

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

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### 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, dyeing 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)

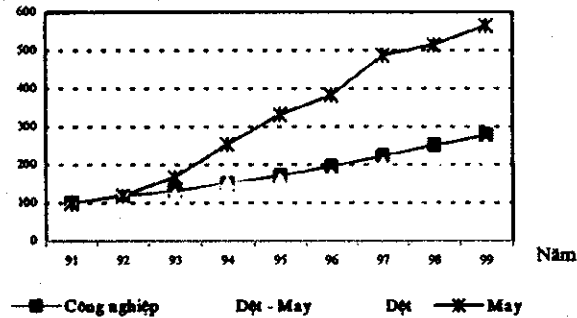
| Products                    | Unit                | 1991  | 1995     | 95/91 (%) | 1999     | 99/95 (%) | 99/91 (%) |
|-----------------------------|---------------------|-------|----------|-----------|----------|-----------|-----------|
| Whole fabrics               | 1000 tons           | 40.26 | 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.

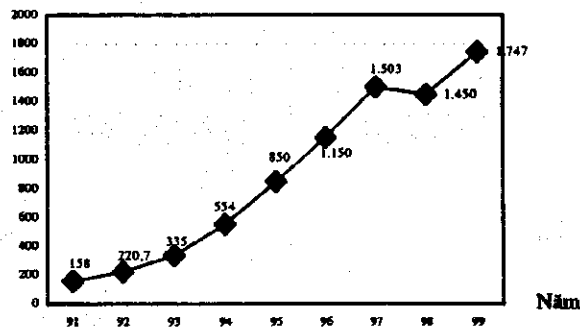
### 2.1.2 Regarding production and export value

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.

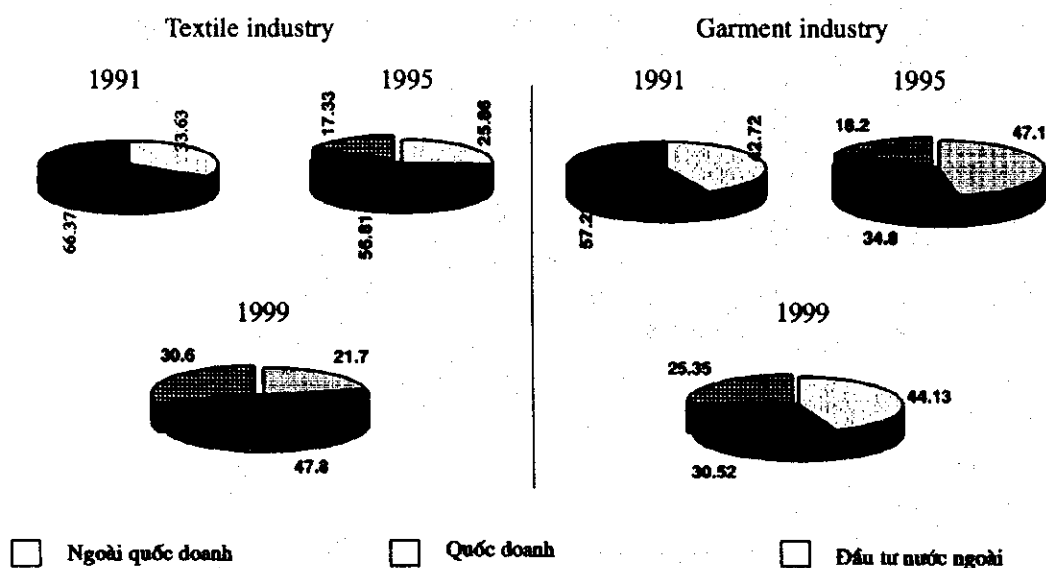
Thanks to the investment, only central textile and garment sector has managed to improve its spinning capacity from more than 50,000 tonnes up to 75,000 tonnes, fabric weaving capacity up by over 40 million metre and sewing capacity up by threefold.

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 fiber 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 dyeing 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 dyeing 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 dyeing 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 1950 s 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 souci-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 sate 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> Thao Vy, 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/1ha | 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

businesses only take on garment stage to obtain processing cost. These are fundamental reasons, which lessen garment proficiency though the turnover rises very fast. The interrelation between export and import value of garment industry obviously expresses this situation.

