 meter).

Hence, Garment and Textile Industry owns the old-aged tradition in Viet Nam. Currently, garment-textile products of Viet Nam have been consumed in the World markets including markets of developed countries such as Japan, EU, the United States and some other countries of SNG and Eastern countries. Therefore, the traditional factor and market are great advantage in process of garment textile development of Viet Nam in coming period.

#### **1.5 Favorable geographic positions: Viet Nam is a country owning the favorable geographic positions that contribute to the garment-textile industry development**

Locating in the East of Indo-China peninsula, near the South East Asia center, Viet Nam belongs to Asia-Pacific region. This is the most flexible region of the World at the end of XIX century and the beginning of XX century. With area of 330 363 km<sup>2</sup> of land and large area of sea spreading along the border length of 3260 km with some hundred thousand islands. Viet Nam is covered by sea in the East, the South and a part

of the West. Sea face China, Philippine, Malaysia, Indonesia, Thailand, and Cambodia.

Therefore, regarding marine route, Viet Nam is like a large port that easily exchanges economy and culture with different countries of the World. This condition facilitates the commodity transportation by sea route, helping to minimize transportation fee, creating advantages in competition on price with different countries.

The land of Viet Nam with the North faces China, the West faces Laos and Cambodia that facilitate the road transportation, railway and opening the frontier pass of commodity business. The natural condition of Viet Nam has also many advantages in developing the industry of cotton planting, raising silkworms for the development of garment-textile industry.

Besides, Viet Nam has also many development potentials of chemical production and construction materials, important industrial production areas and tourism. Development of these sectors has significant affect to support in development of garment-textile industry.

#### **1.6 Overseas Vietnamese: Due to condition of specific politic and economy, Viet Nam has a large number of overseas Vietnamese, facilitating the development of garment-textile industry**

Currently, Viet Nam has a large number of Vietnamese oversea in foreign countries, in which focusing on countries such as the United States, Australia, Russia, France and EU nations, thus, this number of Vietnamese oversea can be the source of supplying finance and the market consuming commodity as well as seeking, marketing and expanding market for garment-textile products made by Viet Nam in the coming period.

This is also an advantage need to be effectively exploited.

#### **1.7 Old aged and diversified cultural tradition: Viet Nam is a country owning the old aged and diversified cultural tradition, exploiting this factor in development of garment-textile industry is a comparative advantage**

Due to character of garment-textile product have the short life, carrying character of fashion and under the impact of cultural factors, custom, religion, climate, gender, age etc. with characters of Viet Nam whose various and diversified culture, Vietnamese people is very sensitive with the wearing, so in coming period when garment-textile products gradually transfer from commodities containing low intelligence, not owning fashion and cultural character into the intelligence and cultural content, the issue of exploiting the national identities of garment -textile enterprises are of great importance and owning advantages of approach and exploitation against the foreign enterprises. This is also a very significant advantage helping textile-garment enterprise to exploit the domestic market.

## 1.8 Material basis: Development of textile-garment industry owns the positive sense to promotion of agricultural development capability to provide the materials

Currently, most of secondary materials of textile-garment industry of Viet Nam such as cotton, combined fiber, dyeing chemicals... are still imported, this reason reduces the competitive strength on price of Viet Nam export goods and restricting the initiative in the production of concerning enterprises. Whereas, Viet Nam completely owns the foundation to construct and develop area of cotton materials due to the favorable condition of land, climate as well as fiber material such as PE and silk PE due to Viet Nam has oil fields and petrochemistry project in Dung Quat are constructing.

Besides, occupation of raising silkworm, mulberry is also the old-aged traditional of Vietnamese people, thus, development of silk material is quite reliable.

