VIETNAM TEXTILE AND GARMENT INDUSTRY:

NOTABLE ACHIEVEMENTS, FUTURE CHALLENGES*

—Appendix II of the Industrial Competitiveness Review—

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EXECUTIVE SUMMARY

This report is a contribution to the second phase of the UNIDO-DSI Medium Term Industry Strategy project, which commenced in late 1995. It builds on the first phase output (UNIDO-DSI, 1997) by examining in more detail one of the key manufacturing industries in Vietnam, textiles and garments. This report complements that of Ms Orla Thornton (Thornton, 1998). The major thrust of the report is on measures designed to promote the growth and international competitiveness of the industry, thereby expanding employment opportunities and raising living standards in Vietnam.

The first section of the report introduces the topic, emphasizing the importance of the textile and garment industry in the context of early stage, export-oriented industrialization in developing countries, and especially for a late-comer to this process like Vietnam.

The second section of the report identifies some of the key features of the textile and garment industry in developing countries, including sales orientation and factor proportions. It also draws attention to the diversity within the industry according to these main features.

The third section, by way of analytical framework, outlines some of the major factors behind East Asian export success over recent decades, including the macroeconomic framework, exchange rate policy, and the microeconomic, business environment. Importantly, it argues that these general factors are the key to success in all industries. Specialized industry circumstances of course need to be taken into account in any industry study, but if the overall policy environment does not support firm-level efficiency and competitiveness, industry-specific promotion measures are most unlikely to succeed.

The fourth section of the report provides a descriptive overview of salient features and trends in the industry. Drawing attention to the most inadequate data base available to policy-makers, it investigates major trends in output and international trade, including the structure of ownership, major export markets and implicit export unit values. Wherever possible, these trends are placed in comparative international context, by including data for other developing Asian countries.

The fifth section addresses some pertinent policy and analytical issues which arose in discussions during the mission or which seem particularly relevant to the industry. These include strategies to cope with the highly competitive Chinese industry, access to the crucial US market, the role of the MFA and the allocation of quotas, the general question of strengthening Vietnam's international connections, the issue of inter-sectoral (and inter-firm) linkages, approaches to enterprise reform, the case for a more effective industrial association, and the need for better industrial statistics.

The final section concludes the report by highlighting some key policy and research recommendations.

1. INTRODUCTION

The textile and garment industry is central to Vietnam's transition from a centrally planned to a market economy, from an economic system built predominantly around state enterprises to one which treats all enterprises equally regardless of ownership, and to the success of the doi moi process. The industry is also a critical element in the country's export drive, and more generally its efforts to integrate itself into the international economy. Textiles and garments are invariably one of the major industries in countries' early-stage manufactured exports. Export success in this industry is usually the forerunner to the emergence of a broad-based export-oriented development strategy. Failure to achieve export success in this industry is invariably symptomatic of deep-seated domestic obstacles and an inability to build on strong potential comparative advantage. Thus the industry is important not just as a major source of exports and employment, but also for what its growth indicates more generally about economic performance.

The industry has achieved notable success to date. Export growth from a low base has been dramatic: from less than $100 million in 1989 to more than $1.3 billion in 1997. The industry now generates about 20% of Vietnam's total merchandise exports, second only to oil, and some 41% of manufactured exports. It employs approximately half a million workers (80% of them women), or about one-fifth of the country's manufacturing workforce. This recent export growth has been accomplished in the intensely competitive export environment with which late-comer exporters have had to contend in the 1990s. It took place initially with limited export quota entitlement, and throughout this period without access to the US market - typically the dominant destination for early-stage East Asian textile and garment exports.