**Table 8 Import and export turnover of garment industry**

|   | (million USD) |       |         |       |
|---|---------------|-------|---------|-------|
|   | 1995          | 1996  | 1997    | 1998  |
| Garment export                          | 850           | 1,150 | 1,502.6 | 1,450 |
| Import of material & secondary material | 304.6         | 531.4 | 897.1   | 248.8 |

Source: Statistical yearbook.

From the table, it is obvious that import value usually fluctuates approximately 50% export value of garment industry. Specific year 1998 need extra-conveying.

### 2.3 General estimation of the effect of the industry/trade policy system to the competitive ability of Viet Nam textile-garment industry

#### 2.3.1 Positive impacts

In the general background of Viet Nam industrial development in the beginning years of industrialization and modernization period, it is affirmable that Viet Nam textile-garment industry has important development, positively participate in solving urgent socio-economic problems of the nation and make an important basis for the stronger and more effective development in the coming years.

The ration of textile-garment production in total industry production has an uninterrupted increase.

**Table 9 The ration of textile-garment production in Viet Nam industry**

|                  | 1995 | 1996 | 1997 | 1998 | 1999 |
|------------------|------|------|------|------|------|
| Overall industry | 100  | 100  | 100  | 100  | 100  |
| Textile industry | 5.97 | 5.40 | 5.40 | 5.53 | 5.56 |
| Garment industry | 2.85 | 2.88 | 3.22 | 3.09 | 3.01 |

Source: Statistical yearbook 1999.

If in the year 1985, textile-garment production holds only 5.4% of total industry production, this holds 8.57% in the year 1999 (at constant 1994 prices) and 10.06% (at current price).

Textile-garment industry is one of the industry takes the most important part in Viet Nam exports turnover. In 1985, export turnover of textile-garment industry (including product embroidered with laces) is 850 millions USD. In 1999, this reaches 1,747 millions USD, hold more than 15% of export turnover. Textile-garment exports turnover rank no. 2 behind crude oil export.

The development of textile-garment industry has positive impacts in solving job problem and worker income, so that take parts in solving unemployed problems and stabilizing the social. At present, according to incomplete statistic data, the textile-garment industry has about 1 million workers. In the realistic

condition of Viet Nam, it has an important significance and expresses the advance of this industry when economic industries have not developed yet and investment ability for job solving is limited.<sup>10</sup>

The development and positive impacts of textile-garment industry directly reflect the result of the renovation of some government macroeconomic policies. In other words, based on clearly defining the position and role of this industry in Viet Nam economic structure, the government has concrete solutions and policies to ensure the development help and incentive, in order to take them to the estimated position, so that take positive part in solving urgent socio-economic problems in the period of economic mechanic conversion and translate the industrialization and modernization into practice. It is affirmable that with its development, textile-garment industry take significant part in helping the nation to escape from the critical time in the later 80s, to integrate into international economic life in the time of socio-economic changes in the Soviet-Union and East Europe socialist countries.

### 2.3.2 Obstacles and difficulties

However, as the Viet Nam industry managers themselves confirmed "The development of this industry is not corresponding to the potential and the requirement, the economic effect is still low". We completely agree with that comment. In the time of economy globalization, take Viet Nam to a full integration into the regional and world economy, it is obvious that in passed years, the impact of government policies for textile-garment industry is mainly on the width of the development, technology level and competitive ability of textile-garment businesses is still weak. Perhaps, this is the top challenge to Viet Nam textile-garment industry in the coming years. If there is not effective solution to overcome these challenge, the industry can not play the role of one of the main industries, with the mission to bring Viet Nam out of the situation of a poor, low-developing country.

There are some concrete examples below:

*First, having strong potential and developing requirement, but Viet Nam textile-garment industry is still smaller than many regional and world countries.*

Table 10 Viet Nam textile-garment industry comparing with regional countries

|            | Textile quantity<br>(millions tons) | Garment quantity<br>(millions m2) | Garment item<br>(millions unit) | Export turn-over |
|------------|-------------------------------------|-----------------------------------|---------------------------------|------------------|
| China      | 5,300                               | 21,000                            | 10,000                          | 50,000           |
| India      | 2,100                               | 23,000                            | ---                             | 12,500           |
| Bangladesh | 200                                 | 1,800                             | ---                             | 4,000            |
| Thailand   | 1,000                               | 4,200                             | 2,500                           | 6,500            |
| Indonesia  | 1,800                               | 4,400                             | 3,000                           | 8,000            |
| Viet Nam   | 85                                  | 304                               | 400                             | 200              |

Source: Viet Nam national textile-garment corporation, 2000.

