

# Report on Vietnam Textile and Garment Industry



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## **Acronyms**

C&F	:	Cost and Freight
CIF	:	Cost, Insurance and Freight
CMP	:	Cutting, Making and Packing
CMPT	:	Cutting, Making, Packing and Trimming
EU	:	European Union
FDI	:	Foreign Direct Investment
FOB	:	Free on Board
HCMC	:	Ho Chi Minh City
GDP	:	Gross Domestic Products
ISS	:	International Social Studies
USA	:	United States of America
VITAS	:	Vietnam Textile and Apparel Association
VINATEX	:	The Vietnam Textile and Garment Group
VN	:	Vietnam
YKK	:	International recognized zipper Brand

## 1.0 Overview of Vietnam Economy

### 1.1 Background

Marked by a heterogeneous landscape, Vietnam is the thirteenth most highly populated country in the world. Viet Nam is located in the centre of Southeast Asia with a land area of 329,560 square km, population density is 237.62 people /sq. km. It lies in the eastern part of the Indochina peninsula, bordered by China to the North, Laos and Cambodia to the West, the East Sea and Pacific Ocean to the East and South, and has a beautiful 3,260 km long coastline, an ideal position for the economic development. Hanoi in the north is the capital of the country, and Ho Chi Minh City in the south is the largest commercial city. Da Nang, in central Vietnam, is the third largest city and an important seaport.

Vietnam's population was estimated at approximately 86.5 million in 2010, and is expected to grow further in near future with an annual growth rate of 1.6%. Vietnam's literacy rate is over 90%. Close to 73% of the population live in rural areas, and over 60% of the population is under 25 years of age. Vietnam has considerable energy resources such as oil, gas and coal and its 41,000 km long waterways provide the basis for hydropower. The country is rich in minerals such as bauxite, iron ore, lead, gold, precious stones, tin, chromate, anthracite, granite, marble, clay, white sand and graphite. Brief socio-economic profile of Vietnam is given below:

Area	331, 114 sq. km. (127 243 sq. miles)
Population	8.77 million in 2000 <i>Labor Force: 45,606,688 Male: 68% Female: 75.30%</i> <i>Population Growth Rate: 1.4%</i>
GDP (2009)	\$92.6 billion
Agriculture as % of GDP	22.1%
Industry as % of GDP	39.7%
Manufacturing as % of GDP	21.1%
Services as % of GDP	38.2%
Real growth rate	5.32% (2009)
Literacy rate	92.5%
Religion	Buddhism, Hoa Hao, Cao Dai, Christian, Animism, Islam
Government	Communist Party-dominated constitutional republic
Border	People's Republic of China, Laos and Cambodia
Region	South, Central and North
Main Sector	Mining and quarrying, manufacturing, electricity, gas, water supply, cement, phosphate, and steel
main Industry	Food processing, garments and textiles, shoes, machine-building, mining, cement, chemical fertilizer, glass, tires, oil, coal, steel, paper
Major Investors	China, Japan, Singapore, Taiwan, South Korea, Hong Kong, and Thailand
Major Exports	USA, EU, Japan, China, Australia, Singapore, Germany, and the United Kingdom
Total Approved FDI inflow	\$1.1 billions
No. of Provinces and Municipalities	24
Sea ports	Danang Port
Exchange Rate	US\$ 1 = 19,239.9 Vietnamese Dong

## 1.2 Economic Reform in Vietnam

Based on experiences gained during the 1976-1980, the government introduced more relaxed policies with respect to agricultural collectives and State Owned Enterprises (SOEs) and allowed more scope for private initiatives. Economic reform was the key point of political discussion and the government started moving from a centrally planned economy to an open, socialist-oriented and multi-sector market economy. In 1986, Vietnam government initiated economic reforms or renovation shifting from the centrally-planned economy with state subsidies to a socialist-oriented market economy to accelerate rapid industrialization, modernization, diversification of economies and integrated with the world economies with open economic policies. Since 1988 Vietnam carried out economic reform under the "**Doi Moi**" (**Renovation**) Policy through allowing the private sector development focused on market oriented economic management. Under this policy, the government is also slowly but continuously opening up for foreign direct investments for accelerated economic development.

## 1.3 Gross Domestic Products and Growth Rate

Vietnam has become one of the fastest-growing developing economies in the world, averaging around 8.4% annual gross domestic product (GDP) growth from 1990-1997, 7.5% from 2000 to 2006, and 8.5% in 2007. However, in 2008 the growth rate decreased to 6.18% and in 2009, it was even lower at 5.30% due to global financial crisis. Along with high GDP growth, the economic structure has significantly evolved. Although GDP increased in 2009 at US\$ 92.6 billion the growth rate declined at 5.3%. Principal economic sectors contributing to the GDP include agriculture, industry and services and all three sectors have equal importance in the contribution to the total Gross Domestic Product in the country. From 1990 to 2008, the proportional weight of agriculture slipped from 39% to 22% of GDP, giving way to industries increased share from 23% to 40%. Services sector nearly remains constant at 39% in 1990 and 38% in 2008. From 2000 to 2009, the GDP of Vietnam can be seen in the **Figure 1.1** below:



Source: General Statistics Office of Vietnam

**Figure 1.2** below shows trend of annual GDP growth in Vietnam from 2003-2010:



Source: CIA World Fact book - Unless otherwise noted, information in this page is accurate as of February 19, 2010

Source: <http://www.tradingeconomics.com/vietnam/gdp-per-capita-ppp-us-dollar-wb-data.html>

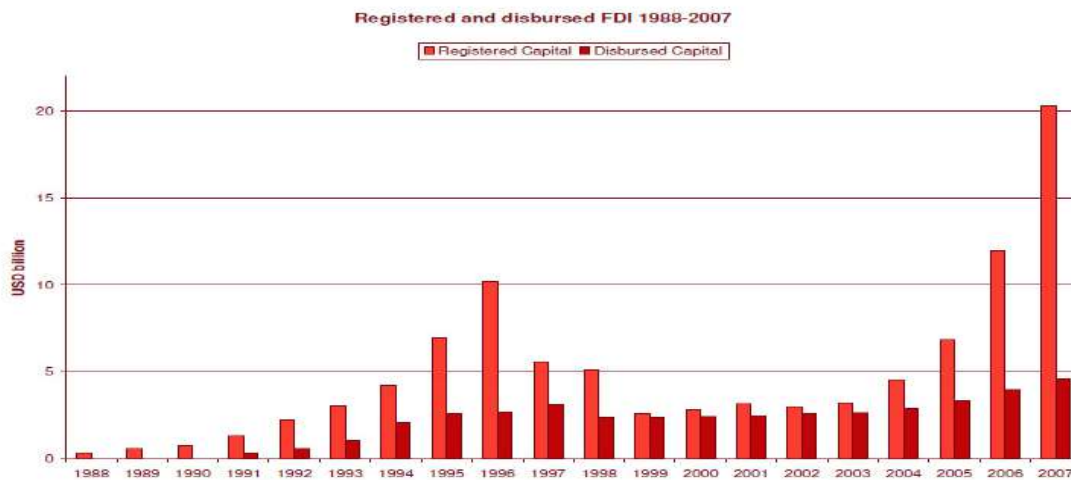
### 1.4 GDP Per Capita

Although the GDP annual growth rate declined in 2009 and 2010, the GDP per capita shows an increasing trend during the last decade. **Figure 1.3** shows GDP per capita of Vietnam:



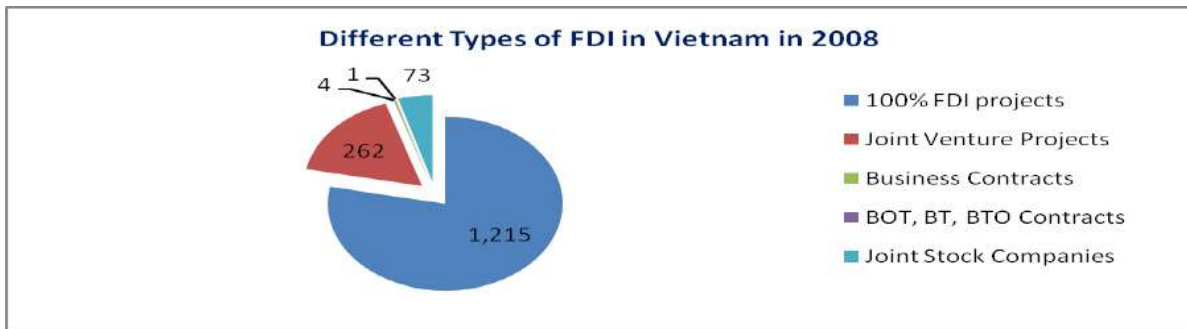
### 1.5 Investment (Local and Foreign) in Vietnam

Vietnam has been successful in attracting a significant amount of investment that include. Years of government initiative in improving the business environment has brought encouraging results and established a quite attractive investment environment for foreign investors. Trend in FDI in Vietnam during 1988-2007 can be seen in **Figure 1.4** below:



Source: GSO 2008

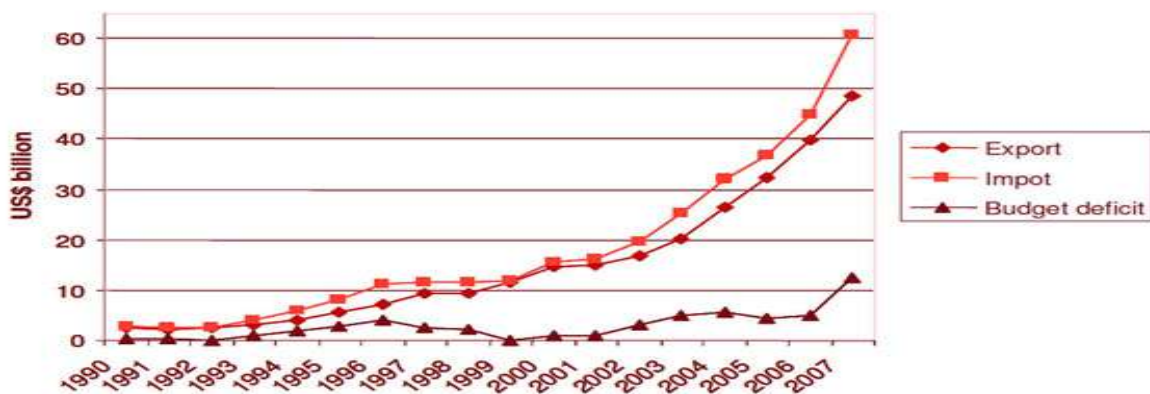
In 2008, Vietnam attracted 1,557 newly registered projects with a registered capital of US\$ 66 billion in 18 different sectors. **Figure-1.5** below gives a scenario of different types of investment in Vietnam in 2008:



Source: Vietnam Trade Promotion Agency, publication on Trade and Investment of Vietnam 2009-2010, Due to global economic crisis, FDI has decreased at US\$ 8.9 billion in June 19, 2009. Until June 2009, number projects reached at 10,409 from 86 countries with a registered capital of US\$ 164.68 billion. Top 10 investing countries are namely China, South Korea, Malaysia, Japan, Singapore, British Virgin Islands, USA, Hong Kong, Thailand and Canada.