Having completed the first phase of international market penetration, the challenge for Vietnam's textile and garment industry is to develop a broad-based export drive, including a shift to higher quality products and greater product range, against the backdrop of the Asian economic crisis. The current crisis has highlighted the importance of reform: Vietnam has to compete with neighbouring countries whose currencies are substantially devalued, and perhaps more than any other major East Asian economy, its trade and investment patterns are dominated by economies now in trouble, or at least experiencing subdued economic growth. There are frequent reports of orders being cancelled, especially from Korea and Japan, and of buyers demanding price cuts of up to 20% for subcontracted orders in which imported inputs (principally fabric) are provided

to exporters. In 1998 Vietnam may do well just to maintain its 1997 export values, owing to the decline in East Asian (non-quota) export demand.

But reform would have been pressing even if there were no Asian crisis. Domestic obstacles hold back Vietnam's enterprises, both state and private, and constrain their capacity to compete in international markets. These obstacles mean that Vietnamese workers are not able to obtain the better paid jobs which would result if efficiency could be increased. The major issues appear to be at the microeconomic level, and relate to enterprise reform, the markets for credit and land, and the administrative and regulatory framework. Issues of macroeconomic management - particularly the exchange rate, fiscal policy, and the current account deficit - are also important elements of the reform agenda.

This report focuses on these issues, with special reference to the textile and garment industry. It is organized as follows. Section 2 briefly reviews the importance of the industry in the industrialization process. Section 3 examines the underpinnings of East Asian export success, and provides an analytical framework for the case study material which follows. Section 4 investigates Vietnam's textile and garment industry, identifying major structural features together with trends in output and exports. Section 5 analyzes some pertinent policy issues which are likely to shape the future growth of the industry, while section 6 summarizes the major findings and offers some recommendations aimed at sustaining the growth momentum.

2. TEXTILES-GARMENTS AND THE INDUSTRIALIZATION PROCESS

By way of background, several features of the textile and garment industry deserve emphasis:[1]

- First, it is a crucial early-stage industrial activity. In most developing countries, it is second only to food processing industries in its contribution to manufacturing output and employment. Since it is generally one of the first industrial activities to mechanize, the industry plays an important role as a 'spearhead' of industrialization, in the development of a modern industrial skills base. For the garments and weaving sub-sectors in particular, the technology is generally 'mature', widely accessible, and labour-intensive.

- Secondly, it provides a basic commodity, and thus the efficient development of the industry is linked to improved material human welfare. Textiles and garments typically absorb 15-20% of non-food household budgets in low-income countries. The provision of low priced products can contribute significantly to community welfare.

- Thirdly, textiles and garments are usually prominent in most developing countries' early-stage export-oriented industrialization. As countries shift from resource and agricultural commodity exports, textiles and garments are invariably the most important manufactured export during the stage of labour-intensive industrialization.

- Finally, the industry is unusual for its intense international regulation. Trade in these products occurs within the framework of the Multi-fibre Arrangement (MFA), one of the most pernicious restraints on developing country exports. In the words of Cline (1987), it is '... the most trade-restraining international agreement for manufactured products in existence.' Under the MFA, exports to signatory countries are governed by quantitative restrictions which have increased in intensity and scope over the past

[1] There is a large international literature on the industry. A good general analysis, combining both technical and economic analysis is provided by Pack (1987). International dimensions, including the regulation of international trade in textile and garment products, are examined in Anderson (ed, 1992). East Asian country studies include Yang (1997) on China, Suphat (1994, 1997) on Thailand, Paz-Kraft (1996) on The Philippines, and Pangestu (1997) and Hill (1992) on Indonesia.

> quarter century. In the coming decade, the MFA is likely to be phased out, but regulation of the international trade of textiles and garments products will continue to be a phenomenon which all exporting countries need to come to grips with.

It also needs to be emphasized that there is considerable diversity within the textiles and garments industry. This diversity is of great importance because the industry is commonly assumed to be a homogeneous entity. In reality, the differences within the industry are such that a country is most unlikely, simultaneously, to have a comparative advantage in all its major sub-sectors. Thus, although the industry is obviously closely linked in an input-output sense, it is important to appreciate that the presence of linkages per se does not justify the establishment of a fully integrated industry. That is, industries which are linked in an input-output (production) sense may not necessarily share many common features in a comparative advantage sense, and it is the latter which will guide policy-makers in judging whether an industry is likely to be viable at a particular stage in a country's economic development.