<sup>10</sup> Investing rate to textile-garment industry is 1/10 of electricity industry, 1/15 of mechanical industry, 1/20 of metallurgy industry. The cost of creating a new place of work in garment industry is 1000 USD, 15000 USD in textile industry and 30000 USD in paper industry.

It is obvious that although there are strong developments, it takes a long time for Viet Nam to become a great nation in the textile-garment field of the world. Comparing to other countries, Viet Nam is just a potential competitor, not a direct competitor. The competitive situation is observed in the textile-garment industry, not only in the above countries but also in the Viet Nam domestic market. In international trade, textile-garment products of Viet Nam and the above countries are together present on many markets (Japan, EU, United States), in some textile-garment market, Viet Nam has to compete in disadvantageous trade conditions. For example, the United States is the top market in the world, but till now, Viet Nam has not received the ordinary trade regulations with the US. Hence, the high tax rate levied on textile-garment goods imported from Viet Nam brings about the disadvantage in competition. In the domestic market, although the government has applied economic measures and administrative measures, the market is filled with cloth and ready-made garments from many different ways. In many flows of textile-garment products into Viet Nam, they are many from China. With diversified modes, cheap prices, China's textile-garment has strong competitiveness on the domestic market.

*Second, the exporting by processing way of garment businesses holds the high rate, the incomplete supply of domestic material and secondary material makes heavy impact on export results. It is affirmable that Viet Nam's textile-garment industry mainly exports raw labor at present.*

The mode of international processing corresponds with the low developing level of textile-garment businesses: ensuring jobs when being unable to penetrate into the world market, limited capital and technology abilities... This can't be the permanent mode in the textile-garment strategy because this causes dependent and unstable conditions in production and business investment, not ensuring the economic effect.

In the present imbalance condition of ability and technology level, Viet Nam's businesses can not ensure the material and secondary material for production, they have to mainly import from the exterior, this makes the production effect lower. There is a paradox: the more exports, the more imports of production factors, production effect is not improved much.

While the textile industry mainly uses import material, cloth export turnover is unobtrusive: including flannelette, knitwear, types of towels, this turnover holds only 10% textile-garment export turnover. In the garment industry, processing mode holds high ratio, while almost material and secondary material have to be imported, this makes the added value low, added ordinarily 20-25%.

Import/export turnover of the subsidiaries of Viet Nam national Textile-garment Corporation in recent years expressed in the following table:

Table 11 Finished product export and material import turnover

(Millions USD)

|                  | 1996  | 1997  | 1998  | 1999  |
|------------------|-------|-------|-------|-------|
| Export turn-over | 243.4 | 304.7 | 296.9 | 330.1 |
| Import turn-over | 206.4 | 238.6 | 212.5 | 228.6 |
| Difference       | 37.0  | 66.1  | 84.4  | 101.5 |

Source: Viet Nam national Textile-garment corporation.



Comparing to the year 1996, in 1999, textile-garment Export turn-over increased three times, material and secondary material increased 1.11 times, export surplus increased 2.74 times. This shows little by little progress of the national Textile-garment Corporation in ensuring the effect. Widely examining in entire industry, with main processing mode, state-enterprises are not able to ensure the high effect.

Despite of knowing that the effect is not high, Viet Nam textile-garment industry can not easily abolish processing mode and shift to directly exporting under material buying mode (or producing), export sewing. This mode conversion requires series of conditions that Viet Nam businesses are not able to ensure at present: textile modernizing investment secondary material producing investment, businesses working capital, directly approaching foreign market to find customer.

*Third, imbalance and backward technology level of businesses is the important factor that lessen competitiveness of businesses (see analysis above).*

*Fourth, comparative advantages in textile-garment development are fading away.* For a long time, labor advantage is usually considered the dominant advantage of Viet Nam comparing to many regional countries. But with the economic development and little by little increase in population living standard, this advantage is not clearly expressed, even weaker than some regional countries.

