

**PRESENTATION AT THE WTO FORUM**

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**I.- VIETNAM TEXTILE & GARMENT INDUSTRY'S DEVELOPMENT**

Over the last many years, Vietnam's textile and garment industry witnessed strong development; textile and garments products made in Vietnam have penetrated to the world market, thus contributing to the economic development of the country. Export value in 2001 was US\$ 1.87 billion, in 2002 was US\$ 2.75 billion, one of the industries that for many consecutive years ranked very high in terms of key export products. The prestige and quality of Vietnamese textile and garments were recognized in the world market.

The industry's development in the past was as follows:

1. Number of enterprises:

- 187 state-owned enterprises (of which 70 textile and 117 garment enterprises).
- 800 limited liability companies, joint stock companies, private companies (of which 600 are garment and 200 are textile companies).
- More than 180 investment projects, joint ventures, and 100% foreign equity are in operation with the total investment of more than US\$ 1.8 billion.

2. Employment: more than 1.1 million employees

3. Production capacity:

Over many years, Vietnam's textile and garment industry continuously invested and changed equipment and technology to meet the market demand, to improve its competitiveness. The existing capacity of the industry is as follows:

- Fiber 1,050,000 rollers, with 150,000 tons of fiber produced per year
- Textile: 10,000 weaving machines, 5500 of various types of specialized weaving machines, of which more than 2000 machines are of large width, producing more than 500 million meters of cloth every year.
- Knitting: 1540 machines, with the production capacity of 70,000 tons per year (equivalent to 262 million standard T-shirt products).
- Complete dyeing: 380 million meters per year.
- Towels: 25,000 tons of towels of various kinds per year.

- Garments: There are 200,000 pieces of garment equipment, producing 500 million products per year.

Although Vietnam is highly populated and abundant in skilled manual labor, with low labor cost, its integration to the world market is late, and has to work under adverse pressure. The textile and garment industry emerged within the last 10 years only, and is seen as a significant producer and exporter. If we manage to take advantage of the good opportunity in the international market, at to develop the domestic potential, it is quite possible that Vietnam would become a large producer and exporter of textile and garment in the world.

## **II.- REQUIREMENTS AND COMMITMENTS IN INTEGRATION**

In the past few years, Vietnam's textile and garment industry made significant achievements as mentioned above, thanks to certain advantages and the political stability. The textile and garment industry employs a large labor force, with low labor cost. Thanks to the open door policy, the government of Vietnam took bold reform measures to promote the economic development of the country.

After becoming ASEAN member in 1995, Vietnam actively participated in all activities of this organization to step by step integrate into the global and regional economy for the benefit of the community and the region.

On 1 January 1996, Vietnam officially joined the Commonly Effective Preferential Tariff (CEPT), implementing the ASEAN Free Trade Agreement (AFTA) with the roadmap of ten years, from 1996 to 2006. By the end of this period, all tariff on textile and garment products will be 0-5% only.

In implementing its commitments, Vietnam issued the list of product lines to be reduced under CEPT, including the general exclusion list (GEL), temporary exclusion list (TEL), inclusion list (IL), sensitive list of unprocessed agricultural products (SEL). The government of Vietnam also issued rules and regulations on investment and trade to facilitate for investors to cooperate in doing business, to increase investment and projects in Vietnam. In the textile and garment industry, Vietnamese enterprises enjoyed the preferences in changing their equipment, investing in advanced technology, introducing the modern technology achievement of the world. The government had Decision 55/2001/QD-TTg dated 23 April 2001 of the Prime Minister on accelerated investment for Vietnam's textile and garment industry during 2001 to 2010. This helps ensure stability and strong growth in AFTA integration process and WTO accession.

Given the current trend of economic globalization and integration of countries around the world, the competition is hard in establishing the market share. Vietnam and other developing countries have to face many difficulties. Vietnam's textile and garment industry is currently less developed in terms of machinery and equipment, technology, management skill, compared to other countries in the region. The advantage of abundant and cheap labor will become less important and attractive over time, when there is more demand for technical skills.

Another challenge for textile and garment exporters in ASEAN, given the trend toward globalization and trade liberalization is that some countries in the vicinity of Europe, such as Turkey, are becoming larger textile and garment exporters, with potential to export to the EU and US market, and very competitive in prices, quality, and product design. In Asia, there are also large textile and garment exporters, such as China, India, and Pakistan, and are competing with ASEAN. These are very tough competitors of ASEAN textile and garment industry.

