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Vietnam still has work to do to sustain strong textile and garment growth

By **Jens Kastner** 17 August 2018

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While Vietnamese government officials identify the local textile and garment industry as among the economic sectors projected to have one of the highest growth rates in the country over the next 12 years, industry observers stress that more needs to be done to ensure this happens. Certainly, it is a key goal of the government.

Dr Trần Du Lịch, economic advisor to Prime Minister Nguyễn Xuân Phúc, at the 4th Vietnam Textile Summit 2018, held in June in Hanoi, said the government wanted to see the clothing and textile sector grow 14% over the next two years after posting 10.23% year-on-year in 2017.

However, Sapontl Baroowa, associate director of business intelligence at pan-Asian professional services firm Dezan Shira & Associates, in Ho Chi Minh City, says this will be tough to achieve without significant upstream growth – stressing that the majority of clothing and textile firms in Vietnam are cut-make-trim (CMT) factories, and unless there is a significant increase in free-on-board (FOB) activity, any further movement up the value chain will remain unlikely.

Diversification into higher value-added activity, including original design manufacturing (ODM), will be necessary to take advantage of the various market access opportunities that will continue to arise due to the country's free trade agreements (FTAs), he indicates.

Vietnam has so far inked over a dozen bilateral and multilateral FTAs, including the forthcoming Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and European Union-Vietnam FTA (EVFTA).

"ODM will require even more sophisticated sourcing networks than FOB because, in their bid to ensure that their products remain globally competitive, ODM firms will have to increasingly source inputs from suppliers that meet international quality standards," says Baroowa.

Speaking to WTIN.com, he adds that “the Vietnamese textile garment industry also has to develop its services, including product R&D and quality control testing; professional skills development and technological innovation; capacity-building for design services of international standards; and well-developed marketing and brand promotion services, including via online channels.”

In his speech at the 4th Vietnam Textile Summit 2018, Dr Trần Du Lịch acknowledged that there is still room for improvement in vocational training policies for the Vietnamese textile-garment industry, and he also recommended the government encourage textile-garment companies to gather capital on the stock market and reduce corporate income tax, among other measures.

Ven Tran, director of the Vietnam office of Weave Services, a demand-and-supply planning consultancy, who also presented at the summit, tells [WTiN.com](#) that the essential drivers of sustainable growth are Vietnam's FTAs, low labour costs and the country's proximity to the Chinese supply chain.

On the other hand, he notes, there are the persistent obstacles of low productivity, long lead times and relatively strict environmental regulations.

According to Ven, long lead times are partly due to cotton availability in Vietnam being far behind Bangladesh, Myanmar, Ethiopia, China and India, with availability of man-made fibre being far behind China and India but ahead of Bangladesh.

Vietnam also has a general productivity problem, he stresses. Looking at Vietnam's key outsourcing competitors, monthly wages are behind only China, while labour efficiency is behind China and India but slightly ahead of Bangladesh.

"Retailers are moving from two-to-four collections per year to 12 per year, and the key to unlocking speed is to effectively manage raw materials," says Ven.

"And in Vietnam's case, wage increases are not supported by productivity growth, which can make buyers turn to other destinations," he adds.

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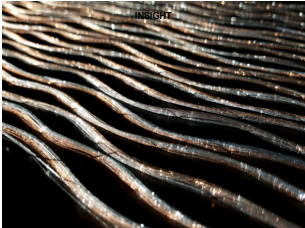
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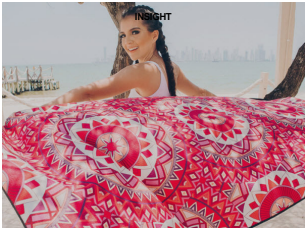
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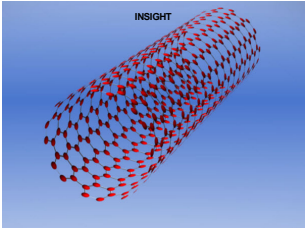
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