

DEVELOPMENT FOR VIETNAM TEXTILE & GARMENT INDUSTRY

Seminar Speech on the April 3, 2001 in Hanoi by Mr. Bui Xuan Khu,
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I. VIETNAM GARMENT AND TEXTILE INDUSTRY

- Biggest number of employees:
 - + 2000: 1.6 million employees
 - + 2005: 2.5 to 3.0 million employees
 - + 2010: 4.0 to 4.5 million employees
- Highest export turnover
 - + 2000: USD 1,895 million
 - + 2005: USD 4,000 to 5,000 million
 - + 2010: USD 8,000 to 9,000 million
- Facing the pressure of the economic integration:
 - + The ASEAN market: in 2006 the import tariff barrier will be lifted
 - + The EU market: in 2004, the garment and textile quota for WTO members will be lifted.
 - + The U.S market: the garment and textile quota will be determined shortly.
- The speed-up development aims to:
 - + boost production of material and accessories for export garments.
 - + increase localizing ratio of garment products from 25% to 50% by 2005 and 75% by 2010 as well as increase turnover
- The Vietnam textile and garment sector is still very small compared to:

No	Country	Yarn output	Silk output	Garment product	Export turnover
		thousand ton	million m ²	million piece	USD million
1	China	5,300	21,000	10,000	50,000
2	India	2,100	23,000	-	12,500
3	Bangladesh	200	1,800	-	4,000
4	Thailand	1,000	4,200	2,500	6,500
5	Indonesia	1,800	4,400	3,000	8,000
6	Vietnam	85	304	400	2,000

II SITUATION UP TO 2000:

- 187 state-owned textile and garment enterprises including:
 - 70 textile enterprises (32 central and 38 local)
 - 117 garment enterprises
- Nearly 800 private, joint-stock and limited liability companies including:
 - Nearly 600 garment units
 - Nearly 200 textile units
- 178 joint-venture and 100% foreign owned projects being implemented in the fields of yarn, textile, dyeing, wool knitting, garment, sewing machine parts with a total registered capital of USD 1,804 million.
- Total number of employees: 1,600,000 (plus employees in cotton growing, silkworm raising) taking up 25% of total industrial employees.
- Taking up 8.58% of total national industrial output value (as of 1999)
- Taking up 15% of total national export turnover
- The remaining problems:
 - Localization ratio of export garment is still too low (around 25%) due to huge amount of imported material and accessories (cotton, yarn, fabric, chemical stuff, dyestuff, garment accessories...)
 - Unreasonable textile structure (bulky organization, low specialization, irrational investment and production, low quality...)

Therefore, competitiveness of textile products (yarn, fabric) is bad and out run by imported products.

A comparison between some targets of the whole industry and those of VINATEX (2000)

No	Item	Unit	Whole Industry	Vinatex	Vinatex's proportion
1	Total output (as of 1994)	VND million	16,000	4,900	30.6%
2	No. of employees	Person	1,600,000	100,000	6.3%
3	Export turnover	USD million	2,000	560	28%
4	FOB export ratio	%	25	40	44.8%
5	Key products				
	- Yarn	1,000 ton	85	75	88.2%
	- Silk	million m ²	304	139	45.5%
	- Knitwear (T-shirt equivalent)	mil. items	90 (*)	25	27.7%
	- Garment products (shirt equivalent)	mil. items	400	110	27.5%
6	Equipment				
	- Spinning	spindle	1,050,000	900,000	95.7%
	- Weaving	Weaving machine	14,000	6,320	45.0%
	- Knitting	Knitting machine	450 (*)	130	28.8%
	- Sewing	Sewing machine	190,000	28,000	14.7%

(*): The total knitting capacity of the whole industry according to the statistics of the General Department of Statistics is 35 million products. According to knitwear experts,

after 10 years of investment, the knitting sub-sector now has 450 knitting machines that can produce an output of around 90 million of T-shirts in equivalent.

III. VINATEX's last 5 year Investment (1996-2000):

- Total investment in 5 years: VND 3,504 billion
- Total yarn output increased from 51,200 tons to 75,000 tons with an average annual growth of 7.5%
- Finished fabric increased from 92.5 million m² to 139 million m² with an average annual growth of 8%
- Knitting products increased from 19.2 million pieces to 25 million pieces with an average annual growth of 5.2%
- Garment products increased from 34 million pieces to 110 million pieces with an average annual growth of 21%.
- Turnover increased from VND 4,362 billion to VND 7,200 billion with an average annual growth of 9.8%
- Export turn over increased from USD 280 million to USD 560 million with an average annual growth of 13.3%
- FOB export ratio increased to 40%.