Vietnam's accession to WTO will bring significant opportunity to developing countries in general and textile and garment exporters in particular. Once in the WTO, after 2005 Vietnam will not have to be imposed export quota, will be able to access the world market without quantitative restriction. WTO will bring in opportunity to access market of all countries. Therefore, competition among the exporters will become tougher.

To cooperate and enhance the competitiveness of the region, for textile and garment industry to participate in AFTA and AFTEX, Vietnam wishes to see that:

- ASEAN should be a strong economic and social block, competitive in textile and garment, to attract customers around the world. The systemic strength of the region is a very important factor in successful competition in the current environment. To achieve this, the textile and garment industries of countries in the region have to make efforts to meet the ever higher demand of consumers in importing countries. However, AFTEX also need to support the less developed countries.

- Vietnam is one of the 4 ASEAN countries that are less developed, with per capita GDP of US\$ 300 per year. Vietnam's textile and garment industry is still lagging behind in terms equipment, management skill, and marketing capability. Therefore, Vietnam needs support from other countries in the region to develop and build a good image for the whole region.

- Vietnam also needs support in training economic managers and marketing staff.

- More information exchange, research, pilot, and quality control are the areas of further cooperation.

### **III.- WTO REQUIREMENTS RELATED TO VIETNAM'S TEXTILE AND GARMENT INDUSTRY**

The ATC/WTO Agreement came into effect in 1995 and will be fully complied with by 1 January 2005. After 7 years of implementation, developed countries have removed import quota, following the schedule. However, the removal was mainly for less sensitive products; for sensitive products like textiles and garments, the removal was very small. Most of the removals are expected to be conducted by the end of the schedule.

Another area of concern is that in parallel with quota removal under the agreement, developed countries are erecting new trade barriers to further restrict imports of textiles and garments from developing countries, or using the special and differential treatment as an instrument to give favor to each nation or territory, to aim at political objective, rather than helping the less developed world.

Within the framework of the ATC agreement, many new standards, very barrier-like, are announced, such as environment protection, ecological trademark, corporate social responsibility to employees, anti-dumping, etc. Debates still go on around such barriers.

The basic WTO rules include the following:

1. Trade in Goods: includes agreements on industry, sanitation and phytosanitation, trade barriers, trade related investment measures, anti-dumping, goods examination before loading, customs valuation, export and import licensing, subsidies, and countervailing duties, and safeguarding.

2. Trade in services

3. Dispute resolution.

4. Trade policy review to ensure that the members fully comply with the rules and commitments in WTO.

From those key contents above, one can see that:

- Integration is a process of both cooperation and competition in the world and regional market.

- Objectives of enterprises are profit, market share, sales, stable and harmonized development in the overall strategy of the country. Therefore, international integration should help gain market share, acquire more capital and technology. The WTO rules for textiles and garments are as follows: countries have to comply with regulations on market access, tariff reduction, and phasing out of protection barriers and subsidies. This also means that the textile and garment industry has to face rising competition from such a large textile and garments exporters as China and countries in ASEAN.

To cope with such challenges, enterprises need to take steps to prepare themselves as follows:

+ To enhance the dynamism and innovation of each enterprise.

+ To be fully aware of the commitments of the country in terms of tariff preferences, non-tariff measures, and intellectual property right.

+ The enterprise needs to have a specialized unit to collect and study information and documents on AFTA, APEC, WTO, US BTA, etc. in order to build the roadmap for action plan of the enterprise.

+ Once enterprises have mastered all general regulations, attention should be paid to the overall situation, while negotiating, comparing with the commitments to determine the tariff rates and barriers, in order to avoid losses.

+ Training of employees and providing human capacity to enterprises, more specifically:

- Skilled workers in each section in the production line.

- Marketing staff with good skill in international business.

- Trained legal experts with sufficient qualification to provide consulting and assisting the director in international business and cooperation.

#### **IV.- OPPORTUNITIES AND CHALLENGES TO MINISTRIES AND SECTORS IN WTO ACCESSION**

Analyses indicates that international integration is an irreversible trend of economic development. Integration will create opportunity for capital flow, technology transfer, knowledge sharing around the globe. The long term benefits of this process are obvious and undeniable. However, international economic integration embeds in itself many hurdles and it cannot be always smooth, since it contain differences in interests, viewpoints in international relation policy, standards in the economic management system between countries and regions, while the global economic requires a cohesive and interdependent relations.