To illustrate this point, Table 1 summarizes the key features of the textile and garment industry in Vietnam; apart from some country-specific elements such as location and ownership, these features are common to countries at Vietnam's level of industrialization. The industry is generally divided into three main components, spinning and fibres, weaving, and garments. A more elaborate classification might distinguish between spinning and fibres and include separately smaller or ancillary activities such as knitting and dyeing, but the essential story remains basically the same.

Table 1: **Key Features Of The Textile And Garment Industry In Vietnam**

Feature	Spinning-Fibre	Weaving	Garments
History	very recent	mostly recent	very recent (as factori
Factor Intensity	capital-intensive (especially fibres)	quite labour-intensive	very labour-intensive
Scale Economies	significant	moderate	less important (except in internat. marketing)
Owners (*)	mainly G, some F	mainly G, some F and P	mainly G and P
Vertical Integration	common in spinning-fibre (especially) and weaving		present but less common
Size	large firms dominate	large-medium	medium-small firms
Distribution		firms	dominate
Market	95+% domestic	mainly domestic very small export	mainly export

Location: national distribution, but heavy concentration in the south

(*) G, F, P refer to government, foreign, and domestic private firms respectively.

It is readily apparent that there are major differences within the industry. In section 3, below, some of these differences will be demonstrated empirically. In most respects, spinning (especially fibre) and garments are at opposite ends of the spectrum defined in terms of various industrial organization and national policy attributes. For example, the spinning industry is very capital intensive, scale economies are significant, sales are predominantly domestic, firms are large, vertical integration among spinning and weaving units is quite common, and government and foreign owned firms dominate. In virtually all these respects, the garment industry is quite different. While spinning is above the manufacturing average for Vietnam in most of these attributes, garments is usually well below these averages. In most cases, the weaving industry adopts an intermediate position along this spectrum.

Owing to these intra-industry differences, it is important to analyze the various sub-sectors separately to the extent permitted by the industrial data base and the policy regime. It is immediately obvious, for example, that Vietnam possesses a comparative advantage - actual or latent - in garments and (probably) weaving manufacturing. But it is

not so obvious that such a comparative advantage is present in the case of spinning and fibre production.

3. WHAT DRIVES EXPORT SUCCESS IN EAST ASIA?

Success in international markets - as indicated by unsubsidized exports or production for the local market without protection - is the single most useful measure of an industry's (and firm's) international competitiveness. What therefore determines export success? This section briefly discusses this issue to provide a framework for the analysis which follows. The discussion is with particular reference to East Asian industrialization,[2] although of course the lessons are generalizable.

The first and most important factor is trends in the real effective exchange rate (REER), as compared to a country's competitors. The REER is defined as the ratio of the price of tradables goods to that of non-tradables. Because international data on these are not easily obtainable, a crude proxy is the nominal effective exchange rate (ie, the weighted average of all of a country's bilateral exchange rates, with weights being the countries'/currencies' shares in its total trade), adjusted for relative inflation rates. The International Monetary Fund collects such data on a global basis, although it is not commonly published.

The REER thus has two components - a set of nominal exchange rates (in which the dollar and yen (and presumably shortly the Euro) typically dominate), and comparative inflation rates, which are the outcome of domestic fiscal and monetary policies. REER data for Vietnam are reported in Table 2. It is important to note that the Vietnamese dong has been appreciating in REER terms since the beginning of 1997, essentially because, although the dong has been declining against the dollar, it has been strengthening against the currencies of many of its major trading partners. The dong's appreciation is an especially serious challenge given the sharp devaluation of most East Asian currencies since mid-1997. Although these devaluations have not yet translated into a significant increase in export growth for these countries, owing to financial difficulties and other supply disruptions, exports (particularly of manufactures) are known to be exchange rate elastic, and so a strong export supply response is only a matter of time. These exchange rate movements must surely be one of the major challenges facing the Vietnamese authorities. Figure 1 highlights that the issue of competitiveness has been of some concern throughout the 1990s, as indicated by the steadily appreciating dong in real terms. However, apart from a sharp fall in competitiveness in 1991-92 in the

