

EVOLUTION AND GROWTH OF VIETNAM TEXTILE INDUSTRY

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Abstract

Vietnam, one of the leading textile industries in the country is at present the third largest exporter in the global apparel trade. The Industry showed a fast growth from 1980's and is contributing substantially to the country's economic development. Vietnam was able to achieve this in a short time and is consistently growing. The reasons for this development are studied and the factors that supported this growth is analyzed. At present the industry is facing stiff competition from its competitors and is struggling to keep up its export growth rate. With limited raw material base it has to import majority of its fabric and export at a competitive price. The industry faces many challenges and has to overcome these challenges in the future to maintain sustained development. A detailed study is made to understand the reasons for its steady growth and the factors that supported the past achievements so that the industry could understand that measures to be taken to overcome the future challenges. The study found that the garment exporters have already analyses the areas that should be developed to meet up to the future and are already taking steps with the help of its Government to enable the industry to suit itself the future expectation of the international apparel market.

Keywords: Textile Industry, Challenges, Export and Stiff Competition

1.1. Introduction

Vietnam, a South East Asian country, is the world's 14 most populous country with 61.79 % of the population in the working age group. The textile and garment industry of Vietnam has a long history with hundreds of year's tradition where sericulture and weaving silk was practiced for a long period. Textile industry began its development during 1958 and has been its major export industry since 1980's when it opened its economy. Vietnam is a densely populated country with 94.5% literacy rate. The textile

and garment industry is a high growth labour intensive industry employing about 25% of the total work force. Female work force account for 80% of the total labour force.

It plays an important role in employment generation of its huge population and contributes to its favorable balance of payment position. There are about 6,000 textile and apparel, manufacturing units, employing around 3.5 million workers. The domestic textile market also gained a growth rate of 10% balancing the development of domestic market and the export market.

The industry was not an established one up till 1990s but has grown enormously and is now the 3rd largest apparel exporter in the world. The Textile and apparel sector in Vietnam is undergoing a fast and sustainable growth over the years playing an important role in the country's economic development. The ownership structure of the company are State owned companies, Joint stock and Limited companies with State, FDI and Cooperatives. The industry was not an established one until 1990s but has grown enormously since then. The Textile and apparel sector in Vietnam is undergoing a fast and sustainable growth over the years playing an important role in the country's economic development.

1.2. Growth Performance of Vietnam Textile Industry

During 2006, the industry set a target for export of 12000 USD million by 2010, 18000 USD million by 2015 and USD million 25000 by 2020. The country also accounts for the rapidly growing technical textile of the US. The export of technical textiles to US grew impressively by 539%, reaching \$46.9 million from 2008 to 2015. In 2008 technical exports to US accounted for 21% increasing to 46% by 2015. To take advantage over this trend. The Vietnamese industries continuously imported machineries to support the Exports of specialty industrial fabric. The exports increased from \$3.6 million to \$22.3 million between 2008 and 2015. It also planned to expand its market and diversify its product range to marine and hospitality sectors if the tariffs could be reduced further it could play a significant potential of export growth. Growth.

Vietnam emerged as leading exporter of apparel exports in key markets, occupying 2.7% of global textile and apparel exports in the year 2013. Vietnam exports of textile and apparel products amounted to \$24 billion in the year 2014, setting a continuous growing trend, with an increase of 19%, when compared to the previous year 2013. In 2014 Vietnamese textile and garment exports recorded \$24 billion with 16% of the total exports, which was 19% higher than the previous year. Apart from traditional markets like U.S.A, EU and Japan it started exploring to new markets like Taiwan and Middle East countries. During 2015, despite the economic slowdown the export value textile and garment of Vietnam increased by 9.43% contributing to 40.3% of the total exports of the year. In 2015, there was a significant growth in the non-woven sector of which, nearly 48% was to US technical textile exports. Next is Europe with 12.5%, Japan with 10.2% share and Korea increased by 7.8%.

A strong growth of 12-14% is predicted in terms of production capacity from 2016-2020. During the period a rise of 15% in exports is expected. For the year a target growth of more than 10% is fixed and to achieve this efforts are taken to convert with a production process from product designing to product completion enhancing the value adding capabilities.

1.3. Reasons for the Growth

The Free Trade Agreements provides wide market access to Vietnam proving to be a major growth driver for the industry. Its bilateral and multilateral FTAs are a strength to industry's growth.

In 2001 US- Vietnam bilateral agreement was signed. In 2006 Customs Law was implemented to improve customs valuation process. Vietnam has 6 FTAs as a member of ASEAN with China, Japan, Korea, India,. Vietnam also signed FTA with Australia and New Zealand and 4 bilateral agreements with China, Japan, Korea and Eurasia.