### 1.6 Foreign Trade Performance

Foreign trade performance of Vietnam also shows a positive trend over the last 10 years with trade deficit for many years. Over the years, huge volume of import of capital machinery and industrial raw materials has been made in Vietnam, a major part of which eventually for export and export oriented industries. Recent scenario of foreign trade can be seen in the **Figure 1.5** below:



Source: GSO, 2008

However, the export as percentage of import has increased substantially from 36.6% in 1986 to 77.7% in 2008. **Figure 1.6** shows trend in the exports of Vietnam:



Source: General Department of Vietnam Customs



From the above information and analysis, it is understood that the economy of Vietnam is maintaining a tremendous growth pace consecutively for many years, where export sector contributed significantly. Export earning has increased from US\$ 2.40 billion in 1990 to US\$ 62.69 billion in 2008, where textile and garments sector has played the major role. In 2008, export of textile and garments was US\$ 9.11 billion. In 2009, the economic experienced sharp slump that adversely affected exports, unemployment, and private sector and foreign direct investment. However, export of garments and textile was still US\$ 9.1 billion.

## 2.0 Business Environment and Investment Climate in Vietnam

### 2.1 Private and Public Sector Profile

In Vietnam, the private sector initiative for industrialization and economic development truly flourished after adopting the Doi Moi policy in 1986. Before economic reforms, mainly the state-owned enterprises were involved in all kinds of manufacturing activities including textile and garment. Over 130 Industrial Zones (IZs) have been licensed including three 100% foreign owned IZs, 14 joint venture enterprises, and 119 by Vietnamese private enterprises. Most of these projects are textiles, garments, shoes, electronic assembly, mechanical manufacturing, plastics, and food processing enterprises, metal, etc.

### 2.2 Legal and Regulatory Framework

Following the open-door policy of 1986, Vietnam has enacted its Constitution in 1992 which was amended in 2001 to strengthen legal institutions and pave the way for economic reform. To create a favorable environment for the development of a market economy and for more open and stable investment environment, Vietnam made efforts to improve its legal system. Recently, many laws and regulations enacted to establish the legal framework for the open-door policy and to comply with the integration requirements of international agreements like WTO agreement.

### 2.3 Trade Policy Environment and Market Access

Vietnam became an official member of the Association of South East Asian Nations (ASEAN) in 1995, and has been participating in the ASEAN Free Trade Area (AFTA) since 1996 and became a member of the Asia Pacific Economic Cooperation Forum (APEC) in 1998. Vietnam signed the bilateral trade agreement (BTA) with the United States in 2000. Vietnam also signed a cooperation agreement with the European Community. Vietnam officially joined the WTO and put the commitments into effect on 11 January 2007 that brought into two positive implications on FDI: firstly, a considerable reduction of import duties and import tariff rates on inputs for producing exportable goods and secondly, liberalization of the services market. Vietnam also signed and acceded to various bilateral and multilateral arrangements on investment including the Convention on the Establishment of the Multilateral Investment Guarantee Agency (“MIGA”).

### 2.4 Investment Climate, Incentives and Investment Guarantees

The Government of Vietnam guarantees fair treatment for investors. Capital and other legal assets of investors will not be expropriated or confiscated by law or administrative measures and businesses with foreign-invested capital will not be nationalized. Foreign investors are allowed to remit abroad investment capital and profits, loan principal and interest, and other legal proceeds and assets. Expatriates working for businesses with foreign-invested capital are permitted to remit their income abroad. The Government of Vietnam respects intellectual and industrial property rights and the interests of foreign investors relating to technology transfers into Vietnam. The Vietnamese Government had entered into bilateral agreements in trade relations with 72 countries and double taxation agreements with 45 countries. Fiscal measures for promoting investment are as follows:

- **Corporate Income Tax** applicable to both domestic and foreign invested enterprises, with a standard CIT rate of 28%. Preferential rates of 10%, 15% and 20% are available where certain criteria are met.
- **Capital Assignment Profits Tax:** Gains on transfers of interests (as opposed to shares) in a foreign invested or Vietnamese enterprise are subject to 28% CIT.
- **Value Added Tax:** VAT system has three rate categories: 0%, 5%, and 10% (the standard rate). Currently, there are 29 categories of goods and services that are VAT exempt.
- **Special Sales Tax (Excise tax):** SST applies to the production or import of certain luxury goods.

- **Foreign Contractor withholding Tax:** The rates are summarized below:
- **Import-Export Tariffs:** Generally, all goods crossing Vietnamese borders are subject to import/export duties. Import and export duty rates are subject to frequent changes and it is always prudent to check the latest position.
- **Natural Resources Tax:** The tax rates, which ranged from 0% to 40% are levied depending on the natural resource being exploited and are applied to the production output at a specified taxable value per unit.
- **Land Rentals:** Where the land is rented from the State, the tariff frame for land rental is determined by the Government. The land rental is kept stable for a period of at least five years from the investment license date.
- **Personal Income Tax:** Foreigners residing in Vietnam for an aggregate of 183 days or more within a consecutive 12 months period from the first date of arrival will be treated as tax residents
- **Transfer Pricing (TP):** The control threshold is lower than in many other countries (20%) and the definition also extends to certain significant supplier, customer and funding relationships between otherwise unrelated parties.
- **Transfer of Income:** Expatriates or foreign individuals working in Vietnam are allowed to transfer their income abroad after income tax and other payroll withholdings have been paid.

## 2.5 Physical Infrastructure

Compared to Cambodia and Bangladesh, the condition of physical infrastructure is better in Vietnam. Because of long political background of communism, collective interests receive more importance over the individual's benefits maximization and personal ties. Power supply situation is better than Bangladesh and Cambodia and recently it has improved further. Relatively small proportion of firms complains about infrastructure in Vietnam they use. Degree of computerization in textile and garment firms is also increasing now a day. There are scope of learning about export markets, new technology and product design. Enrollment of young girls in the secondary school is higher in Vietnam compared to Bangladesh and Cambodia. Physical infrastructure such as railroads, ports, electricity supply; and soft infrastructure (or human capital) such as basic education are in better situation in Vietnam. Table 2.1 shows the level of hard and soft infrastructures in Asian garment exporting countries including Vietnam:

**Table 2.1 Level of Hard and Soft Infrastructures in Asian Countries**

Country	*Railroad Infrastructure	*Port Infrastructure	*Electricity Supply	**Telecom Infrastructure	***Secondary Enrolment	*Education System
Vietnam	2.4	2.8	3.2	32.2	64.5	2.6
Bangladesh	2.3	2.6	1.9	0.8	43.8	2.9
Cambodia	1.6	3.4	2.5	0.2	38.2	2.7
China	4.1	4.3	4.7	27.8	75.5	3.8
India	4.4	3.3	3.2	3.60	54.0	4.3

*\*Scale 1 (of underdeveloped)-7 (of extensive and efficient by international standards). Source: World Economic Forum. Executive Opinion Survey 2007 and 2008; \*\* Main telephone lines per 100 population. Source International Telecommunication Union (2008) World Telecommunication Indicators. \*\*\* Gross secondary education enrolment rate, source: World bank (2008) World Development Indicators. Source: Adopted from World Economic Forum (2008)*

## 2.6 Cost of Doing Business and Economic Freedom in Vietnam

As mentioned earlier Vietnam carried out economic reform under the "**Doi Moi**" (**Renovation**) **Policy** through allowing the private sector development focused on market oriented economic management since 1988. Under this policy, the government is also slowly but continuously opening up for foreign direct investments for accelerated economic development. Vietnam also established Economic Zones (EZs) and industries established in the EZs also granted preferential treatment. As a whole, cost of doing business ranking of Vietnam has improved during the last one year. "Cost of Business Index, 2010" can be seen in the Table 2.2 below:

