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Vietnam's Garment Industry – Origins and Future Prospects

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Abstract:

This paper investigates the origin and future of Vietnam's garment industry. Recent research has shown that garments business have been shifting from china to Vietnam because in Vietnam, comparatively labor costs are more cheaper than china. The rearrangement of production amenities to Vietnam - with strong government support to the garments industry, increasing exports if textile product, strong trade relations and selected goals have helped to expand of textile and apparel industry in Vietnam. According to purchasing power parity (PPT) Vietnam is the 35th largest economy in the world. Vietnam is a member of ASEAN, WTO and APEC. Garments industry have a great impact in Vietnam's economy. Vietnam's economy is growing day by day. This paper in exploratory in nature that will explore the impact of garment industry in Vietnam's economy.

Key words: Garment, production, Industry, Prospect and economy

Introduction

Socialist Republic of Vietnam is the 9th most population country in Asia and 14 in the world. Vietnam have got independence from France in 2 September 1945. Garments industry of Vietnam is growing rapidly and its has a great impact on total GDP of Vietnam's economy. The estimate GDP(nominal)

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in 2017 is $215.829 billion and per capita is $2,305. Vietnam is trying to increase production 12-14 % and expected export 15% per annual. as a result, Vietnam wants to reach US$50 billion by 2020 up from US$28 billion in 2016. so Vietnam tries to increase the productivity of garments industry. To attain these goals, though, a number of strategies will need to be implemented. For a start, Vietnamese organizations will need to move their in spotlight away from CMT (cut, make and trim) garment production where they act simply as subcontractors for overseas firms. Instead, they will need to establish more garments on a so-called fob (free on board) basis and deal directly with overseas buyers.

Also, only a small percentage of Vietnamese clothing is made from domestically produced fabric and this needs to increase significantly. Additionally, there needs to be a shift from producing lower end clothing items to producing high quality, high value fashion items. There also needs to be a move towards more efficient sourcing through vertical integration, as well as an improvement in productivity by enhancing research, training and development. The industry has already begun to make significant investments in its textile manufacturing facilities. For example, Vietnam was the second biggest investor in shuttleless looms among member countries of the Association of South East Asian Nations (Asean) during 2006-15. Moreover, it was the biggest investor among these countries in ring spindles and open-end rotors. There has also been a marked expansion in the knitting sector.

The industry's development has been assisted by strong government support which has encouraged high levels of investment -- especially from foreign investors. Development has also been assisted by government success in negotiating a number of free trade agreements (FTAs). Having said that, not all Vietnamese clothing exports benefit from preferential tariffs under these FTAs because many of the agreements stipulate the use of locally produced fabrics – and a large proportion of the fabrics used for clothing production in Vietnam are imported. Vietnamese fabric production accounted for barely 15% of the clothing industry's fabric needs in 2015. Furthermore, growth in clothing production has outpaced that of fabric production in recent years.

Another issue for the industry is that activities such as marketing and distribution are underdeveloped. Consequently, the industry relies heavily on the help or participation of foreign companies to carry out these activities. However, the position is beginning to change. The government is promoting opportunities for the textile and clothing industry by pursuing a programme of specialisation and modernisation. Its objective in doing so is to produce more items with greater added value, and it is significant that a number of internationally recognised brands are increasingly active in the country -- including Adidas, Puma, Nike and Gap.

There is also scope for clothing producers to enhance their product offerings by developing their own brands and becoming original design manufacturers (ODMs) rather than mere subcontractors. However, much will depend on nurturing local design talent and establishing brand names which have a resonance with consumers in sophisticated Western markets. Significant opportunities will arise for supplying Vietnam's growing domestic clothing market. The market is being powered by a young age profile, increasing urbanisation, rising personal disposable incomes and continued strong economic growth. In fact, the country's retail sales are reported to be rising by 20% per annum. Moreover, consumer spending on clothing is the second highest category of expenditure, being exceeded only by food purchases.