**Table 12 Average salary per worker (USD/person/year)**

| Year | Viet Nam | China | Indonesia | Malaysia | Korea  | Taiwan | Singapore |
|------|----------|-------|-----------|----------|--------|--------|-----------|
| 1992 | 210      | --    | 720       | 2,970    | 8,730  | 10,380 | 8,610     |
| 1003 | 340      | --    | 740       | 3,100    | 9,590  | 10,710 | 8,820     |
| 1994 | 370      | 420   | 760       | 3,440    | 10,550 | 10,960 | 9,990     |
| 1995 | 450      | 500   | 930       | 3,810    | 12,930 | 11,620 | 11,190    |
| 1996 | 550      | 540   | 940       | 3,990    | 12,700 | 11,460 | 11,430    |
| 1997 | 650      | 550   | 890       | 3,840    | 11,230 | 11,120 | 10,890    |
| 1998 | 690      | 570   | 330       | 2,870    | 7,820  | 10,260 | 10,210    |

Source: UNIDO and the ministry of planning and investment. General view in Viet Nam industrial competition, National politics press, 199, page 142.

Comparing to regional countries, pay rate of a Viet Nam worker rises fast and stable (in 1998, it is 3.29 times more than it is in 1992), while in China, this increased with lower speed (in 1998, it is 1.36 times more than it is in 1994, this in Viet Nam at the same time is 1.86 times). Malaysia and Indonesia are directly and heavily impacted by the financial-monetary crisis, worker salary unexpectedly reduced due to money depreciation. Data from the table show that annual salary of Viet Nam worker is higher than China and Indonesia worker. In worker right aspect, it is good sign of the improvement of workers income and life, since then this industry has attraction to the workers. But in trade aspect, textile-garment product has high raw labor content. The situation above will give goods the disadvantages in competing with those types of goods from countries with lower labor cost.

In order to estimate competitiveness of textile-garment industry, it is possible to examine some more factors on quality and creation of new model conformable to customer's demand. On these aspects, there are weaknesses in Viet Nam textile-garment industry.

In quality management, it is obvious that because garment businesses mainly produce exports, the quality management process is closer. At the same time, textile businesses mainly produce domestic goods, the quality management process is not attached moderate importance, and this causes the product not able to satisfy the more and more requirement of the market. This weakness is obviously presented in non-state businesses. Till the end of 1999, in entire industry, there are only 8 businesses registered ISO 9002 system in quality management, only 4 of them are granted the certificate (Phong Phu thread manufacturer joint-venture, 10 Garment Company, Thang Long garment company, Hanoi textile-garment company).

In model creation stage, Viet Nam has not strong force. This can be comprehended by two main reasons: 1/Viet Nam garment industry uses process mode for a long time, goods model is placed by foreign order. 2/ population standard living is low, model creation is completely fresh. Hence, despite of the establishment of model institute under Textile-garment Corporation, but its role is still limited. Some universities start to set up model-creating specialty, but these are just the first steps.

*Fifth, the business effect in textile-garment industry is still low.* There is no data for entire the industry, but from annual report of Viet Nam national Textile-garment Corporation, it is possible to see some effective ratios in these large-scale state-owned enterprises of Viet Nam.

Table 13 Some effective ratios of Viet Nam national textile-garment corporation

| Ratio                 | Measure unit | 1996           | 1997           | 1998           | 1999           |
|-----------------------|--------------|----------------|----------------|----------------|----------------|
| Return on turnover    | Dong         | -              | <i>0.0004</i>  | -              | <i>0.0027</i>  |
|                       |              | <b>0.038</b>   | <b>0.038</b>   | <b>0.035</b>   | <b>0.038</b>   |
| Return on fixed asset | Dong         | 4.290          | 4.305          | 4.477          | 5.041          |
|                       |              | <b>5.483</b>   | <b>6.336</b>   | <b>6.185</b>   | <b>5.554</b>   |
| Return on worker      | Dong         | -              | <i>0.289</i>   | -              | <i>0.212</i>   |
|                       |              | <b>1.178</b>   | <b>1.437</b>   | <b>1.363</b>   | <b>1.748</b>   |
| Export on worker      | USD          | 1867.65        | 2213.41        | 2206.77        | 2410.64        |
|                       |              | <b>8078.32</b> | <b>9551.42</b> | <b>8647.90</b> | <b>9494.08</b> |

Source: Ph.D. thesis in Economics of postgraduate Duong Dinh Giam, 2000.

Notes: *Italic numbers: Ratios of textile businesses.*

*Bold number: Ratios of garment businesses.*

**From some data in the table, there are two main comments:**

- The trade-productive effect of businesses in the corporation is very low and unstable.
- In general, the effective ratio of textile businesses is often lower than these of garment businesses.