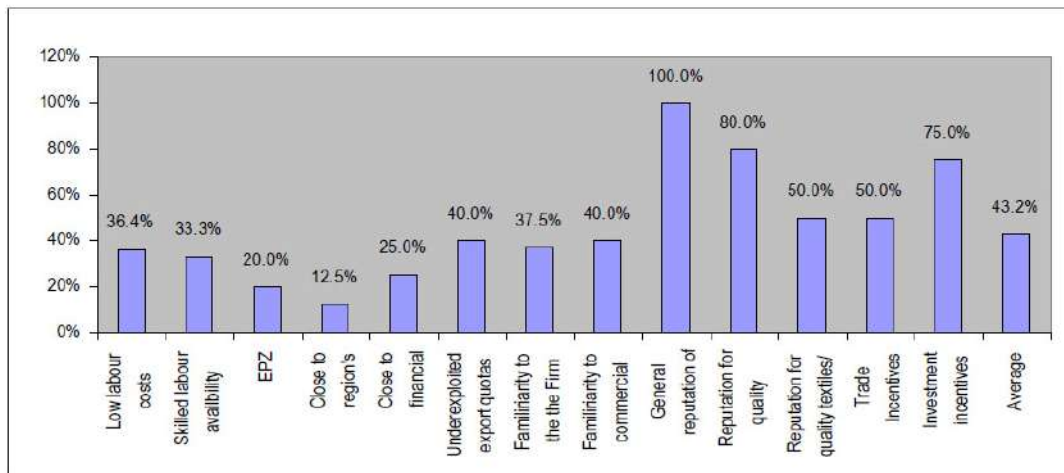
**Table 2.2: Cost of Doing Business in Vietnam**

Parameters	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Ease of Doing Business	93	91	-2
Starting a Business	116	109	-7
Dealing with Construction Permits	69	67	-2
Employing Workers	103	100	-3
Registering Property	40	37	-3
Getting Credit	30	27	-3
Protecting Investors	172	171	-1
Paying Taxes	147	140	-7
Trading Across Borders	74	73	-1
Enforcing Contracts	32	39	7
Closing a Business	127	126	-1

Note: Region: East Asia and The Pacific, Income Category: Low Income, GNI Per Capita: USD 892.36 (August, 2010)

Vietnam has developed good reputation for its ‘**quality and investment incentives**’ as frequently mentioned by foreign invested firms in Vietnam, said in a study report. The report also said that about half of foreign invested firms mentioned ‘**trade incentives**’ as a reason for their decision to invest in Vietnam. Low labor costs plays relatively smaller role than political stability for firms to invest in Vietnam. Reasons of making investment decision in Vietnam can be seen from the Figure 1.7 shown below:

**Figure: The Reasons for Foreign Firms to Operate Plants in Vietnam**



## 2.7 Skills Level and Their Availability

In Vietnam, the level of overall education is very high and it is advantageous for further industrial growth and development. Secondary school enrolment is the higher among the Asian garment producing countries (WDI 2007). Due to higher level of education of young women, workers’ productivity is also higher than Bangladesh and Cambodia, but lower than China. For skilled development, there are two institutes; **Textile-Fiber Industrial Institute** and **Fashion Style Institute**. The Textile-Fiber Industrial Institute has concentrated on improved technology, and quality, new information and knowledge on textile and fiber.

### 3.0 Overview of the Textile and Apparels Industry in Vietnam

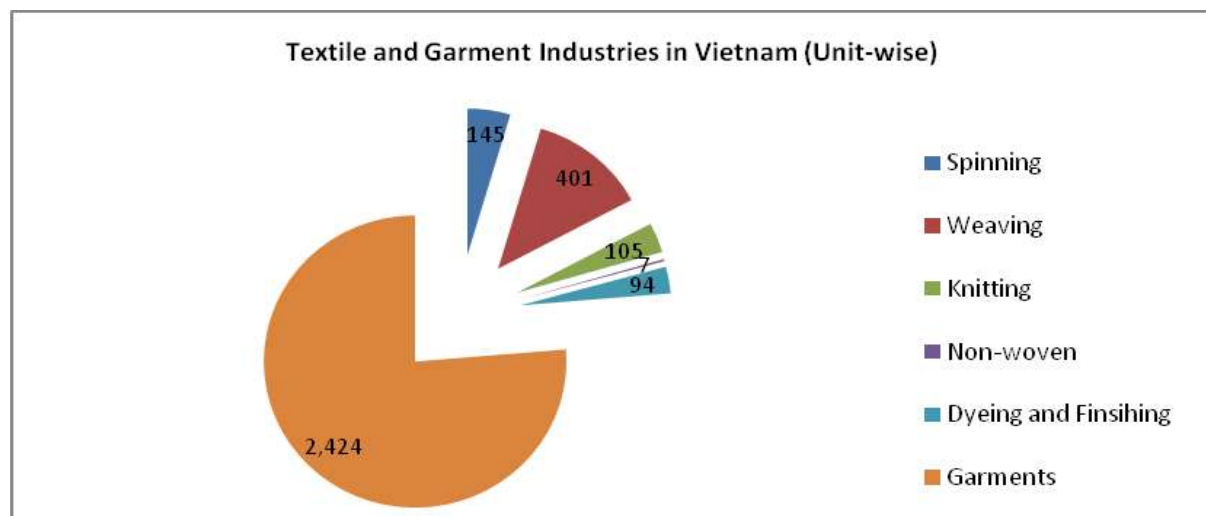
Vietnam's garment and textile industry consists of 3 sub-sectors: up-stream sector (fiber production), mid-stream sector (fabric production and dyeing) and down-stream sector (garment manufacturing). The textile and garment industry uses main materials such as cotton, synthetic fiber, woolen, filament and silk. Initially, sub sectors that produced fibers or fabric were not quality products and these were textile products mainly used for domestic consumption. Although Vietnam has huge potential of cotton cultivation and production, the local source supplies only less than 2% of the total cotton requirements and the textile industry imports huge cotton from outside. Informal sources mentioned that the local fabric industry supplies about 20% of total input demand by garment sector, the rest 80% is imported from overseas for export oriented garment industries. At the initial stage, the export oriented garment production in Vietnam was mostly on CMT (cut, make and trim) basis earning a very low value addition like Cambodia. Gradually, with the establishment of new industries, the country generated more value addition from textile and garments industry. Total production capacity of the overall textile and garment industry in Vietnam can be seen from data in the Table 3.1

**Table 3.1: Capacity of Textile and Garment Industry as of 2009**

Sector	No. of Enterprises	No. of Machinery	Annual Capacity
Cotton Ginning	n/a	n/a	60,000 tons
Spinning	145 units	3,789,000 spindles	350,000 tons
Weaving	401 units	21,800 units	1,000 mil m2
Knitting	105 units	3,800 units	200,000 tons
Non-woven	7 units	n/a	5,000 tons
Dyeing and Finishing	94 units	1,109 units	700 million m2
Garments	2,424 units	918,700 units	2,400 million units
Terry Towel	n/a	n/a	62,000 tons

Source: VITAS Directory 2009

Share of different sub-sectors of the textile and garments industry in Vietnam can be seen in the **Figure 3.1** as shown below:



### **3.1 Raw Materials of Primary Textile Industry Sector in Vietnam**

Among the raw materials of the primary textile industry, the most common in Vietnam is cotton fabric besides polyester and silk. Quality of Vietnamese fabrics specially polyester and silk is inferior to that of competing Asian countries like China, Taiwan or Japan. However, during the last one decade Vietnam made huge investment in its yarn and fabric production and investment still continues. Present capacity of cotton and synthetic fiber production of Vietnam is more than 7,000 tons and 180,000 tons respectively. Out of total investment in cotton and silk yarn, the foreign direct investment installed annual capacity for PES fiber and PES silk is 167,400 tons and 133,500 tons respectively. Raw materials of the primary textile are briefly described below:

#### **3.1.1 Cotton**

Cotton is the main fabric available in Vietnam. Due to the rapid development of the Vietnamese garment sector, the demand for cotton has increased drastically. However, <sup>1</sup>Vietnam's cotton acreage has been reduced in 2008 to 6,000 hectare and only produces 2,600 tons. But, the garment sector's demand is about 160,000 tons of cotton and current local production can meet only 1.63% of the total demand through using imported cotton from USA, India, Uzbekistan and African countries (South Africa, Mali, Burkina Fuso, Benin, Ivory Cost, Cameroon, Mozambique). Vietnam government took initiative to expand local production of cotton approximately 80,000 tons by allocating additional cotton of 150,000ha under cotton development program 2001-2010. The main reasons of continuing shrinkage in the cotton acreage is its low economic efficiency<sup>2</sup> and the farmers prefer other short-term cash crops of higher economic values to grow, such as maize and soybeans. VINATEX made effort for increased volume of local production of cotton through cotton plantations in different provinces.

#### **3.1.2 Polyester/Synthetic Fibers**

In Vietnam, there is an increasing trend in the polyester production and as such, significant new investment has been made. In 2008, the locally produced polyester fiber met around 4% of the total demand. Recently, VINATEX and the PetroVietnam<sup>3</sup> have jointly invested US\$ 125 million in polyester fiber production from petrochemical products, which is expected to meet 20%-50% of the local demand for polyester fiber. More polyester fiber production units are expected to be established.

#### **3.1.3 Silk**

The Vietnamese silk production has a long history in which Vietnamese silk was produced locally for royal families or people of rank. Vietnam's province Ha Tay, was known as the biggest and oldest silk production centre. The most popular and biggest village was and still is Van Phuc, 10 km south of the centre of Hanoi. Van Phuc Village, now has 730 households with 1,600 people earning a living by weaving silk. The village produces and exports a wide variety of silk products. In 2008, Silk sales generate about US\$ 1.6 million<sup>4</sup>.

### **3.2 Primary Textile Industry Sector in Vietnam**

In Vietnam, the ownership of textile industry is spread over into three groups of investors; State-owned enterprises (SOEs), private or non State-owned enterprises and the foreign investors. The textile and clothing industry has managed to attract a substantial amount of foreign investment. The largest foreign investor in the Vietnamese textile and clothing industry is Taiwan, followed by South Korea and Hong Kong. However, compared to total FDI in other sectors in Vietnam, the textile and clothing industry only gets a very small portion.

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<sup>1</sup> Report of the Voice of Vietnam (VOV), (<http://english.vietnamnet.vn>, 19th May 2008)

<sup>2</sup> On average, cotton growers need US\$185 to invest in 1ha of cotton to yield a ton of seeds and earn just US\$ 158. Meanwhile, when they grow maize, which yields 5 tons/ha, they can earn up to US\$ 526.