Result and discussion:

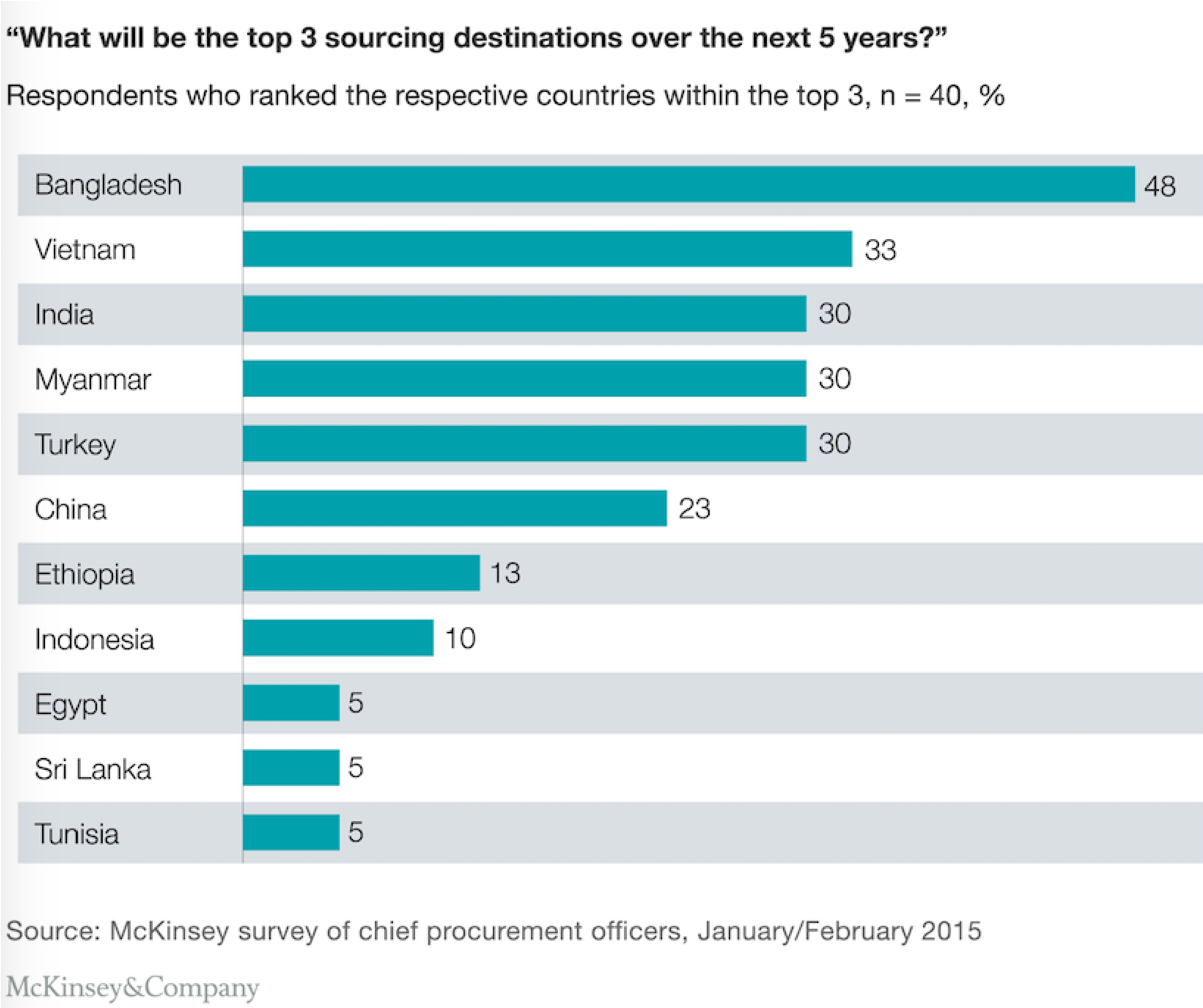
In addition to being a highly significant contributor to export earnings, the garment and textile sector employs around two million people, of whom 80 per cent are female, many are migrants from the poorer rural provinces. As migrant workers are often responsible for supporting extended families in the countryside, there are potentially millions of lives dependent on the sector's performance. Significant changes in the sector can have major social impact. Recent data (2006) from the Ho Chi Minh City Association of Garments, Textiles, Embroidery and Knitting (Agtek) and the Vietnam Textile and Apparel Association (Vitas) indicate that there are around 2,000 garment and textile enterprises in Vietnam, including 50 state-owned enterprises (SOEs), 1,400 private enterprises and 450 foreign direct-investment (FDI) enterprises.