Vietnam joined the WTO in the year 2007 and further entered into several FTA's in 2015-16 like EU- Vietnam FTA, Korean FTA, and Eurasian EU- Vietnam FTA, favoring trade aspects with these countries and benefiting the increase of exports to these

countries. The industry's exports from US and the EU account for 18% and 14% respectively. With the positive step for Comprehensive and Progressive Agreement for Trans-Pacific partnership (CPTPP) and Vietnam-EU Free trade agreements in progress the industry will take the full advantage of the preferential tariffs and expect a higher exports. The manufacturers should develop the supply chain of the industry to improve its competitiveness. With the implementation of CPTPP the country witnessed excellent growth. The country is showing 10% increase in export trade every year. With new FTA is to come into effect such as CPTPP and Vietnam-EU, the country is in a position to explore new markets and develop its exports performance. The industry will be able to easily enter into other member nations like Canada, Australia, Mexico with the preferential treatments and tax reductions.

1.4. Challenges Faced by Vietnam Textile Industry

Though the exports are in the increasing trend most of the factories produce on the basis of CTM pattern merely acting as subcontractors for large buyers where the profit margin is very low for which the competition is also very stiff in the market. So Vietnam plans to concentrate in production based on ODM (Original Design Manufacturing) to manufacture value added products that are yielding higher profits and create a stable market. Most of the factories are outsourcing partners for foreign brands and they do not own their own brand. The branded companies always look for already established manufacturers making it difficult for the new entrants.

The industry exports 80% of its production and the country is dependent its foreign investments. This is too risky with the cancellation of TPP with US, as countries like China are heavily investing in Vietnam to take advantage of the TPP. In 2018 the industry forecast is, the competition may become fierce and may experience unforeseen fluctuations.

The industry is facing a great challenge in terms of import of raw materials. The imports of Vietnam accounts for 50% of its exports stressing the need to source the raw material within the country to have a healthy trade surplus. The raw material of the industry is mainly cotton and only 2% of the total country's production is used for

exports. The cotton imports of Vietnam surged over the past years from 15,000 tons in 2005 to 1.2 million tons in 2016 of which the cotton imports from us accounting for 60% of the imports. The other basic raw materials such as polyester and silk produced in the country are also inferior in quality when compared to Asian countries. The increasing labour cost. The increasing electricity and transportation cost brings additional difficulties to the cost of production. It should regularly invest in training its human resource to increase labour productivity. The minimum wage rate is continuously increasing from 119 during 2014, 148 during 2015 to 154 during 2016. The increasing demand for skilled workers provides The industry is facing tough competition from Bangladesh and Cambodia in lower wage rate. The industry is highly dependent on imports not only for its raw materials but also for machinery, technology and accessories making it vulnerable to global fluctuations.

To take advantage of the newly signed FTAs the industry should adopt strategic investment proportion, factories should go in for capacity building, follow proper administration procedures and create value added products. To increase productivity, and quality the manufacturers should continuously invest in technology and remain competitive.

The industry is struggling with wage hikes for a decade. To overcome the increasing labour cost it should improve labour productivity through technology upgradation, and business management. The lack of technical and professional labour force proves as a constraint for further expansion. The training shortfall poses difficulty. The factories should focus on developing modern skills, and labour replacement process and train workers to modernize production. The industry has to continuously invest in the training and development of human resource. The number of engineers in textile sector are very low when compared to the requirement of the industry and steps should be taken to increase the inflow of such technical graduates. Labour turnover is less when compared to China. The human resource training for fashion design and technology standards are not satisfactory. The quality of labour at middle and high level management are not sufficient. The exporters should improve the capacity, recruit competent fashion designers, promote the products and focus on long term investments.

1.5. Future of the Vietnam Industry

EU the second largest exporter of Vietnam, next to USA and once the EU-Vietnam FTA is signed the tariff will be cut to zero percent the industry will earn proportion of revenue from the EU with a sharp increase in the number of orders, leading to a growth in export rate.

Vietnam enjoys a favorable position with low labour cost, low rent cost and favorable policies like Vietnamese Foreign investment Law. FDI in Textile and Garment industries played an impressive role in its development. It was US \$1,817.69 million as FDI but increased tremendously with heavy investment from Taiwan, S.Korea, Germany as investment capital in production of fiber, knitwear, fabrics and also in supplements of garment industry like thread, embroidery, soft panel etc., and also in 100% foreign investment projects. S.Korea invested heavily in the textile industry committing \$2 billion as capital. During the first 2 months of 2017 China registered 123 investment projects enabling the industry to use advanced technology and increased capacity of apparel productivity during the year 2017 the FDI saw an increase of 11.9% in Vietnam when compared to 2016.

The stable political situation, safe social destination, proximity to fabric and accessory sources keep them in advantageous position attracting the foreign investors to invest in terms of capital, managerial skill and technology that are necessary to develop the industry.

1.6. Conclusion

Vietnam with enormous business potential and with supportive Government strategies the industry has a promising future. The industry set a definite target of 20-22 US\$ billion in the year 2020 and may reach the second position in apparel exports globally. With the improved productivity, better quality and the skill of the workers expanding, the industry shows a rapid development. The reputation of Vietnamese industries is good. With impressive results and ranking as world's 26th textile and garment exporter the industry is making huge contributions to Vietnam's export picture.

Thus the industry plays an important role the country's socio economic development. Vietnam as an emerging market, offers ground floor and growing opportunities to exporters and investors.

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