<sup>3</sup> Vietnam National Oil and Gas Group

<sup>4</sup> (<http://english.vietnamnet.vn>, 27th May 2008).

Textile industries in Vietnam include **fiber spinning, shuttle weaving, circular knitting, and dyeing and finishing** as described below:

### **3.2.1 Technology Used in Textile Industry of Vietnam**

Equipment and technology situation of the industry defers from sector to sector. Fiber spinning, shuttle weaving, knitting, and dyeing and printing are briefly explained below:

#### **3.2.1.1 Fiber Spinning Technology**

In 1996 Vietnam shifted to the market economy and brought in renovation. Accordingly, the spinning industry had improved technology by replacing the old ones and 800,124 spindles and 3,520 rotors were changed. The production capacity has increased to 72,000 tons per year instead of 60,000 tons. Transferring into market economy the industry has modernized its production lines by using automatically assembling machines and microelectronics chip to control fiber quality.

#### **3.2.1.2 Shuttle Weaving Technology**

Weaving technology has a big change in the market economy. In 1996, Vietnam had 10,500 weaving machines, many of these replaced with newly imported machines. The industry was renovated applying the following technologies:

- 100% cotton weaving technology to produce fabric for clothes, cotton towel, mosquito net;
- Synthetic weaving technology to produce silk - imitated fabric, wool - imitated fabric, product made of Microfiber;
- Cotton- polyester mixed weaving technology;
- Silk and woolen technology;
- Denim weaving technology

#### **3.2.1.3 Circular Knitting**

Currently, circular knitting technology is applied in the knitting of fabrics which was installed after 1996. However, before 1996 the industry had equipment which was out of dated. After 1996, the circular knitting equipment imported mostly from Japan, Korea, Taiwan and Germany and these are new generation machinery controlled by computers. As above presented, Vietnam's textile and garment has achieved a notable success recently. Further investment in progressive production technology, equipment and machinery is required for Vietnam's textile and garment industry to sharpen its competitive edge on the international export market. The industry has been working out the plan of technology renovation and production expansion for each sector of the industry.

### **3.2.2 Spinning, Weaving, Knitting, and Dyeing and Finishing Mills in Vietnam**

Recently, capacity utilization level of Vietnamese spinning, weaving and knitting industry is around 70-80% and same for dyeing and finishing industries is around 50-60%, as reported during the field visits. However, the production capacity of the garment sector is currently fully achieved, which was only about 50% in the past due to many reasons including lack of appropriate and modern technology. Many large scale textile enterprises went through renovation. Sub-sectors of the textile industry are briefly explained below:

### 3.2.2.1 Spinning Mills in Vietnam

Currently, there are 145 spinning mills with around 4 million spindles annual production capacity of fiber spinning is 350,000 tons. FDI owned spinning factories are having production capacity of fiber spinning around 90,000 tons per annum.

### 3.2.2.2 Weaving Mills in Vietnam

More than 401 weaving mills are in operation in Vietnam with around 22,000 weaving machines having annual production capacity of fabric weaving of 1,000 million square meters. Beside these, other weaving mills like terry towel, mosquito net, etc. are spread along the country. Out of total capacity, the foreign owned weaving mills produce and supply more than 40% of the fabrics with annual capacity exceeding 420 million square meters per annum.

### 3.2.2.3 Knitting Industry in Vietnam

At present, 105 knitting industry are in operation with 3,800 circular knitting machines and the total annual capacity of circular knitting factories is 200,000 tons. In addition, Vietnam also produces other types of knitted wear, such as curtain, socks, etc.

### 3.2.2.4 Dyeing and Finishing Industry in Vietnam

There are 94 textiles dyeing and finishing industries in Vietnam with more than 1,109 dyeing machines imported from European countries and China that can dye, process and finish 700 million square meters of fabrics.

Other textile industries include knitted wear, knitted mosquito net, towel, socks, and woolen weaving with production capacity of 4,000 tons per year. **Table 3.2** below gives scenario of Vietnam textile and garment industry:

<b>Description</b>	<b>Dec'06</b>	<b>Dec'09</b>
Number of Spinning Mills	<b>96</b>	<b>145</b>
Capacity Utilization (%)	40%	90%
Number of Weaving Mills	<b>382</b>	<b>401</b>
Capacity Utilization (%)	50%	80%
Number of Knitting Mills	<b>N/A</b>	<b>105</b>
Capacity Utilization (%)	N/A	100%
No. of Dyeing & Finishing Mills	N/A	<b>94</b>
Capacity Utilization (%)	N/A	50%
Number of Garment Factories	<b>1,446</b>	<b>2,424</b>
Capacity Utilization (%)	80%	100%
Number of Direct Employees	N/A	1.10
Number of Indirect Employees	N/A	0.90

## 3.3 Garment Industry in Vietnam

Vietnam textile and garment industry has witnessed strong development during the 15 years. Presently, the garment sector is the major contributor to the total export earnings of Vietnam. The industry has continuously invested and changed equipment and technology to meet the world market demand as well as to improve its world competitiveness. In Vietnam, garments industries are

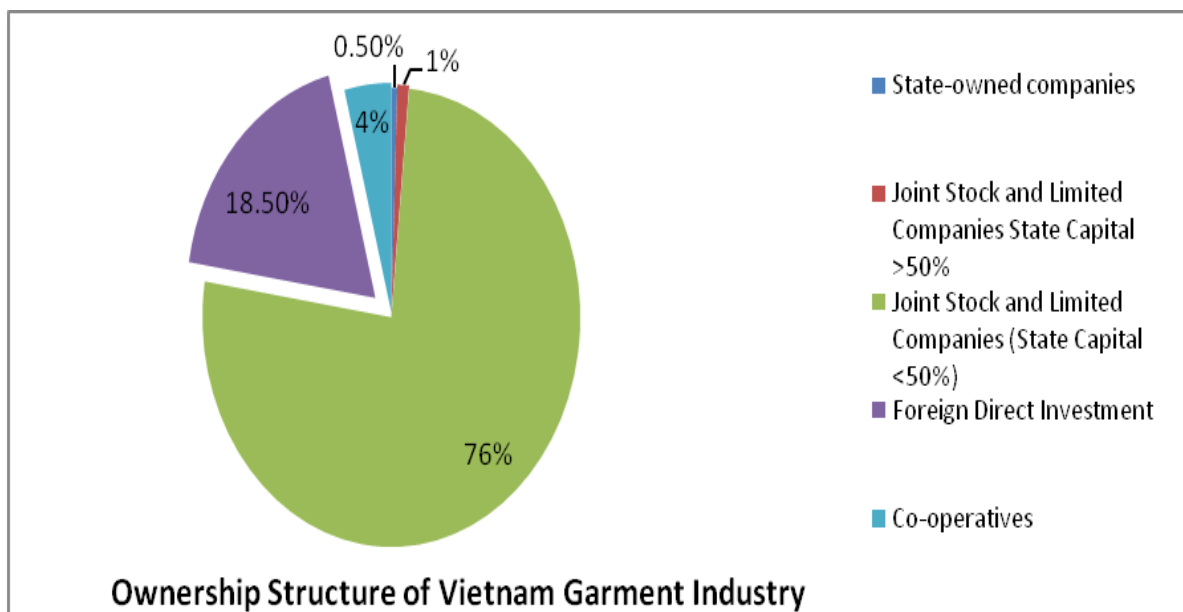


dispersedly located unlike Cambodia. Around 58% of the enterprises are located in North-East area, 27% in The Red River Delta area, 7% Northern Central Area and central Coastal Area, 4% in the Mekong River Delta and the rest 4% in the Northern Midland and Mountain Area and highlands. Today's textile and garment industry is the outcome of the investment initiative taken during the last one decade. From 1997 to 2006, Vietnam has undergone huge investment moving towards more modern manufacturing technology. Up-to now, Vietnam Textile and Garments has about 2,500 enterprises with nearly 2 million workers, of which 1.1 million are direct and the rest are indirect workers. Common labor related problems are much lesser in Vietnam and all the workers belong to only one Trade union. However, garment industries are increasingly facing labor shortage due to increased degree of labor mobility into other industries for higher wages and salaries. Currently, state of garment industry in Vietnam can be described as below:

- About 2,500 garment export-oriented factories are operating and registered with VITAS, with 77% owned by joint stock companies with state partnership, 18.5% being 100% FDI, 0.5% state-owned and 5% local Cooperatives.
- 2 million workers (80-85% female) are employed of which 1.1 million are direct labors and the rest are indirect labors.
- Minimum wages for a casual labor is around US\$ 50-60 per month and wages for a skilled worker ranges from US\$ 140-200 per month, sometimes even more
- Most common items Shirt, Pants, Trouser, Jacket, T-shirt, Polo Shirt, Children wear, Underwear and Swimming wear, work-clothes, etc.
- Main markets are USA, EU, Japan and Russia

### 3.3.1 Ownership and Structure of the Garments Industry in Vietnam

The Vietnamese textile and garment industry has long time been under influence of the communistic system. However, currently, four different types of ownership exist in Vietnamese garment industry and these are 100% state-owned enterprises, joint stock companies with 50% state ownership, 100% foreign owned enterprises and co-operatives. **Figure 3.3** shows the ownership structure of the garment industry in Vietnam:



Source: VITAS, 2009

**Table 3.3 Location-wise Garment Industries in Vietnam**

<b>Location</b>	<b>Garment Industries</b>
The Red River Delta	27%
Northern Midland and Mountain Area	3%
Northern Central Area and Central Coastal Area	7%
Highlands	1%
South-East Area	58%
Mekong River Delta	4%

*Source: VITAS, 2009*

At the very early stage, the garment industry used sewing machines driving by leg and thereafter, the industry gradually replaced by modern industrial sewing machines. Since 1991 the industry has been investing in technology renovation to meet the requirements of international market and the industry bought numerous specialized machines for synchronous production lines. Production lines are mostly with medium and small scale. Some enterprises have used new technology, computer in some production functions. Private companies are different from state-owned companies in terms of size of operation. Size of the private companies is relatively smaller than the state-owned companies. Private garment factories cooperate with each other through ‘subcontracting’.