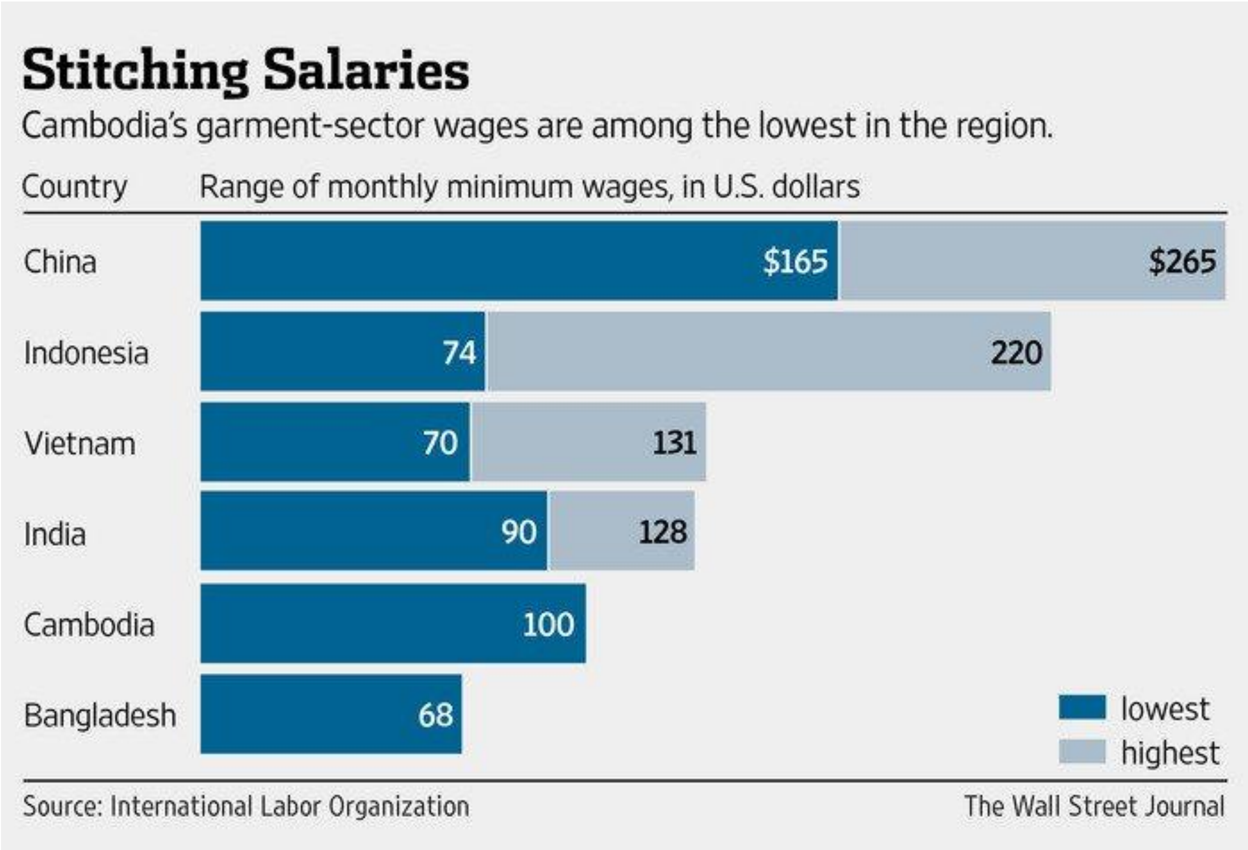
Of these, approximately 1,100 companies, including some 200 foreign-invested companies, are based in and around Ho Chi Minh City. Out of 2,000 companies, 1,280 are garment enterprises, 120 are spinning companies, 340 are textile ventures, and the remaining 260 are commerce and service businesses. The majority of textile and garment exports are destined for the US, followed by the EU and Japan. The increase in export revenue is the result of Vietnam's integration into the global supply chain in line with the shift in sourcing by retailers from high labour cost centres to low labour cost centres. According to research by PricewaterhouseCoopers, Vietnam ranks amongst the most attractive manufacturing locations, not only in Asia but in the whole world. In 2007, the US represented 58 per cent of Vietnam's textile and garment exports, growing at a Compound Annual Growth Rate (CAGR) of 23 per cent during the 2003-2007 period. The European Union and Japan represented 19 per cent and 9 per cent of the exports, growing at a CAGR of 27 per cent and 8 per cent respectively. Germany and the UK are two largest markets in the EU. The CMT production modality allows Vietnamese garment producers to strengthen their operational capacity without committing scarce financial resources or encountering exposure to market risks. Substantial room to improve product quality and delivery conditions exists even under the CMT modality. While Vietnam currently is competitive in the production of garments, productivity of CMT is still low by international standards primarily due to inadequate management practices. Customers for CMT business are usually intermediary agents based in South East Asian countries and territories such as Hong Kong, Taiwan, Korea and Thailand. Garment exports are a key element of the export strategies of many emerging economies, including Vietnam. In all cases garment exports started with CMT types of business (a model of work often driven by a lack of available working capital) and a plan to move away from CMT to various levels of Freight On Board (FOB) manufacturing within a five-year period. However, most Vietnamese garment manufacturers (93.6 per cent) are still involved in the CMT or other low value-added operating models where fabric suppliers are appointed by multinational retailers or foreign customers, as they want to ensure the use of the right fabric, consistent quality and timely delivery – demands which cannot be met by Vietnam's manufacturers.