IV DEVELOPMENT STRATEGY UP TO 2010

1. Objective:

Develop textile and garment industry into a major export sector; satisfy increasing domestic consumption demand; create more jobs for employees; improve competitiveness; firmly integrate into regional and global economies.

2. Speed-up Development Strategy of Vietnam's Textile and Garment Industry upto 2010.

- a) Textile: production of material for weaving, spinning, printing, dyeing and finishing
- State ownership sector is to hold key function in this area. All resources are to be mobilized, all economic sectors including FDI are to be encouraged to join the industry.
 - Investment should go along with environmental protection; spinning, weaving, printing, dyeing and finishing enterprises should be located in a sufficiently long distance from big urban centers.
 - Investment in equipment of modern technology and of high specialization; Focus on designing new textile products in order to step by step assure credibility of the Vietnamese made textile products in the international market.
 - Re-organize quality management system in accordance with international standard, increase output, make a long leap in quality of textile products to meet export garment and domestic demand.
- b) Garment:
- Accelerate equitisation process of state-owned enterprises. Encourage all economic sectors to invest in garment industry in densely populated areas where labor force is abundant.
 - Promote fashion and garment designing activity. Improve production, quality management system. Apply all economical measures to increase productivity, decrease costs and enhance competitiveness of Vietnamese garment products in the international market.
- c) Develop zones for cotton trees and fibric tree growing, silkworm raising, production of material and accessories, chemical stuff, dyeing stuff to serve textile and garment industry to gradually self-provide a majority of material and accessories to replace imported ones.
- d) Encourage all forms of investment, especially FDI in order to enable the textile and garment mechanical sector to produce parts, assemble and fabricate textile and garment equipment.

3. Targets:

a) Production output:

- By the year 2005 production output is to reach 30,000 tones of raw cotton, 60,000 tones of polyester fiber, 150,000 tones of yarn of various kinds, 800 mil. m2 of woven cloth, 300 mil. knitwear products, 780 mil. of garment items.
- By the 2010 production output is to reach 80,000 tones of raw cotton, 120,000 tones of polyester fiber, 300,000 tones of yarn of various kinds, 1,400 mil. m2 of woven cloth, 500 mil. knitwear products, 1,500 mil. of garment items.

b) Export turnover:

- By 2005: USD 4,000 to 5,000 million
- By 2010: USD 8,000 to 9,000 million

c) Employment:

- By 2005: employ 2.5 to 3 million workers
- By 2010: employ 4 to 4.5 million workers

d) Ratio of home-made material and accessories used for export textile and garment production:

- By 2005: over 50%
- By 2010: over 75%

e) Investment cost

- Total cost of investment in Vietnam's textile and garment industry in the 2000-2005 period is estimated at VND 35,000 billion of which VND 12,500 billion taken up by VINATEX.
- Total cost of investment in Vietnam's textile and garment industry in the 2006-2010 period is estimated at VND 30,000 billion of which VND 9,500 billion taken up by VINATEX.
- Total cost of investment in cotton tree growing up to 2010 is estimated at VND 1,500 billion

V. INVESTMENT PLAN OF THE WHOLE INDUSTRY

1. Investment in cotton tree:

- Development target of cotton tree up to 2010:

Target	Unit	Implemented in 2000	2005	2010
- Industrial cotton tree cultivation area	1,000 ha	22.6	60.0	150.0
- Seed cotton productivity	100kg/ha	9.0	14.0	18.0
- Seed cotton output	1,000 ton	20.3	84.0	270.0
- Raw cotton productivity	1,000 ton	6.8	30.0	95.0
- Raw cotton demand of whole industry	1,000 ton	60.0	97.0	130.0
- Textile sector demand	%	11.0	30.0	70.0

Capital demand for cotton tree development up to 2010 is VND 1,500 billion (equivalent to USD 100 million).

2. Investment in two polyester fiber factories having capacity of 30,000 tones per year, and PE filament factories:

- + one factory for 2001-2005 period and one factory for 2006-2010 period.
- + Development along with petrochemical industry.
- + Satisfy 65% of production demand (as of 2010)
- + Total cost of investment in two factories is estimated at VND 700 billion (equivalent to USD 50 million).