### **3.3.2 Capacity Utilization and Production Orientation of Garment in Vietnam**

#### **3.3.2.1 Capacity Utilization**

The capacity of garment is 2,400 million units per year. Currently, the production capacity of the garment industry in Vietnam is 100% utilized as reported by the officials of the enterprises and trade associations and the researchers during the field trip of the author. All the factories are fully occupied with adequate export orders and are running in full swing in a single shift of nine-ten hours. Spinning and dyeing finishing factories operate in three shifts. However, no official data is available on the capacity utilization.

#### **3.3.2.2 Production Function in Vietnamese Garment Factories**

Value-added activity is higher in Vietnam. There are factories having full range of supply chain starting from yarn and fabrics up-to cutting and sewing. However, for raw cotton Vietnamese spinning mills are dependent on import. Factories work on both FOB and CMT basis. All required raw materials including imported ones can be sourced locally. Subcontracting arrangements are also practiced among private-owned factories with limited capacity but value addition is very low. In case of subcontracting, Vietnamese producers can only earn around 20% of net price and the remaining 80% belongs to the buyers and middle man providing materials, accessories and design. In Vietnam, there is an international manufacturing triangle where Foreign Customers, Vietnam’s producers and Asian intermediaries are involved like Japan, Taiwan, Korea, Hong Kong and China.

#### **3.3.2.3 Productivity in Vietnamese Garment Industries**

Labor productivity in the garment industry of Vietnam is higher than Cambodian and Bangladeshi factories. Vietnamese workers are literate young and intelligent and as such,

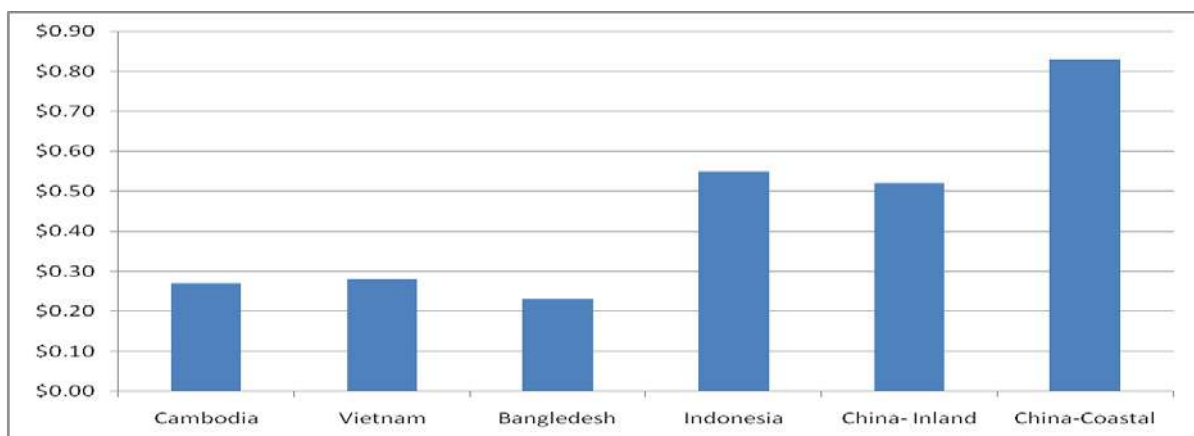
their productivity is higher than those of Bangladeshi and Cambodian workers. However, the productivity in Vietnam is still lower than China; one Factory Manger quoted that the productivity level in Vietnam is 90% of Chinese workers.

### 3.3.2.4 Lead Time or Delivery Period

The production lead time of garment based on locally sourced raw materials is about 60 days. If the garment is produced using imported raw materials the production lead time is reduced at 35-30 days. Lead time increases since the local textile industries normally take longer time to deliver the desired quality of fabrics. It takes 5–30 days to produce required quality of fabrics by the local textile industries. One Factory Manager informed that only 20% locally produced fabrics are of good quality and roughly, 30% of the required accessories are produced in Vietnam that include thread, cartoon, poly bag, labels, button, zippers, interlining, etc.

### 3.3.2.5 Workers’ Wages in Vietnamese Garment Industries

In Vietnam, one skilled garment worker receives an average wage of US\$ 120-140 per month<sup>5</sup>. After 2006, most of the factories reported a rapid increase in wages that ranged from US\$ 100 to 140 for the line operators. **Figure 3-3** shows the results of a survey on hourly wages in different garment exporting countries:



Source: Werner International, 2007 Salary Survey.

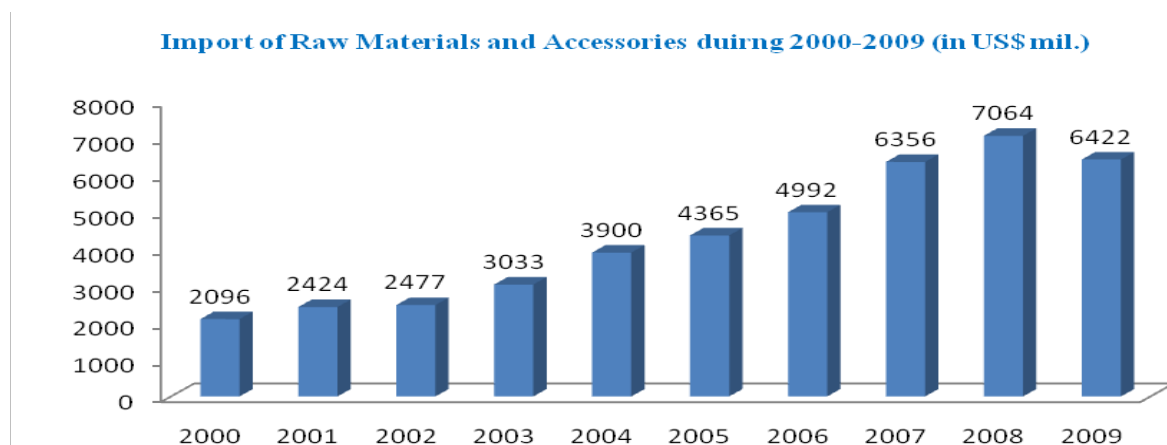
In Vietnam garment industry, average monthly pay with overtime comes at more than US\$ 140 that include base rate, payment for overtime and holidays taking into account holidays and vacation. However, current weekly minimum wages paid by foreign-invested enterprises are US \$63(approximately) for unskilled workers in urban districts of Hanoi and Ho Chi Minh City; US\$56 (approximately) in rural districts of Hanoi and Ho Chi Minh City; and US\$ 50 (approximately) for other provinces.

### 3.3.3 Raw Material Resources for the Garments Sector in Vietnam

Presently, Vietnam has adequate number of backward linkage industries that can supply fabrics, threads, accessories and trims. Over the years, Vietnam needs to reduce import content to a significant extent. However, Vietnam still relies on imports of fibers, yarns, fabrics and garment accessories. Almost all garment factories import their fabrics from foreign countries like China, Hong Kong, Taiwan and Korea. The Vietnamese government has a clear strategy of increasing the supply of

<sup>5</sup> ADB phase 1 survey commissioned to Cambodian Researchers for Development in December 2004

domestically produced inputs such as raw cotton, yarns, fabrics and garment accessories in 2015 and 2020. Import of raw materials and accessories in garment industry is shown in the **Figure 3.4** below:



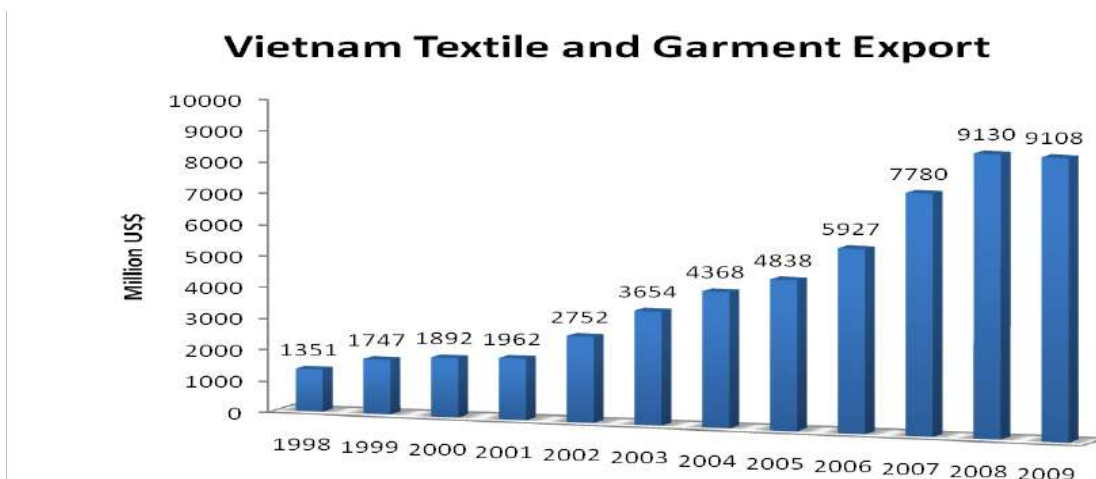
In Vietnam, in order to facilitate sourcing fabrics and other required accessories for the garment industries, raw materials and accessories trading centers have been established in important locations. Import of cotton, yarn, fabrics and accessories during 2005-2010 June can be seen in the table below:

**Table 3.4: Import of Cotton, Yarn, Fabrics and Accessories in Vietnam (in US\$ mil.)**

Items	2004	2005	2006	2007	2008	2009	2010 June
Cotton	271.45	167.2	219	268	468	385	314
Fibre/Yarn		339.6	544	744	788	787	525
Fabric		2,399	2,980	3,980	4,454	4,168	2,500
Accessories		1,460	1,249	1,364	1,354	1,082	790
<b>Total Value</b>		<b>4,366</b>	<b>4,992</b>	<b>6,356</b>	<b>7,064</b>	<b>6,422</b>	<b>4,129</b>

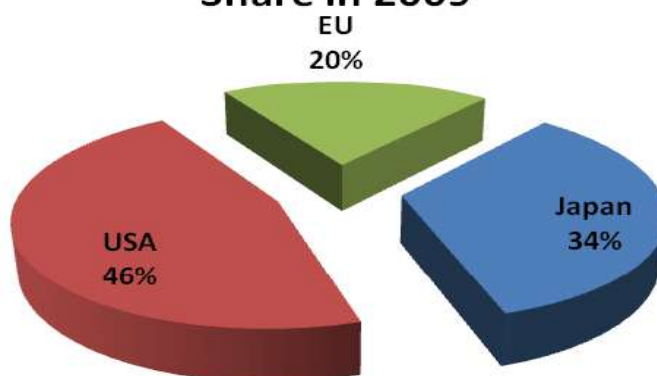
### 3.3.4 Export of Vietnamese Textiles and Garments

The Vietnamese export of textiles and garment continues to grow. In 2007, export of Vietnamese textile and garment was US\$ 7.75 billion, and in 2008, it has come to US\$ 9.11 billion, registered around 18% growth over the previous year. In 2009, export earnings from textiles and garments reached US\$ 9.13 billion. In short, the textile and garment sector has made a remarkable contribution to the economic development of Vietnam. With more than 2 million people involved, the industry contributes significantly to the export earnings. Figure 3.5 shows export of textile and garments during the last 12 years:



Export growth since 2001 has been steep. It was particularly strong in 2003 at 33% and in 2002 at 40%, but growth slowed in 2005 to just 10%. This was due mainly to the fact that quotas restricting imports from other Asian countries were eliminated at the beginning of the year, but imports from Vietnam into the USA - Vietnam's largest export market - were still subject to quotas. US retail buyers therefore turned to countries such as China and India for their clothing. In 2006, however, the USA implemented safeguard quotas on several categories of Chinese textiles and clothing, with the result that buyers returned to Vietnam. As a result, Vietnamese exports soared by 20.6% to US\$ 5.927 million. Share of garments exports into different export destinations can be shown in the **Figure- 3.5**

### Vietnam's Textile and Apparel Market Share in 2009



Product categories that Vietnam has successfully exported are both woven and knit garments. Table 3.4 below gives a clear recent picture on the product ranges those have been exported from Vietnam to its major markets (2008 & 2009). It is clearly understood here that knitwear ranked the top, followed by several woven items like Pant and Shorts, Jacket and Coats.

**Table 3.5: Vietnam Textile and Apparel Export by Categories in 2009**

Item	2009(%)	2008(%)
Knitted Shirt	21.66	23.14
Pants and Shorts	19.82	20.82
Jackets and Coats	18.57	18.42
Woven Shirts	5.78	5.51
Skirts	4.48	4.01
Children Wear	3.77	3.4
Underwear	3.46	2.76
Sport wear	1.14	1.38
Sleep wear	1.22	1.15
Swim wear	0.69	0.7
Fabric	4.74	3.96
Other	14.66	14.74

### 3.3.5 Market Access of Vietnam Textile and Apparel Products

Vietnam joined the WTO in 2007. Also, the USA removed all quotas on textile and clothing imports from Vietnam. The removal of quotas boosted US demand for Vietnamese clothing, especially for lower-end products. In Table 3.5 an overview is given of the export divided to several markets: EU, USA, Japan, or other countries.

**Table 1.6: Vietnam's Textile and Garment Export to USA, EU and Japan**

Year	USA	EU	JAPAN
1998	26	521	321
1999	34	555	417
2000	50	609	620
2001	45	599	588
2002	951	579	521
2003	1,973	580	514
2004	2,474	762	531
2005	2,603	882	604
2006	3,186	1,225	636
2007	4,400	1,500	700
2008	5,100	1,700	820
2009	4,900	1,700	955

### 3.3.6 Size of Garment Factories in Vietnam

In Vietnam, the size of garment factories widely varies; there are factories with only 20-30 workers and again the larger factories are even hiring more than 5,000 workers. The most common size of garment factories normally workers range 300-800. In general, Vietnamese garment producers do have the capacity and machinery to produce fashionable clothes. There are many high skilled technical people who can make the garment, but the order size is of decisive influence in accepting an order. They want the machines keep running and therefore detailed garment is not preferable, and often rejected.

### 3.3.7 Future Growth Target and Strategies (2015 to 2020)

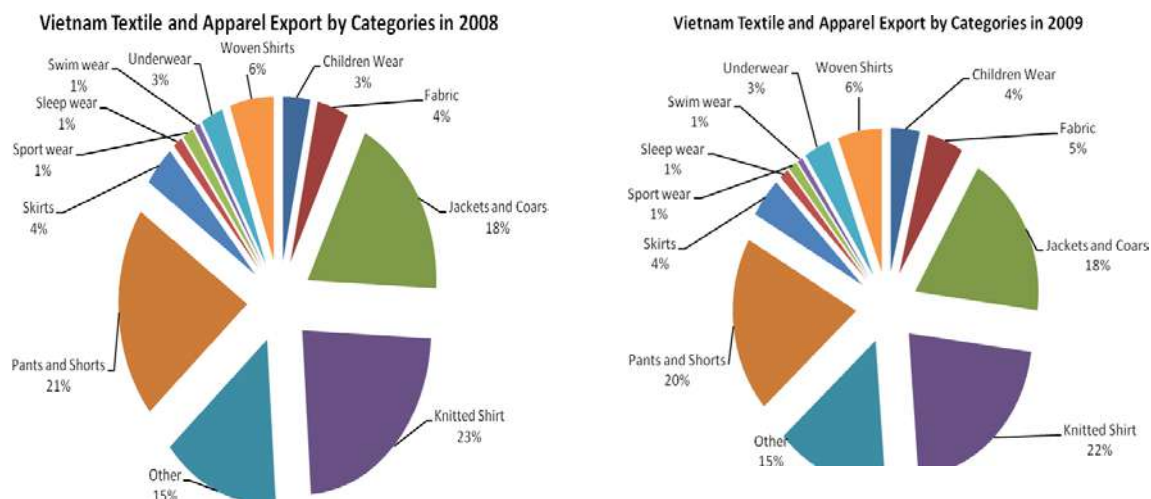
Over the last decade, Vietnam's textile and garment export played a significant role in the total export earning and it has also created scope for formal employments, and directly contributes approximately 10% to the country's GDP. Given the fact that the industry was practically non-existent in the early 1990s, its growth all the more remarkable. Keeping in mind this enormous business potential, the Government of Vietnam has taken strategies for further growth of textile and garment industry sector with definite target and missions. Table 3.7 below outlined the future target of Vietnam textile and garment sector:

**Table 3.7: Vietnam's Future Growth Target**

Particulars	Year 2010	Year 2015	Year 2020
Turnover (US\$ billions)	13 - 15	18 - 21	27 - 30
Export Revenue (US\$ billions)	10 - 12	14 - 16	20 - 22
Labor (million)	2.5	3.5	4.5
Fabric Production (tons)	1,000,000	1,500,000	2,000,000
Fiber Production (tons)	350,000	500,000	650,000
Localization	50%	60%	70%

### 3.3.8 Main Product Category and Export Markets of Vietnamese Garments

Knitted garments typically include items such as T-shirts, Polo-Shirt, Sweat Shirts and Sweaters. Woven garments are Trousers, Shirts, Jackets, Skirts, Children wear, Dress, Blouses, Underwear and Nightwear, Jeans Pants, Sportswear, etc. are normally classified as woven fabric based garments as they tend to use more woven fabrics than knitted fabrics. For both types of garments, the US market is its largest importer, with a particularly high share in the export of woven fabric based garments. Figure 3.6 present categories of garment exported by Vietnam during the year 2008 and 2009:



Source: VITAS data 2009

In Vietnam, all reputed buyers place orders, namely H & M, Levi Strauss, Sears Holdings (Sears and Kmart), GAP, ADIDAS, Target, VF Jeanswear, Matalan, Blue Star, Nike, and JC Penny, PVH, C&A, Wal-Mart, Kohl's MGT, Children's place, The William Carter, M and S and American Marketing.

### 3.4 Garments Accessories Industry in Vietnam

Vietnamese garment producers' source all kinds of accessories through import. However, local backward linkage industries have also grown that can meet around 20%-30% of requirements. Currently, more than 21 accessories industries are in operation in Vietnam. Imported items can be sourced locally. Vietnamese garment producers use high quality accessories like international brands as YKK zippers, COATS (sewing thread), Kufner, Freudenberg and Vilene (interlining).

### 3.5 Textile and Garments Supportive Institutions in Vietnam

#### 3.5.1 The Vietnam Textile and Apparel Association (VITAS)

**The Vietnam Textile and Apparel Association (VITAS)** is a non-governmental umbrella association working in the field of textile and garment industry in Vietnam with 15 branches in Vietnam and in total of 635 members, account for 70% of the total capacity of the industry. VITAS promotes business and investment cooperation as well as exchanges information among members, between members, and the outside. Furthermore, VITAS represents its members and consults relevant the State and Government bodies in policy campaign and mechanisms relating to the development of the Textile and Garment industry in Vietnam. The VITAS represents Vietnamese textile and garment

industry in international organizations and tries to be a bridge of cooperation between the domestic industry and the outside world. The VITAS also supports foreign companies in looking for Vietnamese textile and garment producers.