These effective ratios above directly reflect the technology level and management ability of textile-

garment businesses.

*It is necessary to say something more, in the passed years, with the development of the multi-sectoral economy and the diversification of business organizing types, textile-garment state-owned enterprises is also attached special importance to renovate, but the result is little.*

The salient points of this process are the establishment of Viet Nam national Textile-garment Corporation. This is the State Corporation imitating the business consortium model (usually called 91 corporation, due to the establishment oriented by Decision 91/TTg, March 7, 1994 by the Prime minister). This corporation was established in accordance with the state administrative decision—heading for the subject "Promoting agglomeration and concentration, raising competitiveness and economic proficiency". The corporation has three typical features: 1/being established by administrative decision; 2/Including state-owned enterprises belonging to The ministry of Industry only (central state-owned enterprises). 3/ Operating in the textile-garment field (only this field). Since its establishment, the national Textile-garment Corporation has gained certain achievements. However, it has also faced with some difficulties and insufficiencies. Those are:

- Enterprises' specializing qualifications has changed so little, the tendency of " Closed technology" prevails, businesses still exist separately and competitively.
- There exists two independent cost-accounting level (The corporation and subsidiaries), subsidiaries feel the lack of independence and confidence in business.

The confusion of organizing and executing, settling master relationships in the corporation.

Despite of not being one of the key and spearhead sectors in the economy, the ownership diversification of businesses in the industry in the form of state-owned enterprises equitization (pursuant to Decree no.44/ND-CP) sale, or hire (pursuant to Decree no.103/ND-CP) has not worked successfully. In 1999, five small-scale companies were equitized (Binh Minh garment company, Ho Guom garment company, Le Truc garment workshop of Chien Thang garment company, garment workshop of Vinh Phu garment company, garment workshop of Nha Trang garment company). This process has been facing with difficulties and hindrances: proficient businesses do not want to be equitized; businesses having difficulties can not be equitized, textile-garment businesses under state supervision often have rather large capital, with limited ability to attract investment.

### **Part 3 The orientation of textile-garment industry development and the assurance of government policies**

#### **3.1 Opportunities and challenges to textile-garment industry in the international integration**

Viet Nam party and government considers the task in the coming years is to promote the country's industrialization and modernization in order to make Viet Nam mainly become an industrial country in

2020. This is a heavy task, although Viet Nam has created important economic-technical bases and attained significant progress in the years of socio-economic innovations, in general, Viet Nam is still a poor and low-developing country.

In order to attain the appointed object, Viet Nam has to solve many problems. Among them, the most important thing is to have a rational economic structure to optimally develop the advantages and ensure a proficiency integration into regional and world economies. Textile-garment industry is continuously considered a main development in industrial structure.

Being a long-standing industry, textile-garment industry development has both opportunity and challenge in a New World development, including globalizing and integrating trends. These directly rule the orientation of Viet Nam textile-garment industry development and the innovation of government macroeconomic policies, so that this industry really plays the positive rule in the promotion of Viet Nam industrialization and modernization.

Below are some features of opportunities and challenges to textile-garment industry in the early years of new decade.

### 3.1.1 Opportunities

*First*, it is the fundamental technical and material facilities of Viet Nam textile-garment industry. The next step of development is to expand and raise these material facilities, not to start with empty hands. In general, the technology level is low, but some technological stages reach world standard (garment mainly).

*Second*, in the world, developed countries tend to "export" textile-garment industry to developing countries under different forms: direct investment, technology transfer, to reduce domestic production and impost goods to satisfy the customer need. This trend goes with adjustment of industrial structure to deal with insufficient labor and concentrate development of high technology and high-effect industry.