3. Investment in a number of textile industrial groups:

Each group shall include:

- 20,000 to 30,000 - spindle spinning factories : 3,200 tpy
- Textile fabric factory for shirts (light fabric) : 10mil/y (1.6m width)
- Textile fabric factory for trousers (heavy fabric) : 10mil/y (1.6m width)
- Cotton fabric dyeing, finishing factory : 25mil. m /y (1.5m width)
- Polyester fabric dyeing, finishing factory (for jackets): 20mil/y (1.5m width)
- Knitting, dyeing, finishing, sewing factory : 1,500 tpy (6 mil. items)
- Wastewater treatment plant : 8,000 m3/day

Estimated total investment cost of each industrial group : VND 2,100 billion (equivalent to USD 150 mil.)

4. Investment in non-woven fabric and geo-textile factory having capacity of 10 mil. m2 per year

- + Demand of construction works of roads, dykes, stadiums, tunnels, reservoirs etc.
- + Current supplying capacity satisfies just 25% of total demand.
- + **Investment capital: VND 92 billion (equivalent to USD 6 million).**

5. Investment in industrial groups producing garment accessories:

- + Hooks: 20 million meters / year
- + Metal buttons: 25 million sets / year
- + Plastic buttons: 500 million pieces / year
- + Thread: 1,000 tons / year
- + Pattern : 20 million m² / year
- + Labels: 10 million meters / year
- + Band of various kinds: 30 million meters / year
- + Elastic string of all kinds: 10 million meters / year

Total investment capital: VND 600 billion (equivalent to US\$ 40 million)

6. Investment in mechanical textile and garment sub-sector:

- + 2001-2005: Investment is to be focused on 2 mechanic textile and garment companies in the north and the south to supply a sufficient quantity of spare parts for the whole industry with the target of assembling textile equipment.
- + 2006-2010: investment in fabrication of certain kinds of textile equipment to supply to domestic market and to export.

7. Capital demand for speed-up investment of the whole industry

Unit: billion VND

Capital demand	Whole industry		VINATEX	
Total investment cost:	35,000	30,000	12,500	9,500
Of which,				
- Extensive investment	23,200	20,000	4,600	2,200
- Intensive investment	11,800	10,000	7,900	7,300
In which				
- Construction capital	3,000	2,550	1,000	900
- Equipment capital	20,500	18,000	7,500	5,800
- Others	1,750	1,500	650	500
- Contingency	1,750	1,500	650	500
- Working capital	8,000	6,450	2,700	1,800

VI. SOLUTIONS

1. Financial and capital solution:

- It is necessary to mobilize all self-created resources such as depreciation, capital raised by selling, renting or leasing unused assets, clearing in stock products and capital mobilized from employees... It is also a good idea to thoroughly study the possibility of issuing bonds and shares in order to mobilize all capital sources for development investment.
- It is encouraged and enabled to call for investment within the country and from abroad in order to be able to mobilize all capital sources from all economic sectors.
- The Government is requested to establish favourable mechanism and policies for the garment and textile sector (for both domestic and foreign investment) so that the development speed-up program can be implemented.

2. Investment solution:

- Garment and textile enterprise owners (including state-owned enterprises) should shortly generate investment projects for approval by the authorities. The approved projects can be implemented by different partners with different capital sources including foreign investment.
- The garment and textile sector should carry out the planning of material development areas, positioning textile industry complexes at provinces' industrial zones as well as co-operating with the provinces so that to produce the planning to develop garment factories at different localities in the provinces.

3. Market solution:

- A trade promotion system for key markets such as EU, Japan, The U.S. etc. must be created. To this end the Garment and Textile Association, the Vietnam Garment and Textile Corporation as well as each textile and garment enterprise must establish their own mechanism to exploit different trade resources currently existing in such key markets. The trade system network must be closely integrated, which means attention must be paid to the establishment of several contacts in one market. In the meanwhile contacts at home must also be carefully established, especially the employment of foreign law firms operating in Vietnam as legal consultant for export activities.
- Each garment and textile enterprise or trading and services companies operating in the garment and textile sector must pay attention to product designing with appropriate model. It is also necessary for each enterprise to establish a long lasting style and brand as well as seasonal fashion collection following the business methods of the big garment and textile distributors in the world.
- It is required to pay attention to building and registering commercial brands. Company names, brands and traditions should be publicized not only at home market but also at target markets.
- With its potential and leading role, the Vietnam Garment and Textile Corporation has been and is establishing its world-wide trade promotion network. That will be a reliable source of information for Vietnamese garment and textile enterprises when entering such markets as well as re-enforcing and widening their market share.