### 3.5.2 The Vietnam Textile and Garment Group (VINATEX)

**The Vietnam Textile and Garment Group (VINATEX)** is the biggest state-owned group of companies in the field of textile and garment in Vietnam. VINATEX is also a member of VITAS. It has over 90 member companies in Vietnam which together cover activities from spinning, knitting, weaving, and dyeing to finishing. The total labor force of the VINATEX is nearly 100,000 employees and another 35,000 employees working in joint-ventures with foreign and local partners. The production capacity of the VINATEX is 100,000 tons of spun yarn, 250 million square meters of fabrics, 350 million pieces of woven garment, 80 million pieces of knitting, 200 million pieces of garment, and 15,000 tons of raw cotton<sup>6</sup>.

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<sup>6</sup> Vietnam Textile and Apparel Association, Quality – Credibility publication, 2007



## **4.0 Investment in Vietnam Textiles and Garments Industry**

Since 1996 there has been positive trend in investment in manufacturing sector for export markets and import substitution, infrastructure and labor intensive industries. In 2008, Vietnam attracted 1,557 newly registered investment projects that registered capital of US\$ 66 billion, of which 764 projects were in the manufacturing sector where textile and garments occupies major portion and the rest are leather and footwear, wooden and plastic products.

### **4.1 Domestic Investment in Textile and Garment Industry**

There are three main resources for domestic investment in the textile and garment industry in Vietnam: State resources, self-financed capital of enterprises, and bank loans. During eighties, lack of funds was a common state for the textile and garment enterprises for improved technology and equipment renovation as well as working capital. In the period 1991-1997 the industry invested US\$ 135 million, where the government 8.7% and private enterprises' self-financed capitals account for 10% of the total capital invested in the industries. The investment capital for technology renovation in the Textile and garment industry increased rapidly.

### **4.2 Foreign Direct Investment in Textile and Garment Industry**

Foreign direct investment has played an important role in developing textile and garment industry although it is small percentage of total FDI in Vietnam. Up to December 31, 1997, Vietnam has 189 Textile and garment projects with total registered capital of US\$ 1,817.69 million by the foreign direct investment. Among the total projects, 34 are for producing fiber, fabrics and knitwear; 3 projects for silk production; 3 projects for dyeing; 4 projects for cotton towel production, 11 projects for woolen and rug production and 5 projects for PP fiber and nylon fabrics.

There are 19 countries invested in Vietnam's garment sector. Taiwan is the leading country with 25 projects and investment capital of US\$ 68.79 million (35% of total capital). South Korea ranks the second with 20 projects and investment capital of US\$ 31.57 million (24% of total projects and 16.2% of total investment capital). Germany is in the third position with 4 projects and the capital of US\$ 29.058 million (14.9% of total capital) and there are other countries. There are 12 projects producing supplements to garment industry (thread, thread for embroidering, button, soft panel, etc.) with investment capital of over US\$ 41.44 million including five 100% foreign-invested projects with capital of US\$ 19.64 million and 7 joint venture projects worth US\$ 21.79 million.

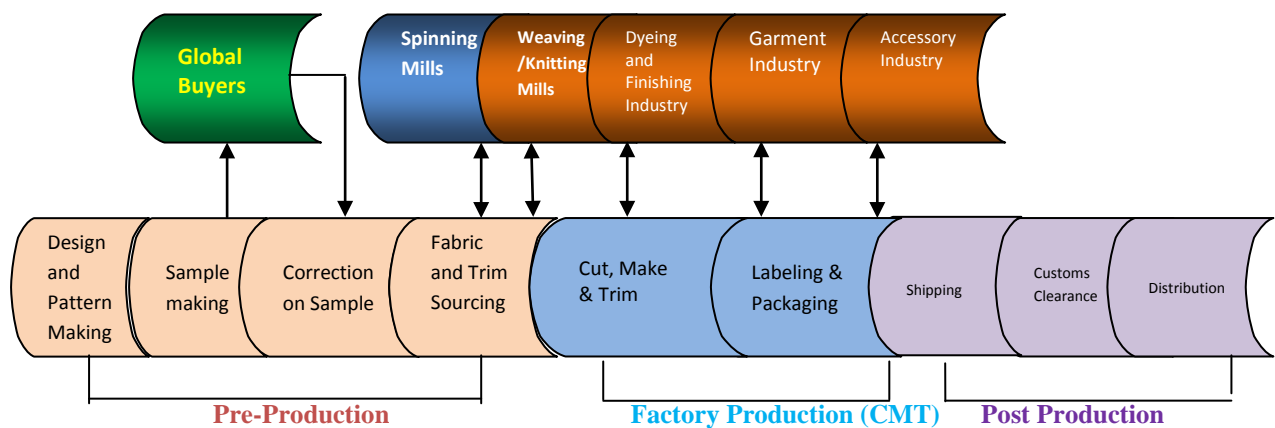
### **4.3 Recent Trend in FDI in Vietnam**

In 2007, Vietnam attracted FDI pledges worth over US\$20 billion. It was a 70% increment over comparable 2006 figures. Around 1,500 new investment projects were licensed in 2007. However, these projects are mainly in the area of construction, high-tech products, electronics and telecommunications. As per January 2008 reports, FDI projects numbering 40 and worth US\$50 billion are awaiting for approval from the government in the thrust areas of the Vietnamese government, but no significant investment for the textile and garment sector is mentioned. However, local enterprises are making new investment. For example, VINATEX plans to invest about US\$61.1 million this year to improve capacity and value added products and also to build 2 large industrial parks specializing in textile and dyeing and finishing. Recently, a group of banks and financial institution extended credit worth US\$ 225 million for setting up a polyester fibre mill.

## 5.0 Vietnam in the global T&G value chain

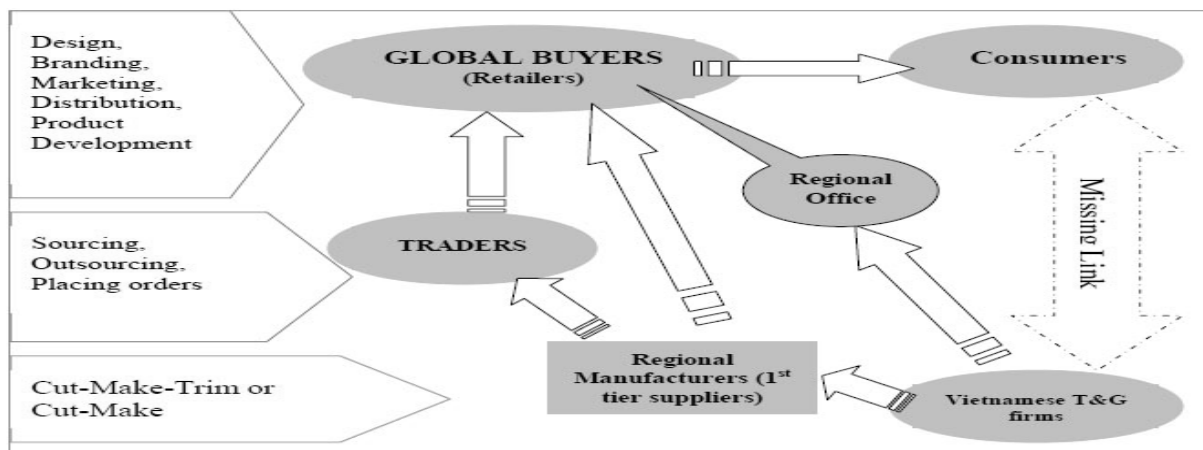
### 5.1 Value Chain of Garment in Vietnam

Garment and textile industry value chain in Vietnam is different from that of Cambodia. In Vietnam, garments and textile industries are having very heterogenous nature; some factories only do ‘**cutting and sewing**’, while others are “**composite woven and/or knit textile**” having own fabrics supply produced by their own. Again, some are large factories having the full range of textile and garments value chain except supply of raw cotton, i.e. “**yarn, fabrics- weaving, dyeing and finishing, cutting and sewing**”. However, after production forward linkages are same for almost all of the garment industries. Although large factories are having full range of supply chain, but this number is not very big. There are growing numbers of backward linkage and support industries in Vietnam and they supply accessories to the export oriented garment industries, but only around 30% of the required accessories in Vietnam. Of the total gross revenue from sales of a garment at the retail end, typically out of every five dollars, three will accrue at the retail end, one to the producer, and one for freight, import duties, insurance and transportation. Value chain in Vietnam garments industry is longer than Cambodia. Due to presence of local yarn, fabrics and accessories industries, Vietnamese garments industry can work on FOB basis. However, factories are also working on CMT and sub-contracting basis. Value chain in garment industry in Vietnam can be drawn in **Figure 5.1** as below:



Various parties involved in the value chain of garment industries in Vietnam can be seen from **Figure 5.2** shown below:

**Figure 5.2: Value Chain in Vietnamese Garment and Textile Industry**



## 5.2 Impact on Other Related Industries across the Value Chain

In Vietnam, there has been no official attempt to evaluate the impact of textile and garments industries on the other related industries across the value chain. However, It is understood that over the years, the industry created additional demand and as such, huge investment has been made in the related industries across the value chain. Vietnam experienced a significant number of spinning mills, weaving/knitting mills, dyeing and finishing mills, accessories industries as well as expansion of existing capacity of these related industries. It is obvious that certain increase in demand of garment products resulted in an increase in total domestic yarn and fabrics production as well as production of products and that has led to an increase in domestic production of trading business, transportation, consumption of electricity, water and gas, consumer's products, etc. by certain percentage. Also, there has been an increase in the services like banking and finance, insurance, clearing and forwarding, shipping lines, hotels and restaurants, etc.

It can also be assumed that the increased volume of export business has created additional demand of workers and thus created additional demand for housing and cooking facilities in urban area, additional market for toiletries and cosmetics industries due to increased buying capacity of the workers, and increased load on the recreational facilities, increased initiatives for skilled development training, etc.