[2] There is a very large literature on this subject. A useful recent example, available in UNIDO's Hanoi office, is Masuyama, Vandenbrink, and Chia (eds, 1997).

aftermath of establishing a unified exchange rate, this loss has been very gradual until mid 1997 when East Asian currencies began to depreciate sharply.[3]

Table 2 **: Real Effective Exchange Rates**

	Month1	Month2	Month3	Month4	Month5	Month6	Month7	Month8	Month9	Month10	Month11	Month12
1993	100.00	101.57	99.90	97.69	98.52	98.53	97.96	97.55	96.15	95.66	95.54	96.08
1994	98.04	99.75	98.05	97.43	96.93	96.69	94.77	94.78	95.47	95.74	96.58	97.84
1995	100.58	103.64	100.85	99.06	101.00	101.24	101.72	104.43	106.51	105.96	106.16	106.58
1996	108.59	110.68	111.16	111.24	110.65	110.63	109.84	108.47	109.24	109.58	109.68	110.73
1997	112.79	116.43	112.91	111.38	109.43	108.55	110.07	112.66	114.86	115.44	115.92	123.90
1998	131.53	123.31	119.35									

Source: IMF

Secondly, it is imperative that, consistent with exchange rate policy, a country's local cost structure be internationally competitive. Such a strategy has two major components. One involves trade reform to ensure that tradable inputs are available at internationally prices. East Asian governments have achieved this by open trade policies (as in the city states, Hong Kong and Singapore) or by, as in Vietnam, at least putting exporters on a free trade footing through export processing zones or import duty drawback schemes.

The latter schemes can work successfully, as illustrated in economies such as Malaysia and Taiwan. However, they do have disadvantages. They introduce distortions into an economy, especially if import protection is very high, and they act to discourage the development of upstream domestic linkages. Moreover, and most important, their successful operation depends critically on a high-quality, incorruptible implementing bureaucracy.

The second component of competitiveness refers to domestic costs of 'non-tradable' inputs, such as utilities, and skilled and unskilled labour. Also relevant here is the government's regulatory and tax regime - if these are any more onerous than those of a country's competitors, then obviously firms in that country are at a competitive disadvantage in international markets.

[3] Note that the REER is calculated as the nominal exchange rate adjusted for relative inflation rates. Ideally, the REER should be calculated as the ratio of the price of traded to non-traded goods, but these data are not available for Vietnam. It is possible that the latter series would show an even greater real appreciation, given that the price of some important non-tradables - for example, modern sector urban accommodation - has risen rapidly in Vietnam during the 1990s.

Some of these costs can be measured relatively easily. Labour costs and utilities are two such examples. Tax and regulatory regimes are often more difficult to measure, if only because much depends on the quality of bureaucratic implementation. In such cases, a useful reference point might be some form of 'international benchmarking', such as that contained in the annual Global Competitiveness Report (GCR), which included Vietnam for the first time in 1997. These results of the GCR are subject to numerous (valid) criticisms,[4] but in the absence of anything better, they at least provide a rough guide for policy makers. The REER and the GCR are arguably the two most important indicators of a country's international competitiveness.