While the government plans to invest around $3 billion in developing the textile and garment sector during the run-up to 2010, Vinatex plans to invest an additional $1 billion to develop its production and distribution systems, fashion design and infrastructure. Vinatex, together with the Vietnamese petroleum giant, PetroVietnam, has already commenced building a $200 million synthetic fibre plant in northern Haiphong, a port city. The plant would initially produce 500 tonnes per day, aiming to provide a spectacular 40 per cent of the materials for domestic yarn production by 2011. Vietnam textile and garment industry attracts majority of the biggest foreign direct investment (FDI) projects as investor want to build the factory in Vietnam to capitalize on the opportunities from the Trans-Pacific Partnership (TPP). Early this week, the government of Binh Duong Province awarded an investment certificate to Polytex Far Eastern Co. Ltd. under Taiwan’s Far Eastern Group to develop a US$274-million clothing project. Vietnam textile and garment industry attracts majority of the biggest foreign direct investment (FDI) projects as investor want to build the factory in Vietnam to capitalize on the opportunities from the Trans-Pacific Partnership (TPP). Early this week, the government of Binh Duong Province awarded an investment certificate to Polytex Far Eastern Co. Ltd. under Taiwan’s Far Eastern Group to develop a US$274-million clothing project. Vietnam's Da Nang City’s Investment Promotion Center though saw a sharp decline of 45 percent in foreign direct investment (FDI) capital in the first three months of the year still turned down two foreign invested projects capitalized at hundreds of millions of dollars on the grounds that they may cause environmental problems. Vietnam's Da Nang City’s Investment Promotion Center though saw a sharp decline of 45 percent in foreign direct investment (FDI) capital in the first three months of the year still turned down two foreign invested projects capitalized at hundreds of millions of dollars on the grounds that they may cause environmental problems.