**Conclusion:** Textile-garment industry of Viet Nam now concentrate and gather 03 factors, they are: **clement weather** (shifting of this industry from developed countries to developing countries, competitiveness superiority on laboring price); **favorable terrain** (favorable condition on geography, nature, culture, human resource and old-aged tradition, policies adopted and paid by the Party and the State to textile-garment industry); **concord among the people** (textile-garment enterprise has been increasingly strong and holding a certain status in the World market). The concerning issue is how to exploit and combine such factors to obtain a rapid, effective and sustainable development in the near future.

## Part 2 The present situation of textile-garment industry and the impacts of some macroeconomic policies

### 2.1 The overview of development situation of Viet Nam textile-garment industry

#### 2.1.1 The structures and efficiencies of business types

Translating the policy to develop the multi-sectoral economy into reality, since the later 80s, Viet Nam textile-garment industry has developed many business types in different ownership.

Table 2 The number of businesses in textile-garment industry

	State corporation			Union firm	Non state-run firm	Household	Joint-venture company	All-foreign firm
	Central	Local	Total					
Textile	28	24	52	0	227	10,000	22*	36**
Garment	38	84	122	8	384	30,000	36*	52**
Total	66	108	174	8	611	50,000	58*	88**

Source: Viet Nam national Textile-garment corporation.

Note: \* until 12/30/1997,

\*\* Until 12/30/1996

The production capacity of these businesses is presented in Table 3.

Table 3 The production capacities of Viet Nam textile-garment industry

Item	Unit	Domestic business	Foreign-ownership business	Total
Textile fibre	Ton	72,000	90,000	162,000
Cloth & silk	Million m <sup>2</sup>	380	420	800
Knitwear	Million units	31	8	39
Ready-made product	Million units	280	120	400

Source: Viet Nam national Textile-garment corporation.

The production capacity of the sector mainly concentrate in Red River Delta (Hanoi and the surrounding area) and Southeast (Ho Chi Minh City and the surrounding area).

### 2.1.2 Output and structure of lines

The production capacity of the sector has increased remarkably, especially garment industry, but the practical production is still lower than existing production capacity (Table 4).

Table 4 Output of some main products

Item	Unit	1991	1992	1993	1994	1995	1996	1997	1998	1999
Fibre	1,000 tons	40,261	43,656	37,585	44,403	59,222	65,390	67,540	69,076	73,726
Cloth & silk	1,000,000 m	280	272	215	226	263	285	298.6	315	317
Canvas	1,000,000 m	1.87	2.13	2.42	2.52	2.06	2.27	2.48	13.92	15.1
Knitwear	Million units	26	18	31	27	30.2	25.3	25.1	29.4	30.44
Ready-made clothes	Million units	106	104	91	121	172	207	302	275	305

Source: Statistical yearbook 1999.

Since 1991 up to now, except cloth and silk and knitwear have increased slowly (1.13 times and 1.17 times), other items have increased fast (fibre: 1.83 times, canvas: 8.07 times, Ready-made clothes: 2.88 times). In fact, the reason is that the garment industry has low investment rate, fast capital turnover and the ability to penetrate deep into export market; canvas product is the main material for producing export canvas shoes. Meanwhile, because the technology is backward and slowly renovated, with the low ability to satisfy market requirements, textile industry has low growth.

In general development trend, the structure of textile-garment lines is diversified increasingly. However, the competitive power of the goods is still low. Textile product does not satisfy the garment requirement, in the domestic market, there are full of cloths imported from China and Thailand by many different ways. With the existing standard, Textile product does not satisfy the garment requirement, especially export garment.

While textile product is mainly consumed on the domestic market, garment product is not only consumed on the domestic market but also is the important export. Viet Nam government lays down a policy the

strong development of garment industry to export based on labor advantage.

Viet Nam textile-garment product is attending on many Asia, Europe and North American markets. Textile-garment product is considered the main export items group. For recent years, textile-garment export turnover, especially garment has increased fast. In 1991, textile-garment export turnover is 158 millions USD, but in 1999, it is 1,747 millions USD, 11 times since 1991, and is expected to be over 2000 millions USD in 2000.