A third key element underpinning export success is a country's policies towards international economic integration. This is a vast topic embracing many factors, but two in particular might be highlighted. One, probably the most important, is foreign direct investment (FDI) policy. FDI makes two critical contributions to a country's export-oriented industrialization - the transfer of production and management technology, and knowledge of international markets. The mix of these factors varies across industries. For heavy, domestic-market oriented industries, the former will be most important. For labour-intensive, export-oriented industries such as garments, the main contribution will be the latter. Over time, the advantages introduced by foreign firms may be expected to spill over to domestic firms through a variety of mechanisms. The FDI policy regime needs to be aggressive, clear and clean, while ensuring that no special benefits accrue to foreign firms at the expense of their domestic counterparts.[5]

Much foreign technology expertise enters a country via FDI, but it is important to recognize that it is not the only channel. In industries like textiles and garments, international buying groups are extremely important, probably more so than FDI. Movements of skilled labour, such as machinery and equipment suppliers and financial analysts, also often occur independently of FDI. As important as an open FDI policy, therefore, is an openness to the movement of skilled labour more generally, so that domestic firms may freely access such expertise. This requires a domestic living and

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[4] These include: (a) the rankings are subjective, and based on limited sample surveys of business opinion; (b) a number of the key variables are not amenable to quantification; (c) the GCRs do not have a good track record of predicting economic performance, and in particular they did not anticipate the current Asian economic crisis; and (d) country rankings often vary significantly among the various international surveys which are currently on offer.

[5] Vietnam has the benefit of being able to choose from a number of effective FDI policy regimes in East Asia, ranging from laissez-faire Hong Kong to activist Singapore. The latter's approach to FDI is well documented in Low et al, 1993.

regulatory environment which is attractive to such personnel, embracing issues ranging from visa and residency requirements to the supply of facilities and life-style amenities. It is no coincidence that international cities such as Hong Kong and Singapore attract such high-skill labour, in spite of their extremely high international living costs.[6]

Fourth, there needs to be an efficiently functioning financial system. Borrowers with viable investment projects need to be able to secure credit at internationally competitive, and unsubsidized, (real) interest rates. Financial markets need to operate efficiently, in the sense that spreads between deposit and lending rates should approximate international standards. A range of financial instruments in addition to commercial credit need to be available; the most important of these in the case of Vietnam is obviously an efficiently functioning stock market. The domestic financial system over time can be expected to integrate more fully with international financial markets, but as recent Southeast Asian experience clearly indicates, and the international literature on sequencing has argued, domestic institutional and policy reform needs to be in place prior to this final stage.

The issue of financial development is highly relevant to the development of Vietnam's textile and garment industries. Vietnam's savings rate will need to increase to support the recent growth momentum, and this will take place in the context of a decline in the country's unsustainably high current account deficit. It will be argued below that financial development is one of the most important constraints on the expansion of the industry.

Finally, a critical underpinning of efficient industrial growth is a conducive business environment in which enterprises operate. This in turn involves the establishment of clear, clean and predictable government policies: property rights need to be clearly specified and guaranteed, government regulations need to be carefully defined, the scope for arbitrary bureaucratic intervention needs to be minimized, the taxation system needs to be simple and incorruptible, and legal processes should be fair and efficient. Vietnam is in the process of evolving from a command to a market economy,

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[6] Vietnam might be expected to rank highly in expatriate 'international liveability' comparisons given its many attractions. But, rightly or wrongly, it is generally seen as a difficult location for foreigners. (For example, according to a recent survey of expatriate preferences conducted annually by the Hong Kong-based Political and Economic Risk Consultancy, as cited in Vietnam Investment Review, 11-17 May 1998, Vietnam ranked as the 10th most difficult country in which to live out of the 11 East Asian countries and territories surveyed.) Of course, what matters most of all is the living standards of domestic residents, but given the importance of international connections for export growth, these sorts of rankings cannot be dismissed easily.

and these institutional reforms will obviously take time to be fully implemented. The government has announced its intention to ensure that private and state-owned firms are treated equally, and the challenge now appears to be to ensure that this philosophy is fully absorbed by all tiers of the bureaucracy, especially at regional and more junior levels.[7]

[7] For a very clear statement of the importance of administrative reform, based on several country case studies, see Pfeffermann, 1997.