This trend is expressed more clearly in the following table:

Table 14 Regional distribution of world textile production (1000 tons)

| Year | Asia   | Europe | Other countries | Total  |
|------|--------|--------|-----------------|--------|
| 1980 | 12,760 | 9,490  | 9,390           | 31,640 |
| 1982 | 13,940 | 9,350  | 8,350           | 31,640 |
| 1984 | 18,700 | 10,120 | 9,770           | 38,590 |
| 1986 | 16,980 | 10,220 | 8,670           | 35,870 |
| 1988 | 19,200 | 10,760 | 10,850          | 40,810 |
| 1990 | 21,020 | 10,440 | 10,720          | 42,180 |
| 1992 | 23,520 | 9,030  | 9,990           | 42,540 |
| 1994 | 25,610 | 8,720  | 11,800          | 46,130 |
| 1996 | 27,830 | 8,400  | 11,580          | 47,810 |
| 1997 | 29,420 | 8,440  | 11,540          | 49,400 |

Source: Trade research institute (Ministry of trade), 1999

In 18 years (1980-1997), world textile production increased 1.56 times, Asia textile production increased 2.31 times, and that of Europe is 0.89 times only.

*Third*, textile-garment is the essential human need. When material and spiritual living standards rise, family spending tend to raise the part for clothing, culture need, entertainment, health care. In the United States, spending for clothing is about 20% of family expense. It is affirmable that textile-garment market is promising. Naturally, by levels of consuming and living standard, textile-garment structure is different. Textile-garment industry must have suitable products for market requirements.

Finally, Viet Nam textile-garment product has attended in some markets, including market with close requirements in imports (Japan, EU, North America). Moreover, with policies to innovate and to multilateralize economic-diplomatic relations, Viet Nam has prospects to expand textile-garment market and to attract investment and technology for textile-garment development.

### 3.1.2 Challenges

Major and coverable challenge is the backward technology and low competitiveness. With different forms of protection, Viet Nam textile-garment industry is able to develop and bring certain advantages. If rightnow, textile-garment businesses do not strongly rise up and improve their competitiveness in the domestic and international market, when the protection is decreased and abolished, these businesses will have many significant difficulties in the competition.

Comparing Viet Nam textile-garment industry with the international trade internationalization of textile-garment product, it is obvious that there are tense challenges. Before 1994 (after 1974), Multi-fibre agreement (MFA) rules textile-garment international trade. In which, import countries can adopt bilateral agreement or if not bilateral agreement is not adopted, the country can unilaterally set up import quota to each export country. Quota increasing speeds are different by different countries. MFA, judged by economists, makes discriminatory in protection.<sup>11</sup>

In 1994, Agreement on textile and Clothing (ATC) takes the place of MFA and is main international agreement that adjusts the whole of textile-garment international trade. According to ATC regulations, the textile-garment trading liberalization is going to take 10 years of transition stage (from 1/1/1995) and put into practice following 2 main contents:

- Textile-garment step by step integrates into GATT ordinary regulations following 4 stages:
  - 1/1/1995: Integrating not less than 16% of import commodities in 1990 pursuant to commodities list of the Agreement.
  - 1/1/1998: Integrating not less than 16% of import commodities.
  - 1/1/2002: Integrating not less than continuous 18% of import commodities.
  - 1/1/2005: all commodities left must be integrated, MFA's weaknesses must be abolished.

In each stage, import country have the right to make choice of any four categories (fibre, cloth, textile,

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<sup>11</sup> Economic institute (Ministry of trade). Record of Viet Nam import items.

garment) to the integrating list.

- Raise quota-increasing speeds of limited products.

In the first stage (1995-1997), quota-increasing speeds is not less than 16%, in the second stage (1998-2001), it is 25%, in the third stage (2002-2004), it is 27%. On the 10 of October, 2000, The governments of Viet Nam and EU have signed the Convention on increasing the quota for Viet Nam's textile and garments to be exported to EU on average by 26% that will be in effect one year earlier than agreed time. This is a very good opportunities for textile-garment industry to promote export to this market. However, it is necessary to note that the EU market's demand for Viet Nam's textile and garment goods seems to decline.<sup>12</sup>

The replacement of MFA by ATC has positive effect to countries with textile-garment export development because of labor advantages. It is also advantageous to developed industrial countries because of the rising in demand for textile-garment material and equipment. But it is obvious that the competition on textile-garment market is not reduced because there are many countries with competence to penetrate one market.

Viet Nam has not become member of world trade organization (WTO), but main exporting markets of Viet Nam are all WTO's members. Hence, Viet Nam has still to follow ATC's limit.

The transition stage from MFA to ATC has relative connection with the Viet Nam's integration into AFTA. This brings more and more pressure to Viet Nam textile-garment businesses in the process to effectively participate in AFTA and also rise the competitiveness with textile-garment businesses from other countries on major market.