### **2.1.3 Technology level**

It is only essential to strongly renovate the technology of textile-garment businesses when the economy has a new management mechanism and the market changes to the "zone number 2" market. The present technology levels of textile-garment businesses have clear differences. This is shown as follows:

The difference in technology level among businesses from different economic sector. They can be put in order as follows: foreign-owned enterprises, stated-owned enterprises, non-state enterprises.

The difference in technology level among textile businesses and garment businesses. While textile stated-owned enterprises have only 15 percents of new machines, most of export garment businesses are equipped new machines instead of old machines. In general, textile product is not able to satisfy the requirement of export garment businesses.

Because of the specificity's in production and market, the rate of textile technology renovation is often more slow than that of garment businesses.

The fact of textile-garment technology level can be examined through follow situations:

#### *Textile-spinning technology equipment:*

The number of textile stakes used more than 20 years hold 44.67%

The number of textile stakes used less than 20 years and more than 10 years hold 36.62%

The number of textile stakes used less than 10 years hold 8.6%

#### *Shuttle-textile technology equipment:*

The ratio of new textile machines that are just equipped is about 15%. The ratio of old narrow-size shuttle-textile machine is 88%. There is an imbalance among the textile technology stages. Production capacities of preparation stages are lower than knitting capacity.

#### *Printing and dyeing technology equipment:*

Mainly places in stated-owned enterprises with a capacity of 380 millions m<sup>2</sup>. According to experts, 35% of printing and dyeing equipment are good, 30% of printing and dyeing equipment need to be recovered and modernized, 35% is more than 35 years old and need to be eliminated.

#### *Garment technology equipment:*

Garment industry is attached special importance to technology-renovation investment in order to fulfil the high requirement of Japan, EU and regional market. At present, there is a large difference in level among the stages of the technology chain. While there are modern equipment in sewing and completing

stages, handicraft, low-productivity labor is still mainly used in preparing and cutting stages.

## **2.2 Macroeconomic policies and their impacts on textile-garment industry development**

### **2.2.1 Investment-orienting and investment-attracting policies**

Viet Nam government has had concrete policies to orient the investment for textile-garment industry development. This can be summarized as follows:

*At first*, Viet Nam government defines clearly that textile-garment industry take the place of a main point industry in the industrial structure. The reasons are follows:

- Viet Nam has material foundations that are very important to keep developing textile-garment industry.
- In present, capital capability for Viet Nam industrialization and modernization, investment for textile-garment industry development is limited. Moreover, the development of this industry takes part in solving a mass of urgent socio-economic problem of Viet Nam: job solving, satisfying the essential requirement of population, penetrating into international market.
- The development of this industry in Viet Nam is in a background that developed countries tend to "export" the industry using much labor and having low content of technology and science to the developing country. This will make use of the advantage in technological, financial and market helps.

Being put into that place, textile-garment industry has attained the special concern of the government investment and series of policies to stimulate the industry development. For example, "Viet Nam national textile-garment corporation is the takes the superiority of all the industry, total investment in five recent years is 3504 billions Dong, raise the average growth rate from 5.2% to 13.3% per year".<sup>5</sup>

*Second*, the policy to develop the multi-sectoral economy creates condition to mobilize the domestic resource and attract the foreign investment to for textile-garment industry investment. In the former years, in textile-garment industry there are only state enterprises, and co-operatives which make simple products for domestic need and process for some countries in Economics interdependent assembly (SEV), at present, ownership structure and type structure of businesses in textile-garment have a diversified development. Beside state enterprises is strengthened and developed, non-state sector and foreign sector step by step play an important rule in Viet Nam textile-garment industry. At present, foreign-invested sector hold 55.55% of textile production capacity and 52.50% cloth production capacity, 30% of garment production capacity of Viet Nam. In 1999, production of sectoral businesses distributed as follows:

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<sup>5</sup> Viet Nam Economic Times, No 120, October 30, 2000.