4. VIETNAM'S TEXTILE AND GARMENT INDUSTRY

This section provides a descriptive-analytic overview of Vietnam's textile and garment industry. It focuses on the structure of the industry, and trends in production and exports. Owing to serious data constraints, this analysis can provide only an approximate picture, and more detailed research and an improved data base is required to obtain a more comprehensive picture.

The textile and garment industry has been present in Vietnam for at least a century, while traditional handicraft activities such as embroidery have existed for much longer still. Some accounts date the formal development of the industry from the establishment of the Nam Dinh textile complex in 1889. The industry grew more quickly in the post WW II era, especially in the south, where firms employing modern European machinery were established. In the northern regions, state enterprises using equipment from China, the former USSR and Eastern Europe were also established over this period. Although exports commenced in the 1970s, the major phase of export-oriented development dates from the early 1990s following the enactment of doi moi reforms.

(a) Output

Trends: As noted above, the quality of production data are very poor, and this makes it extremely difficult for officials to monitor accurately trends in the industry. Tables 3 and 4 present some estimates provided to the mission. It is difficult to interpret these figures. First, they are rather dated; some series stop at 1994, and most do not go beyond 1996. Secondly, there are substantial discrepancies between sources - significantly different estimates are provided for purportedly the same variable (see the note to Table 3 for an illustration), while closely related variables (eg, physical output and gross value of output) sometimes move in different directions. Thirdly, the series seem to be subject to large, periodic movements, suggesting that year-to-year movements may be rather misleading, as compared to longer-term trends.

Table 3: **Textile Production In Vietnam**

Item	1985	1990	1991	1992	1993	1994	1995	1996
Fibre ('000 tons)	51.3	58	40	44	38	44.4	50	56.9
Fabric (mil. m.)	374	318	180	272	215	228	221	281
Canvas (mil. m.)	4.5	3.3	1.9	2.1	2.4	2.0		
Hosiery (mil. pieces)	19	29	26	18	31	28	28	29
Carpets ('000 sq. m.)	343	213	270	285	206	524		
Towels, etc (mil. pieces)	53	109	109	209	153	179		
Socks ('000 pairs)	5,297	2,574	2,726	2,698	2,307			
Clothing (mil. pieces)	74	125	106	104	91	121	127	200

Source: Ministry of Industry.

Note: These figures differ from those presented in the Statistical Yearbook 1996 (Statistical Publishing House, Hanoi, 1997). For example, the latter source states the following physical outputs for 1995 (the latest year for which complete data are presented; same units as above): fibre - 59.2; fabric - 263.2; carpets (1994) - 540; towels, etc (1994) - 186.5; clothing - 172.2.

Table 4: **Trends In Vietnam's Textile And Garment Industry, 1991-97**

	Textiles			Garments			
	VA (1)	VA (2)	GO	VA (1)	VA (2)	GO	EMP
1991	2,133	703	2,859	367	144	585	85.5
1992	2,329	927	3,800	430	262	700	89.8
1993	2,343	1,288	5,278	598	505	1,350	100.0
1994	2,582	1,672	6,853	713	877	2,345	118.0
1995	2,819	2,275	9,361	829	1,272	3,411	119.4
1996		2,556	10,518		1,593	4,270	120.1
1997		2,765	11,377		1,912	5,125	121.5

Notes:

VA (1) value added in billion dong at constant 1994 prices.

VA (2) value added in billion dong at current prices (no explanation is provided for why the two series differ in 1994).

GO gross output in billion dong at current prices

EMP employment in thousands

Source: General Statistical Office, as provided by the Ministry of Industry.

For what they are worth, the physical production data (Table 3) suggest that fibre production is increasing slowly (though the figure recorded for 1996 is still below that of 1990). Fabric production displays little clear trend, and the apparent increases since 1993 still result in recorded production in 1996 being just 75% of that in 1985. The trend in garments production is at least somewhat more plausible, although the figures fluctuate considerably, and the apparent increases fall much below the growth rates suggested by the export data, even allowing for the fact that the latter are gross values in which the share of domestic value added is quite small.