Market-share of Viet Nam textile-garment industry is small beside the strong competitions. On the domestic market, although the demand is not high, the production has not satisfied the need yet. The competitiveness is weaker than China and Thailand textile-garment. On the international market, in 9 months of 2000 export of textiles and garments to quota markets including Canada reached 493 USD mil. at the growth rate of 8% compared to the similar period of 1999, but Viet Nam goods exporting to EU is only 5% of China's, 10-20% of ASEAN's; in Japan, in 1997, Viet Nam has become one of seven top countries which export textile-garment to this market, with shuttle-textile market-share is 3,6%, knitwear market-share is 2.3%. In 1998, the largest importers of textiles were USA with the import value of USD 13.46 bil. (shared 8.6%), China - USD 11.08 bil. (7.2%), Germany - USD 10.99 bil. (7%), the UK - USD 8.31 bil. (5.3%), France - USD 7.5 bil. (4.8%). Hongkong imported USD 13.04 bil., but the use for processing was only USD 1.39 bil., the remaining has reexported.<sup>13</sup>

In 1997, textile-garment import turnover of the United State is 44646 millions USD, with 5998 (13,4%)

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<sup>12</sup> Le Van Dao, Deputy head of export-import department—Ministry of Trade. Viet Nam Economic Times, No130, 30.10.200, p.3.

<sup>13</sup> Nguyen Van Ky. World trade in textiles and garments. Viet Nam Economic Times, No6, 14.1.2000, p.12.

millions USD from China, 5246 millions (9.9%) from Mexico, 3973 (8.9%) millions from Hongkong, but only 26.4 millions (0.06%) from Viet Nam.

In 1998 the US import of clothing increased by 11% compared to 1997 and reached USD 55,720 mil., of which import from Asia shared 56.9%, from Latin America - 28.9%, Western Europe - 6.4%, North America - 2.8%, Middle East 1.9%, Africa 1.9%. During first six months of 1999 the US' import of textiles and garments increased by 5% compared to that period of 1998. So it can be seen that the US is a potential market for the textile and garment enterprises to pay more attention in coming years especially with the implementation of the Viet Nam-American Trade Agreement.

During the period 1990-1998, Viet Nam textile and garment export experienced a high growth rate - 40%. The market structure shows that the main importing countries of Viet Nam's textile and garments are EU (more than 40%), Japan (30%), the remaining belongs to countries of Middle East, East Europe, SNG, North America and other Asian countries.<sup>14</sup> In the case of the China's entry into WTO and the removing of quotas on textiles and garments traded between WTO members at the end of 2004, there will be more challenges for Viet Nam's textile-garment industry in the world competition that must be accounted.

### **3.2 The developing orientation of Viet Nam textile-garment industry in the background of joining international economic/commercial agreements**

After 10 years development (1991-2000) and shifting to a new development period with the target to speeding up the industrialization and modernization, concerned organs of Viet Nam government has been editing directions for the developing strategy of the whole economy as well as each sector in the next 10 years (2001-2010).

Textile-garment industry is one of the important industries in Viet Nam economic and industrial structure. Over the past years, the industry has contributed actively to solve the national socio-economic tasks. In new circumstance, its development copes with both advantages and challenging disadvantages. The bodies of Viet Nam government and Viet Nam national Textile-garment Corporation have drafted documents on directions for the development of textile-garment industry in the next ten years and the main solutions. Below are some important documents drafted in 2000.

- *The section mentioning textile-garment industry in "Draft documents submitted to 9th Viet Nam party meeting"*
- *The section mentioning textile-garment industry in "Proposals of industrialization, modernization and developing strategy for Viet Nam industry to the year 2000 and vision 2010" by the Ministry of Industry (1/2000)*
- *"Proposals of development strategies of science and technology for textile-garment industry to*

<sup>14</sup> Nguyen Van Ky. World trade in textiles and garments. Viet Nam Economic Times, No6, 14.1.2000, p.12.

*2010 and technology highway to 2005" by the Ministry of Industry (5/2000).*

- *"Strategies of speeding up the development of Viet Nam textile-garment industry to 2010 with the aim of creating jobs and raising export turnover" by Viet Nam textile-garment association and Viet Nam national textile-garment corporation (10/2000)*

We, researchers, in this part, due to limited time and information source can not set our duty of offering another "proposal" of development scenario for Viet Nam textile-garment industry in the coming years but we mainly concentrate on showing some viewpoints on developments directions, not on exact development targets. In addition, some document listed above are not official released, therefore we can not offers direct guidelines.