Table 5 Textile-garment production according to economic sectors in 1999

	Textile		Cloth		Garment		Knitwear	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%
Total	73,726	100	317	100	304,939	100	30,411	100
State-owned	67,944	92.15	187	58.99	143,869	47.17	28,410	93.42
Non-state	419	0.56	29	9.14	98,120	32.18	800	2.63
Foreign invested	5,363	7.27	101	31.86	62,950	20.64	1,231	4.05

Source: Statistical yearbook 1999.

Third, from these general lines and policies, Viet Nam government has issued concrete policies in order to stimulate the development of textile-garment businesses. There are some policies as follows:

According to Law on domestic investment incentive, investment project for textile-garment production, production of material, secondary material for export production and import substitution belonging to list of branches and trades with investment incentive:

- Being lent for exporting by state-owned banks with interest incentive and being guaranteed for export credits by National Investment Assistant Fund.
- Being tax-exempt in raw material and accessories import for export production.
- Being exempt land hiring fee from 3 to 6 years and being reduced 50% of tax on land using.
- Receiving incentives in corporate income tax: lower tax rate than other businesses (25% comparing with 32%) and other incentives in corporate income tax reduction (reducing 50% when exporting to a new market, reducing 20% when export is more than 50% of total turnover or having stable market in three years running).
- Garment businesses using numerous labor is reduced 50% of corporate income tax in two years for increased turnover by new investment.

Law on foreign investment has regulations for textile-garment investment and export incentive:

- Project for production of textile-garment material, secondary material for export production and import substitution belonging to list of branches and trades with investment incentive or special incentive (being corporate income tax-exempt in four years from the time of having business profit and being reduced tax in the following four years).
- Being permitted to export, entrust or get export entrusting the items not produced by the business.
- The businesses sell the product to other businesses for export producing is exempt of material import tax and turnover tax of sold product.

Because of these concrete policies, Viet Nam textile-garment industry has had strong and rather-stable development for recent years.

However, in the present policy system of development orientation and investment incentive, there are two different codes correcting one production field. In concrete regulations of these two codes, there are differences of the incentive. That creates a feel of a treatment distinction, an unequal in business and



production development incentive.

### 2.2.2 Market and export promotion policy

Products of textile enterprises are consumed mainly in domestic market (approx. 70% turnover of textile enterprises) and in form of materials such as fiber, cloth, though most of these goods are under foreign brand, mainly in Thailand and China and there are many goods from smuggling. Referring to garment enterprises products are mainly for export, domestic turnover of garment enterprises are very low (7.5%, 8.7% and 9.4 % in 1997, 1998, and first six month of 1999 respectively).<sup>6</sup> In addition, recently there have been challenges that may cause the export revenue to fall. For example, in 2000 the growth rate of textile-garment export revenue from markets with no quotas was only 7% against 17% in 1999. One of the reasons was the reduction in the export prices—by 6-7% (the unit price of a jacket in 1999 was 18.5 USD, but in 2000 it fell to USD 17.5).<sup>7</sup>

In export market of textile and garment enterprises, there are some problems that need to be solved:

At present, the share of export in form of own production (FOB export) in the total export of the textile-garment industry is only around 25% (according to the strategy to speed up the textile-garment industry, this ratio must increase to 50% in 2005 and 75% in 2010)

The trade mark of goods is also an issue that should be paid attention: In 1999, Viet Nam did export textile and garment goods valued over USD 1.7 billions, but nearly 70% of which were processed products under trade marks of partners, and the rest 30% was of domestic producers' trade marks or under license of foreign trade marks.<sup>8</sup> This fact restricts capability of development of Viet Nam the textile and garment industry because of depending on foreign partners, and at the same time reducing the efficiency of export (profit earned from a jacket subcontracting is less than from its FOB selling by USD 0.14. Obviously, the subcontracting bias in textile-garment export is significantly less efficient than that of export in general.