Therefore, to effectively integrate, countries, especially developing countries, have to select the mode of integration, to adjust national policy to be appropriate to the international laws and practices, while protecting the legitimate interests of their own countries from unfair competition pressure from the outside world.

After 10 years of reform, with market reform policies, the Vietnamese economy has overcome the crisis, became stable, and achieve high growth. The economic restructuring and changes in the consumption pattern indicate positive development trend. Vietnam took certain steps in integration, such as commitments to ASEAN economic cooperation programs, after becoming the full member since July 1995, and APEC member since November 1998, signing the Vietnam-US Bilateral Trade Agreement on 14 July 2000, and is in the process of acceding the WTO.

The changes mentioned above are fundamental premises for active and effective integration. However, in the current development context, the domestic economy is faced with difficulties and challenges in the international and regional integration.

Major opportunities and challenges in the integration process for the country include the following:

**1.- Opportunities:** Integration will bring such big opportunities as:

- The country will have better position and firmer stand in the international community, with more significant voice in directing the overall development of the world economy though negotiation, and will be in a better position to protect its interests and implement the obligations, in the nation's interests. This helps reduce the discrimination in international economic relations, enhance the capability of protecting the legitimate interests, such as the right to enjoy the most favored nation, non-discrimination, and preferences for developing countries.

- There are possibilities for tapping the potential through diversified cooperation with many partners to expand and stabilize the market, to access the international capital flows, technology transfers, and active participation to the international labor division.

- The country can accelerate the structural reform and economic reform, to be more flexible and dynamic in improving the efficiency. More specifically, the SOE reform will be accelerated to improve their competitiveness, to remove subsidies in production, business, investment, exports and imports, further harness the potential and advantages of different ownership.

- The country will be able to learn and effectively apply standard codes of conduct, thus contributing to economic development of the country, to catch up with the world.

- The country will be able to have good external relations, thus positively contributing to maintaining international security, national stability for development.

**2.- Challenges:**

- The biggest challenge is the low economic development level, with poor competitiveness of many enterprises, industries, and services, even compared to and average country in the region.

- Vietnam started its development much later than many other countries. The market economy is still in its infancy, with incomplete legal framework, inappropriate to the international practices and

standards. The time given to implement integration is too short (the deadline for CEPT completion is 2006, for APEC commitments is 2010, and for WTO is 2020). Therefore, the preparation for integration is still limited.

- Vietnam started integration after many countries in the region and the world, thus the integration process must be done faster, as Vietnam is trying to catch up with the region and the world.

- Vietnam's understanding about the institutions to be integrated is limited, staff is in a shortage, with limited qualification, language, and skill.

Beside the opportunities and challenges mentioned above, Vietnam has to face with other challenges, while implementing CEPT, joining AFTA, and acceding the WTO:

+ Fierce competition facing Vietnamese enterprises in the international market.

+ Vietnam may become the dumping ground for obsolete technology from ASEAN and the developed countries.

+ The balance of trade may worsen while implementing CEPT.

+ Less attractive to FDI, unless the investment environment is improved.

On the other hand, integration also open up many opportunities for Vietnam:

+ Improving the competitiveness of Vietnamese enterprises.

+ Increasing Vietnamese exports to ASEAN countries.

+ Reducing prices of imported material, parts, and components from ASEAN countries.

+ Higher efficiency thanks to the economies of scale.

+ Stimulating the economic restructuring in Vietnam.

+ Creating a competitive environment, and engine for development.

+ Increasing Vietnamese exports to the world market.

+ Promoting Vietnam to reform the institution and management at the macro level.

+ Creating favorable environment to attract FDI inflows and to have investment outflows to ASEAN countries.

+ Harnessing the comparative advantage of Vietnam.

+ Enhancing Vietnam's position in the international community.

In brief, the opportunities and challenges mentioned above indicate that Vietnam is faced with great challenges in integration into the regional and world economy. However, given those opportunities and challenges, and the risk of lagging behind, integration is the best choice. It is important that enterprises and regulatory agencies plan and develop necessary approach to integration.

## V.- INTEGRATION WITH THE WTO FRAMEWORK AND INDUSTRIAL STRATEGIES

To prepare to its member enterprises to step by step adjust their production, business, exports and imports to be in line with the WTO commitments of the government, Vietnam Textile and Garment Corporation (Vinatex) set up preparatory steps and drafting the industry's strategy as follows:

- Familiarize with the WTO environment, developing and implementing the action plan to implement the Vietnam-US trade agreement, since this agreement was developed based on the WTO rules and practices.