In The proposal of socio-economic development strategy 2001-2010 and five-year socio-economic directions, tasks and plans (2001-2005), the textile-garment industry is evaluated as a sector that can develop competitive advantage, control domestic market and promote export.<sup>15</sup>

Proposals of "Industrialization, modernization and developing strategy for Viet Nam industry to the year 2000 and vision 2010" projects the annual growth rate of Viet Nam industry at 13%, raising the export turnover in 2005 at 3000 millions USD and in 2010 at 4000 millions USD.

As for "Strategy for speeding up and developing textile-garment industry to 2010" by textile-garment association and Viet Nam national textile-garment corporation forecast the greater rise in export turnover in 2005 at 500 millions USD and in 2010 at 8000 millions USD.<sup>16</sup>

Though cited data informs numeral forecast in the coming years, there are optimism about developing prospect of the industry.

Below are our opinions about development standpoint of Viet Nam textile-garment industry in the future.

*First*, in the period of industrialization and modernization, textile-garment industry still to occupies an important position in the national economic structure of Viet Nam. The development of the industry directs to economic tasks and also social tasks. Firstly, the main task is to solve the job, speed up the re-assigning process Viet Nam social labor.

*Second*, effectively establishing and organizing interdisciplinary relationship in textile-garment industry development. These are relations between textile-garment productions and supply of their "input" factors (cotton, fibre, spare parts, equipment and substitute parts), relation between textile stage and garment stage. These relations are not only relations between the industrial inner and other economic fields. The establishment and solution of these relations need to guarantee the economic effect, basing on concrete analysis of immanent ability and the tendency to globalize the economy.

*Third*, the ownership diversification in textile-garment industry to broadly attract investments and

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<sup>15</sup> See "Draft documents submitted to 9th Viet Nam party meeting" shortening.

<sup>16</sup> Viet Nam economic Times No. 130, October 30, 2000 when informing this strategy bring up the numbers 4000 millions USD and 7000 millions USD.



guarantee economic effect. Despite of its important role, textile-garment industry is still the production of ordinary commodities, the government don't have to hold this industry, but has to stimulate the development of non-state businesses. The decisive role of state economy need investigated in the overall economy, not in each industry.

*Fourth*, quickly promoting the technology renovation according to the requirement of production modernization and textile-garment industry management to rise the competitiveness on the domestic and abroad market. This is the standpoint that directs the technology selection in textile-garment development in order to quickly overcome the technological backwardness and low competitiveness on the market.

*Fifth*, rationally combining business scales, raise the specializing level and broaden associate relations in the industry inner. Depending on particular traits of each field to determine the rational scales; textile, fibre, chemical businesses focus on large scale (in the concrete conditions of Viet Nam), the garment businesses prefer small and medium scale. In order to guarantee the effect, it is necessary to use the appropriate organize the labor assignment between businesses, rationally combining the production specialization and diversification of each business.

### **3.3 Renovation of industrial and trading policies for textile-garment industry development in new international background**

#### **3.3.1 Policies for investment attraction and support**

Now, many garment-textile companies have strengthened to invest for waiting in front development opportunities. For example, Gidimex, an garment and textile company did the project to construct conjugation garment-textile area in VinhLoc industrial zone, Saigon textile has a project to construct textile enterprise in Tantaio industrial zone, and Garmex Cholon company has a garment enterprise in Binh dang industrial zone, Garmex - Saigon are preparing to construct its enterprise in Cuchi. That projects will contribute to increase productivity of textile sector 1.5 times and for garment sector is 2 times. Besides that, many enterprises have strengthened to invest to new technology, applied informative programs in management (for example MRP1 and MRP2 program), strengthen to apply some advanced quality management system (as ISO 9000, ISO 9002), reinforce to specialize in produce organization... Therefore, State need has appropriate policies to support enterprises in garment-textile sector in renewing technology and produce organization, improving management ways.

In order to develop fast and effectively the textile-garment industry, following objects need large investment:

- Renovating technology, firstly textile industry and synchronizing production line of the whole industry, overcoming weak stages in order to use factor in the most effect way...
- Expanding production-scale from existing bases of businesses, building more businesses.
- Developing auxiliary production for textile-garment industry: making material area; producing