*Answering questions about critical difficulties for textile and garment enterprises in exportation, managerial and research specialists have given some reasons: poor quality and design (64.71% of interviewee consider it as top reason), bad capability of approaching market (47.06%) and difficulties due to non-competitive prices are the second order reason (35.29%). Beside 29.41 % of opinions about the difficulties in customs formalities as the first order reason, 47.06% of interviewer considered the difficulties due to lack of state support is the third and 11.76 place it in the first rank.*

It is clear that for one industry that has important meaning not only about economic aspect (holds the second position in export) but also social aspect (the industry that employs much labor and has long

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<sup>6</sup> The report of textile-garment market. Plant-Market Department of Viet Nam Textile-Garment Cooperation, 8 - 1999, trang 14.

<sup>7</sup> The Viet Nam Economic Times, No131, 1.11.2000, p.4.

<sup>8</sup> Nguyen Van Ky, Textile-Garment goods before integration process, Textile-Garment Review, No ..., page 7-8

tradition), State already has policies that gives favorable conditions for it. Market and export promotion policies that have been being built and implemented are as following:

- Negotiations on quotas in markets that have export quota like EU. At present, the quota policy is still maintained but it can be cancelled in 2004 when conditions for export to EU for textile-garment industry will be more favorable. Moreover the Government have decided regulations of decreasing quota fee in order to create favorable conditions for exportation of textile and garment goods. Newly issued by the government regulations on quotas create more favorable conditions for textile-garment export. The issuance of the decision number 200/QD-BTC of December 18, 2000 by the Minister of Finance announced about the removing the quota fees imposed on textile-garment goods that are exported to the EU and Canada (related to 15 categories of textiles and garments).
- For promotion of export to non-quota markets and enhancing the use of domestic materials in producing export goods, the government established intensive rewards for export to non-quota markets and for using domestic materials. Besides, to encourage the change in the products portfolios (currently the majority are jackets), the inte-ministerial circular issued by Ministry of Trade, MPI and MOI No 19/TTLT/BTM/BKHDT/BCN decided to use 5% of quota to EU as reward for export of textiles and garments of group 2 (with more than 90% of domestic materials), especially for T-shirts, polo, shirts the rewards are 10% over the distributed quota.
- Pushing up trade relations between Viet Nam and other markets (Japan, USA, SNG, Eastern Europe, and ASEAN), signing Viet Nam-American Trade Convention has created a new opportunity to the industry. There is a forecast that " as soon as signing Viet Nam - American Trade Conventions, textile-garment export turnover will increase by 800 millions USD".<sup>9</sup> In the first step for intensively developing Viet Nam-American trade relations, the support from the Government will play very important role.
- Creating preferential conditions in investment and export for textile-garment industry. Related to this industry Law of Domestic Investment Encouragement has defined projects that invest in production of export goods and production of materials, supplementary for producing export goods, import substitutes as projects with investment preferences (that can be provided investment credit with preferential interest rates, credit guarantee, export credit, credit for expanding production, support by the Price Stabilization Fund, exemption from import duties on materials, accessories that supplies for export goods production). Beside, according to this Law, enterprises that invest in production of export goods have other priority such as exemption from or reduction of land renting fee, fee for land use or tax on land use, preferential corporate income tax of 25% (common rate - 32%), exemption from or reduction of corporate income tax according to point b,

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<sup>9</sup> ThaoVy, Viet Nam - American Trade Conventions: More opportunity for domestic production, Industry Review, No 17/2000.

term 1, article 17 of the Law of Corporate Income Tax. Moreover, the listed enterprises are exempted from additional income tax defined by term 1, article 10 of Law of Corporate Income Tax.

Law of Foreign Investment (amended) defines: Projects on production of export goods, Projects of investment in labor intensive sectors are the subjects of investment encouragement, that means they are provided preferential conditions such as shortened time for investment license procedure, exemption from or reduction of import duties, exemption from or reduction of corporate income tax. The mentioned investment preferences are also related to the textile-garment industry.

