Vietnam textile and garment officials set export bar even higher

By **Jens Kastner** 31 January 2018

Le Tien Truong, general director of the Vietnam National Garment and Textile Group (Vinatex), is predicting a year-on-year increase of 10% in export value, to US$34bn, from 10.23% annual growth in 2017 when exports totalled US$31bn.

Vu Duc Giang, chairman of the Vietnam Textile and Apparel Association (VITAS), points out that local enterprises have tapped new markets, including China, Russia and even rival exporter Cambodia, while maintaining traditional markets such as the US, the EU, Japan and South Korea.

He also highlights the fact that local firms have managed to switch production, from processing exports for foreign firms to FOB (free on board) and ODM (original design manufacturing).

As for the major challenges ahead this year, both Truong and Giang point at intense pricing competition with China, Bangladesh, Sri Lanka, Myanmar and Cambodia, which, they say, Vietnamese enterprises should challenge by ensuring supply, having highly-skilled workers, investing in modern equipment and increasing automation.

Similarly, other industry insiders tell WTiN that the major challenge for Vietnam is to offer lower CMT (cut, make & trim) pricing by improving the productivity of their factories.

“Generally speaking, Vietnam is not cheap, which surprises many newcomers, given the lower minimum wage compared to China,” says Chris Walker, an apparel production advisor based in in Ho Chi Minh City.

“The reason is that most factories are not paying minimum wage, but are paying much higher to keep experienced workers, as there are so many new factories opening every month in Vietnam that the workers have options and they will chase a higher wage,” he adds.

He explains that, while the official minimum wage stands at Vietnamese dong VND2.76-3.98mn (US$121-175) per month, depending on the region, the market wage is US$200-300 for an entry-level manufacturing job, with experienced workers commanding monthly wages from US$300-800.

“These are the numbers you should use in your business planning,” says Walker.

Saponti Baroowa, the associate director of business intelligence at pan-Asian professional services firm DezanShira & Associates, in Ho Chi Minh City, argues that the migration from processing exports for foreign firms to FOB and ODM is not as straightforward as the recent statements by Vinatex’s Truong and VITAS’ Giang suggest.

According to Baroowa, the development of ODM will be difficult without an associated increase in Vietnamese firms’ capacities for design, marketing, branding and retail, as well as technical skills development, with ODM also requiring even more sophisticated sourcing networks than FOB.

“In addition, ODM is often relatively more capital intensive and will require access to sound finances and developed external loan sources,” says Baroowa.

“Access to financing is crucial not only for the development of supporting industries, but also for ODM firms to remain financially stable while sourcing input material themselves,” he adds.

Baroowa says that in the long run, however, Vietnam’s textile and garment industry, will increasingly have to increase its share of FOB activity versus CMT, while also incrementally moving towards ODM development.

"This and the development of a domestic supply chain in the form of supporting industries as well as an associated increase in localisation rates will become crucial if Vietnam is to take full advantage of its various free trade agreements," he says.

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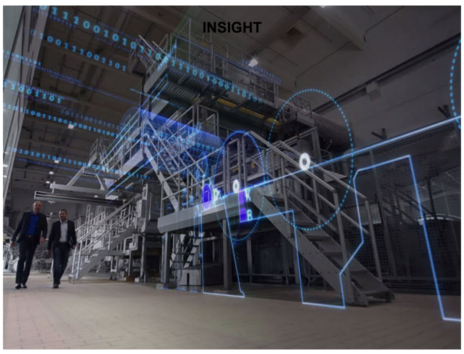

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