- In addition, enterprises have to study and adapt to the specific adjustments during the negotiation for WTO accession.

- Coordinate with regulatory bodies to organize specialized workshops to introduce the main content of the Vietnam-US trade agreement, with special focus on the parts related to the textile and garment industry.

- After fully understanding the main content of the agreement, we take steps to explore markets and link to customers.

- Study the legal framework, codes, and laws, especially US laws, such as copyright law, anti-dumping law, anti-trust law, consumer protection law, product safety, environment protection, and customs regulations.

- Invest in upgrading the production capacity, implementing the strategy for investing in the development of the textile and garment sector by 2010, in accordance with Decision 55/2001/QG-TTg, dated 23 April 2001. Specific programs include:

- + Investment in raw material development
- + Investment in fiber production
- + Investment in cloth weaving
- + Investment in knitting development
- + Investment in developing color printing, dyeing, and finishing.
- + Investment in producing synthetic cloth.
- + Investment in producing industrial textiles.
- + Investment in mechanical industry for textile and garment.
- + Investment in environment protection and social responsibility.
- + Investment in producing garment accessories.

**\* *Marketing and promotion:***

+ Establishing representative offices in a number of countries like the United States, Hong Kong, Japan, and EU.

+ Organize study tours, visit to trade fairs abroad, to collect market information, approaching customers, and promoting Vietnamese products in the world market.

+ Cooperate and link with suppliers of cotton, fibers, textiles, materials and additives, in a complete production process, avoiding the lack of cooperation between the parties, thus garment firms have to import materials while textile firms cannot find their customers who are garment firms.

**\* *Upgrading enterprises:***

In recent years, textile companies replaced most of the obsolete equipment, investing in modern equipment made in Europe or Japan, associated with advanced technology in such key stages as dyeing and finishing. Garment companies also invested in new and modern production lines, with high quality specialized equipment to produce high quality products. At the same time, companies also started projects to treat waste water from factories located in the densely populated area, developing ISO 14000 programs, applying the SA 8000 social standards for exported products, especially to the US market.

- Building trademark of well-known companies like Garment 10, Viet Tien, Nha Be, Thanh Cong, Viet Thang, etc., and register the copyright with the competent agency at home and abroad.

- Preparing human resources: Regularly coordinate with units, schools at home and abroad to regularly organize training courses for specialized engineers, line ministries, and technical workers, in order to supplement to the existing human capital of enterprises, at to supply labor to industrial zones for textile and garments in the country.

## **VI.- RECOMMENDATIONS**

Integration is a sure way for Vietnam's textile and garment industry to joint the world market. However, as Vietnam is a late comer, the production and export capacity is too small, and international competitiveness is limited. Therefore, it is necessary to have an appropriate roadmap for the industry to access the world market, to accelerate exports, and the industry to enhance the management skill, business skill, improving the business profitability, reducing cost, and improving competitiveness. The industry needs government support to accelerate its development, shorten the gap to other large exporters in the world. More specifically:

+ Other related regulatory bodies need to be involved, reducing taxes, charges, service charges, to help the industry reduce input costs, and improve its competitiveness.

+ Investment support and export promotion are needed, capital support (in terms of interest rate, grace period, procedures). Capital is especially needed for waste water treatment plants for enterprises to improve the quality of their products and services, to have resources for production management, to have competitive products.

+ The government should commit to the quota allocation (for EU and the US) in an appropriate way, based on the actual exports by each enterprise during the years when quota were not imposed.

+ Through budget funded or foreign aid projects, help enterprises in technical assistance to implement agreements, such as SA 8000, trademark registration, research and development, and training.

+ Establish concentrated trade centers in potential market in order to support enterprises in marketing, exhibition and show, trademark advertisement.

+ Organize and provide funding to regular study tours, trade fair abroad for enterprises that participate can minimize costs, thus increasing competitiveness.

+ Support in human resource training and legal aid:

- The government need to have a policy for training of human resource for the textile and garment industry, using the budget or foreign aid.
- Establish representative office abroad to provide legal counsel to local enterprises in doing business, investment, or to protect their trademark, thus to protect the interests of Vietnamese enterprises abroad.

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