- Improving export-import and customs procedures: Policies and activities on controlling export and import especially that of textiles and garments have been improved significantly. However, the general idea of enterprises is that the attempts done by customs and other related authorities have not yet changed much in favor of textile-garment enterprises.

*Replying questions towards policies that create most favorable conditions for enterprises, interviewees mentioned the followings:*

- Reduction of quota fee
- Removing allocation system for some quotas
- Tax refunding for imported materials
- More favorable domestic investment policy (70.59%)
- Implementation of Law of Foreign Investment (47.06%)
- Export-import policy (64.71%)

*With reference to policies that are unfavorable for textile-garment enterprises, the followings have been indicated:*

- Regulations of bidding
- Policy of VAT: Almost all the ideas given to the survey questions are agreed about that VAT put textile-garment enterprises into more difficult situation. Many interviewees consider that VAT is irrelevant for textile-garment enterprises (82.35% both due to high rate and methods of calculation).
- Procedures for getting the permissions to import duty exemptions
- Customs and other related authorities control (economic guards, market controlling staff, tax agencies and customs)

Some other policies that have not created good conditions for textile-garment market development and export promotion are as follows:

- Complicated procedures for getting certificates of investment preference
- Quota allocation leading to diverse quotas with small sizes of contracts and high transaction costs as well as making lost for enterprises due to inability to export in large volumes.
- The system of quota bidding shows some shortcomings due to the fact that some enterprises

use artificial (unreal) prices in bidding and may be unfair competition for quotas.

- Lack of domestic market promotion policy, so that the domestic market has not been explored enough while textile enterprise capability can not be used properly for the garment industry.

### **2.2.3 Policy of technology innovation support**

Investment laws show the innovation promotion policy. According to the Law of Domestic Investment Encouragement, enterprises that engage in establishing production lines, expanding the scale, technology innovation are also under the preferential conditions like in the case of exported goods production (mentioned above). Investment projects are exempted from import duties in term of machines, equipment, and transportation equipment for forming fixed assets or expanding production, technology innovation.

The government continuously enhances support for investment in equipment of textile-garment enterprises by using state budget or ODA finance. This source of finance shares about 45% of total investment outlays of Vinatex. However, of them not much investment clearly shows the technology innovation bias. That is, the government support is biased, paying attention mainly on equipment and not on other technology elements, especially the materials, organizational and human elements. The financing has not yet met the demand for technology innovation. Besides, technology innovation can not be separated from the market and investment direction.

*Answering the questions about the investment of textile-garment industry, 64.71% interviewees mentioned lack of capital is the most difficult factor, 64.71% indicated the lack of investment opportunities and investment direction as the second important one and lastly, complicated investment procedures may also be the constraint for technology innovation (35.29% indicated as most difficult factor, 47.06% indicated as a second difficult factor).*

Referring to investment promotion it can be seen that the government has not yet directed investment to technology innovation of the textile industry. The research and development activities have not been paid enough attention for developing the material resources in order to meet the demand, so that most textile and garment enterprises rely on external materials while textiles and textile chemical products can not find their market.

### **2.2.4 Policy of domestic production protection**

Textile-garment industry is considered as the sector under high protection of the government. Although the tariffs are not so high, but the differences between individual tariffs and the average one are relatively large. Because of the low tariff on inputs and high tariff on final products, the level of protection can be considered as high. According to the Ministry of Planning and Investment, the average import tariff for textile is 41% and for garments is 42%. The effective rate of protection for some kinds of products may even reach more than 90%. The indicated level of protection and the average import tariff are really high compared with the requirement of gradual reduction of import tariffs in the process of integration and AFTA requirement (maximum 5%).

Nevertheless, the protection of domestic production policy has not yet covered some other aspects. The issues are as follows:

*First*, the policy on the origin of goods has not been developed while the importers already have used this policy for Viet Nam's textiles and garments

*Second*, the taxation policy has not strong enough for promoting the use of domestic raw materials and so has not created conditions for the development of inputs production that can serve textile-garment industry.