Both of the projects were in the textile, dying and garment sector, including a $200 million project registered by an investor from Hong Kong and another registered by an investor from South Korea.Vietnam’s textile and garment industry is one of the largest economic sectors in the country, consisting 4,000 enterprises with a turnover of US$20 billion a year, accounting for 15% of. According to the Vietnam Textile and Apparel Association, textile and garment products are exported to 180 countries and territories in the world. In 2015, textile and garment industry is aiming at total exports of $28.5 billion. Vietnam’s textile and garment industry is one of the largest economic sectors in the country, consisting 4,000 enterprises with a turnover of US$20 billion a year, accounting for 15% of. According to the Vietnam Textile and Apparel Association, textile and garment products are exported to 180 countries and territories in the world. In 2015, textile and garment industry is aiming at total exports of $28.5 billion. The textile industry has been witnessing a steady growth over the recent years and pushing the country to become one of the top textile exporters in the world.

There are around 6,000 textile and apparel companies operating in Vietnam ,84% are privately owned, 15% are foreign direct investment companies, 1% are state owned, Among them 70% are sewing companies, 6% are spinning companies
17% are weaving/knitting companies, 4% are dyeing companies. 30% are locate in the north of Vietnam, 6% are located in the center of Vietnam, 62% are located in the south of Vietnam, 85% are CMT factories, 15% are FOB factories
2.5 million people work in the apparel and textile industry Average wage is 220 USD/month





The Vietnam Int'l Textile & Garment Industry Exhibition (VTG) show has seen a gradual increase in visitors each year as interest in textile, garment, apparel and accessories firms. With 4 consecutive successful years, the show has become one of the more influential and comprehensive exhibition for textile and garment in Vietnam. VTG 2015 will be held again at Tan Binh Exhibition & Convention Centre (TBECC) from 21st to 24th October, 2015, it will definitely the industrial exhibition that textile industry players can't miss to attend. The Vietnam Int'l Textile & Garment Industry Exhibition (VTG) show has seen a gradual increase in visitors each year as interest in textile, garment, apparel and accessories firms. With 4 consecutive successful years, the show has become one of the more influential and comprehensive exhibition for textile and garment in Vietnam. VTG 2015 will be held again at Tan Binh Exhibition & Convention Centre (TBECC) from 21st to 24th October, 2015, it will definitely the industrial exhibition that textile industry players can't miss to attend. The country's concentration is on specialization and modernization, creating a leap in terms of added value of products, with the implementation of three programs: cotton planting; high-quality woven fabrics; and human resources training. To accomplish these goals, the sector plans to develop 40,000 hectares of concentrated cotton-growing areas in the central coastal and highlands provinces; and establish primary supply centers in Hanoi, Ho Chi Minh City, Da Nang and Can Tho. The focus will also be on moving plants from major cities to provinces neighboring the supply centers and establish apparel factories; and train workers in production management, fabric design, skills analysis and sales techniques.

Conclusion:

Highlighting Vietnam's emergence as a competitive textile and garment producing nation, this report studies the overall Vietnam Textile and Clothing sector. The report elaborates how Vietnam has come into the forefront of major garment sourcing in last few years, what is the market scenario in terms of production, export and import. It also discusses in detail the labor cost, production cost, FDI inflows etc. Key companies and associations have also been listed for ready reference and the business performance and financial situation of operating companies have been examined. Some key insights in to the Vietnam market include: Key investments sector and location wise, Industry trends, Factors influencing the market, Porter's five forces model analysis, Government incentives, rules and regulations and trade agreements. Vietnam's Spinning sector shared more than 60% of the investments announced from Mar-2014 onwards, Finishing and Garments sector shared more than 30% together. Ho Chi Minh City and Binh Duong are biggest investment locations for T&C capturing majority of the investments.

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