## 5.3 Costing of Garments in Vietnam

In Vietnam, the common items are Knitted Shirt, Jeans Trousers, Pants and Shorts, Jackets and Coats, Woven Shirts, Skirts, Children Wear, Underwear, Sport wear, Sleep wear, Swim wear, etc. Table 5.1 below gives scenario on standard CMT of different items:

**Table 5.1 Standard CMT of Common Items**

Category	CMT (US\$)/Piece	Category	CMT (US\$)/ Piece
Knit (T-Shirt)	0.40	Jacket	7.00
Shirt (Short slip)	1.25	Trousers	1.20
Shirt (Long slip)	1.30	Pants	1.20

While calculating the costing of any garment item, there are basic elements of cost in the entire process starting from sourcing up-to final delivery. These are raw material costs (fabrics and accessories), direct labor costs, indirect labor costs that include salary of managers, supervisors and other staff, general and administrative costs, utility expenses, finishing costs, rentals, trade and transport costs and screen printing or embroidery costs which is not common for all items. The key elements of cost of different are as shown below:

**(Table 5.2 is not yet finished)**

Elements of Cost	Shirt	Denim Trouser	Jacket	T-Shirt	Polo Shirt
Raw Materials (Fabrics, Trims, thread & packaging sourced from outside Cambodia)	4.47	4.14			1.39
Cut, Make, Trims and Finishing	1.32	1.15			0.43
Trade and Inland Transports	0.21	0.22			0.06
<b>Price per piece (US\$)</b>	<b>6.00</b>	<b>5.51</b>			<b>1.88</b>

## **6.0 Incentives for the Textile and Garments Industry in Vietnam**

No special incentives any form is given to the textile and garments industries in Vietnam. Being a developing country member of WTO, the government of Vietnam is not allowed to provide any subsidies or incentives, directly or indirectly to the textile and garment industries. Currently, there is no special low cost financing scheme for the garments and textile industries. However, to attract local and foreign direct investment, the government of Vietnam offers fiscal and investment incentives as outlined below:

- Local garment and textile industries are entitled to get refund of value added tax
- Zero duty on importation of capital machinery and equipment for textile and garments industries
- Investment incentives to the enterprises that produce equipment and machinery for the textile and garment industry
- Investment incentives involved in production of weaving fabrics, completing textile products; producing silk and fibres of various kinds.
- Investment incentives to the garment and textile industries those regularly employ 500 to 5,000 employees.
- Investment incentives to the enterprises producing waste treatment equipment for textile and other industries

## 7.0 Impacts of Textile and Garment Industry in Vietnam

### 7.1 Economic Development and Growth

The T&G industry played an important role in the economy in general and in the manufacturing sector in particular. The share of textiles and garments in manufacturing output is increasing every year. Vietnam is now one of the top ten garment exporting countries in the world with foreign exchange earnings of US\$ 9.11 in 2009 and by the end of this year it is expected to bring more than US\$ 9.2 billion. Growth of this sector and its contribution to the GDP can be seen in the table below:

**Table-7.1 Contribution of Garment and Textile to the GDP**

Particulars	2003	2004	2005	2006	2007	2008	2009
GDP (US\$ billions)	31.87	37.53	44.10	51.25	58.54	78.26	92.6
GDP growth rate (%)	6.0%	7.2%	7.7%	8.5%	8.2%	8.5%	6.2%
TG Growth Rate (%)	33,48%	19,40%	11,25%	23,79%	30,24%	18,27%	17,01%
<b>Ratio</b>							
Textile and garment (TG)/GDP	5,33%	5,31%	5,88%	5,98%	6,55%	7,34%	8,04%

Source: GSO 2009

Products made in Vietnam have penetrated to the world market, thus it contributed to the future market development of the country. Over many years, the industry continuously invested and changed equipment and technology to meet the market demand and to improve its competitiveness. Economic benefits were largely generated by processing imported materials and accessories as local content account for around only 30% of the exported garments and textiles. Under the recent target and strategies of this sector, local cotton production will be increased and thereby increase more job opportunities for rural poor.

Over the years, the garment and textile sector has also attracted a large volume of foreign direct investment (FDI) within the sector as well as sectors related to this. Services sector like banking and insurance, clearing and forwarding, cargo and shipping lines, transports and telecommunications, etc. Also, this sector has created additional demand for consumer's products and other urban amenities.

Moreover, Van Phuc Village in Vietnam is a silk cluster zone having 730 households with 1,600 people earning a living by weaving silk. The village supplied silk products to the local markets as well as exports. The Silk sector generated about US\$ 1.6 million and made up 63% of the commune's economy each year. Given that each power-loom generates one weaving job, the Silk village creates more than 1,000 jobs each year <sup>7</sup>

### 7.2 Employment

The garment and textile industry currently employs more than 2 million workers, out of which around 800,000 are indirect labor forces. The sector brought in a large number of rural young women at industrial workplace that eventually facilitated increased labor mobility within the manufacturing sector as well as services sector for higher wages and salaries. Garment and textile industries are experiencing high turnover of workers taking places due to increased and better opportunities in other manufacturing and services sectors within the country and outside as well. However, due to economic slump in 2008-2009, it was difficult to continue generation of additional jobs.

<sup>7</sup>(<http://english.vietnamnet.vn>, 27th May 2008).

Vietnam has plenty of laborers with good basic education for any investment. Since textile and garment industry is a labor intensive industry, Vietnam is in a better position than other countries. However, lack of professional and technical laborers (especially in textile sector) is a constraint for expanding the industry. Only few universities have departments training engineers for the industry. Among them, the names of Hanoi Poly-Technic University with a Textile and garment department; Industrial Art University with a fashion department training fashion designers; Hanoi Open University with a specified sub-department training fashion designers and HCM City Poly-Technic University with a Textile and garment department training Textile and garment engineers are mentionable. Also, some technical schools training technical workers in garment area.

### 7.3 Spillover Impacts

In Vietnam, several spillover impacts of garment and textiles are observed:

- A good number of backward linkage industries have been established to support the garment industries producing various raw materials and accessories (cartoons, buttons, trims, threads, zipper, poly bag, interlining, etc.).
- **Increased labor mobility:** Labor mobility into other growing industries is increasing day by day. Skilled labor after working for several years are now moving to another industry for better wages and benefits and thus new manufacturing units are easily get skilled workers having previous working experience in industrial environment.
- **Women empowerment:** Out of total direct workers involved in the garments and textile sector in Vietnam, around 80-85% is female who made themselves self-dependent after having jobs.
- **Improved life style of workers:** Young working women who migrated from rural area are having better lifestyle after getting job in the garment or textile industries.

## **8.0 Challenges of Vietnam Textile and Garments Industry and Recent Initiatives**

### **8.1 Strengths and Opportunities for Vietnam**

- With abundant and skillful labors at relatively low cost, Vietnam textile and garment enterprises can produce complicated styles high quality, high value added and branded products.
- 80% of equipment in the garment branch are renovated and modernized, satisfying the requirements of foreign textile and garment importers.
- Capacity has been increased in the area of garment and spinning production
- Products quality and orders implementation capacity have improved and thus able to attract foreign customers i.e. big importers and retailers
- Vietnam ranked within top 10 biggest textile and garment exporters in the world
- Increased trend of relocation of textile and garment production from developed countries such as Taiwan, Korea to Vietnam and thus attracts capital, technology, management experience to develop textile and garment industry.
- Many garment enterprises are well-organized, large-scale having good experiences in production and export can satisfy all management and social standards and build up close and stable relationships with many big consumption groups in the world.
- Vietnam is close to the main fabric and accessory sources in the world.
- Vietnam is appreciated as a stable political and safe social destination, attracting businessmen and foreign investors.

### **8.2 Major Challenges faced by Vietnam Textile and Garments Industry**

- Seaport is over utilized and limited warehousing facility cannot accommodate a large quantity of export items to be shipped
- Bribery and toll collection exist while the goods are transported for export destination through seaports or airports
- Textile backward linkage industry are still not very developed, 70% of raw materials are imported from abroad, resulted in inactive production and limit the quick response ability.
- Labor productivity is low compared to China, and products are not diversified.
- Many enterprises haven't paid proper attention to building up long-term development strategy; as a result, the stable development is limited.
- Most of enterprises are in small and medium size (SMEs) with low investment capital mobilization and limited ability of innovating technology and equipment.
- Human resource training of middle and high class management, technology, and fashion design are weak.
- Marketing and trade promotion are limited, fashion design, building up and developing trademark are not much cared
- More trade and technology barriers such as the regulations of chemical safety product law, import monitoring programs given by import countries, created difficulties and higher cost for the suppliers.
- International competition, especially from powerful textile suppliers such as China, India and Bangladesh are getting severer and severer.

### **8.3 Future Plans and Recent Initiatives**

The government has taken up concrete development strategy to ensure further growth of Vietnam Textile and Garment Industry and set specific target for year 2015 and 2020. Following targets have been made by the government:

- Developing the textile and garment to become one of the key export industries, satisfying the domestic consumption demand, creating employments for the society, improving the competition ability, integrating stably in the region and in the world.
- Production growth rate is from 12-14% per year, export growth is 15% per year.
- Giving employment for 2,750,000 people in 2015 and 3 million people in 2020.
- Export turn-Over reach US\$ 18 billion dollars in 2015 and US\$ 25 billion dollars in 2020.

To achieve those goals the government together with the VITAS has taken policies as mentioned below:

- Shift the focus in garment manufacturing from CMT (cut, make and trim) to FOB (free on board) production,
- Increase the domestic content of garment production by investing in cotton production, and in spinning and weaving facilities.
- Gradual shift from lower end market to high quality
- More efficient sourcing through vertical integration
- Productivity improvement by enhancing research, training and development.



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