4. Human resource management and development solution

- It is required to study and apply an advanced management method that can improve management efficiency in garment and textile enterprises. State-owned enterprises especially must find out measures to improve the efficiency of the “one leader” system complying with ISO-9000 management standard. The director is wholly responsible for all activities so he/she must be granted all needed rights to legally carry out his/her duty.
- All garment and textile enterprises need to make a plan to build up an management information network for improving the efficiency of enterprise management and control (an advanced management method).
- In order to receive suitable technology and import compatible equipment, the re-enforcement of research institutes and employment of specialized experts is necessary. It may also be necessary to hire foreign experts for the efficient implementation of investment projects.
- Mobilization of human resource from well operating enterprises can be done to support enterprises in difficulty or generating new investment projects for such difficulties after PICs have received short-term management or technical training.
- Foreign and technical experts can be hired to solve problems of some enterprises or management of new investment projects.
- New treatment mechanism (actually an enterprise culture) both mentally and materially can be established to attract all sources of intellectuals for the development of the garment and textile sector.
- Vocational training schools and centers must be improved (including employment of foreign experts) to improve training efficiency that will meet the booming requirement for management and technical staff in the time to come.

VII. SOME PETITION ABOUT POLICY AND MECHANISM

1. The Government is requested to distribute capital from the state budget and ODA sources to support the projects of planning for development of material areas for cotton growing and silkworm raising, waste water treatment plants, textile industry complex planning, infrastructure construction for new textile complexes and training and research carried out by institutes, schools and research centers specialized in garment and textile.
2. As for investment projects in the fields of production of yarn, weaving, finished printing and dyeing, weaving material, sewing accessories and garment and textile mechanical
 - a. The Government is requested to grant credit from the state development fund, 50% of which can enjoying an interest equivalent to 50% of the current rate with a payment period of 12 years and a grace period of 3 years while the remaining 50% enjoying an interest as currently speculated.
 - b. The Government is requested to apply Clause 15 of the Domestic Investment Encouragement (amended and approved by the National Assembly on 20 May 1998 and declared following National President's Order No. 5-L/CTN dated 1 June 1998) to the sector's investment and such investment is granted Investment Favour Certificate and can enjoy such favours as speculated in Chapter III of the said Law.
3. All textile products including textile material, yarn, finished textile products, finished printing and dyeing, domestically made garment accessories which are sold to domestic and foreign enterprises and organizations producing and processing export products within Vietnam can enjoy a VAT tax rate like export products.
4. As for state-owned enterprises producing yarn, weaving products, finished printing and dyeing, weaving material, sewing accessories and garment and textile mechanical:
 - a. The Government is requested to act as guarantee for purchase of equipment by deferred payment and commercial loan from suppliers or foreign financial institutions.
 - b. The Government is requested to allow the said enterprises to keep capital tax payment, corporate turnover tax and 5% of VAT within a period of 5 years (2001-2005) for re-investment as state budget.
 - c. The Government is requested to grant enough 50% of working capital.
5. The Government is requested to allow the said enterprises to keep quota fees and quota bidding fees as budget for opening export markets, paying international garment and textile associations membership fees, spending on trade promotion and human resources training for the sector.
6. The Government is requested to encourage garment and textile enterprises to speed up export to the U.S. market. Vietnamese Ministry of Finance and State Bank must shortly issue guide to applying the support ratio of 15% of the foreign currency generated from export to U.S. until we can enjoy normal trade policy.
7. Foreign investment in the fields of production of material and accessories for the garment and textile sector should be encouraged. Especially for export textile and garment sub-sector, it is necessary to put high priority to establishment of production enterprises or export garment joint-venture enterprises for export to the U.S. market and award quota (if any) equivalent to the exact export amount in the non-quota years.
8. The Government is requested to assign the Vietnam Garment and Textile Corporation Board of Management to consider and decide direct purchase of used machinery and equipment (the Corporation's grade B and C projects) as guided by Ministry of Industry and Ministry of Sciences-Technology and Environment.