*Third*, some of preferential terms of investment and production have still showed the discrimination between domestic and foreign investors

*Last*, there still exist shortcomings in controlling imported goods so it makes the unfair competition between domestic and illegally imported goods severe for a long time that may discourage domestic production.

Although protection of domestic production is necessary at this moment, but this policy can not be the most important for the development of the textile-garment industry and it may be treated as supplementary measures.

#### **2.2.5 Material development policy**

Material ensuring is one of the important conditions for textile-garment industry development. Moreover, the industry production effect significantly depends on the quantity, quality and the price of material supply. Although there are some policies to develop material for textile-garment industry, but it's a pity that the situation has not any remarkably change.

First of all, there are some conditions for material supply of textile-garment industry.

##### *Natural material:*

Viet Nam is considered a country with certain ability in producing natural textiles for textile-garment industry. Mulberry growing and silkworm breeding, cotton growing are traditional handicrafts in some Viet Nam rural areas (North mountain areas, Red river delta, Tay Nguyen, Ninh Thuan and Binh Thuan, the South East).

In order to ensure the material for textile industry and create conditions to diversify agriculture production, Viet Nam government has expanded the plans of cotton developing, mulberry growing and silkworm breeding in some areas.

In 1995, Viet Nam cotton company (belonging directly to Viet Nam textile-garment national corporation) has imported 80 tons of cross-bred cotton seed and give technical help for provinces in North east, Tay Nguyen, central sea-coast and North mountain areas to cultivate 10,000 hectares of cotton. Cotton is considered an important industrial plant, its development not only helps textile industry to ensure domestic material but also speeds up the conversion of plant structure, raise Viet Nam agriculture production (in

general, production value of one cotton hectare is two times more than rice growing).

Due to incentive and help measures of the government, cotton area, productivity and output is increasing uninterruptedly.

Table 6 Cotton area, productivity and output in Viet Nam

Norm	Unit	1995	1996	1997	1998	1999
Area	Ha	17,500	15,000	15,200	23,800	22,400
Productivity	100kg/lha	7.3	7.5	9.2	9.2	9.6
Output	ton	12,800	11,200	14,000	22,000	21,400

Source: Statistical yearbook 1999.

Combining with cotton development, mulberry growing and silkworm breeding is considered a traditional handicraft are also restored and developed in some areas (Thai Binh, Hai Hung, Quang Nam, Lam Dong...). However, mulberry growing is still rather dispersed, backward silkworm kind, low productivity and quality, unstable market is the main factors make Viet Nam mulberry growing and silkworm breeding development insecure. Viet Nam annual output is about 2,000 tons with dispersed, small scale.

#### *Synthetic fiber*

Although there are some project of synthetic fiber development for textile industry, because of difficulties in capital, technology and material supply, in fact, there has not been any chemical fiber factory in Viet Nam.

Thus, at present, Viet Nam has just been able to produce and supply a small part of cotton material for fibre, the main part is still imported from abroad. It is necessary to say something more that Viet Nam cotton quality has not satisfied the need of fibre technology, so that it is only additionally used in a small proportion (about 10%). The large import of cotton itself has limited the developing ability of textile industry and its economic proficiency.

Table 7 Annual cotton and fibre import

(unit: ton)

	1995	1996	1997	1998
Knitting fibre and silk	93,800	74,300	132,500	183,000
Cotton	68,200	37,400	41,500	67,600

Source: Statistical yearbook 1999.

#### *Material and secondary material for garment industry*

There is a situation that garment industry is fast developing but Material and secondary material for production is mainly imported from abroad. This reflects the garment weakness and the imbalance between textile development and garment development. Moreover, many garment businesses is applying processing mode, it means that the foreign partner places an order, supplies cloth and secondary material, domestic