The value data provided in Table 4 are somewhat more plausible, but the crucial constant price series stop at 1995, and no employment data are provided for textile employment. Between 1991 and 1995, real value added apparently increased by about one-third in textiles and by 125% in garments. Between 1991 and 1997, employment in garments increased by 40% to 121,500 persons. The employment data suggest very little employment growth from 1994 onwards, which is hardly consistent with a doubling of exports over this period.

In sum, it is impossible to obtain an accurate picture of developments in the industry, except through the UN trade data system, which verify Vietnam's trade through partner reporting. The production data do at least conform that sick state of much of the textile industry, and raise the extraordinary possibility that physical output may have even declined in that industry during the 1990s. It is probable that the process of doi moi has led to a 'shake-out' in the industry, with some of the older state-owned enterprises unable to compete as subsidies are withdrawn, while more dynamic new foreign and private entrants, together with some of the SOEs able to adjust, providing the major source of growth. Moreover, a major disruption occurred in the industry in 1990 following the collapse of Russian and Eastern European markets, trade with which had been organized on a barter trade basis. It is possible also to at least partially reconcile the conflicting physical output and value series with the proposition that the older SOEs producing low quality textiles have been replaced with newer entrants with higher quality products.[8] But in the absence of better data, such a conclusion remains at best a hypothesis.

Ownership: Accurate ownership data are also not available, but some rough estimates are presented in Table 5. The mission was unable to obtain ownership shares estimated on the basis of value added or employment. And it needs to be emphasized that the ownership classifications are empirically slippery. It is not always clear where the boundaries of state ownership lie, as between, for example, the enterprises owned by local committees, cooperatives, the armed forces, and families who have close ties to the bureaucracy. Foreign ownership shares are also ambiguous: some are joint ventures with SOEs; there is no systematic treatment of Viet Kieu investments; and closely related foreign buying and trading relationships present measurement difficulties.

[8] Another possible explanation for puzzling trends - in this case the dip in garments output in 1993 - is offered by Luong (forthcoming, p. 4), namely that household garments production was reclassified from the manufacturing to the services sector in that year.

Table 5: **Estimates Of Ownership Shares** (% Of Total)

(A) 1996 Statistical Yearbook
(based on physical output)

	'Domestic'	'Joint Venture'
Textile fibres, 1995	87	13
Fabric, 1995	84	16
Knitting wool, 1995	86	14
Towels, etc, 1995	96	4
Garments, 1995	84	16

(B) World Bank, 1997
(based on gross value of output, citing the Government Statistics Office)

		'State'	'Non-State'	'Foreign-invested'
Manufacturing	- 1995	55	30	15
	- 1996	54	30	17
Textiles	- 1995	59	26	15
	- 1996	58	26	17
Garments	- 1995	37	50	13
	- 1996	36	49	15

(C) Export Shares
(FDI projects as percentage of total, 1995)

textiles	29.5
garments	10.4

For what the data are worth, it appears that ownership patterns in the industry are broadly similar to that of manufacturing as a whole (see panel B in Table 5). About 55% of gross manufacturing output is generated by SOEs, 30% by domestic private firms, and 15% by foreign firms (the latter apparently including joint ventures, mainly with SOEs). For textiles (and within textiles, spinning in particular), the SOE share is slightly higher, the domestic private share correspondingly lower, and the foreign share similar to the industry-wide average. In the case of garments, the foreign share is similar, domestic private firms are relatively more important (about half of output), while the SOE role is smaller. No accurate data on trends in these shares is apparently available. The ownership shares based on physical production data (panel A) are broadly consistent with these figures. In the case of exports, the foreign share may be higher than the output share (panel C), while surprisingly the reverse appears to be the case for garments. In the latter case, however, it is invariably buying groups rather than FDI which provide the crucial foreign marketing connections.

The obviously unusual feature of these ownership shares is the small domestic private sector, which in most market economies dominate both textiles and garments. It is uncommon to find such a large SOE presence, which in Vietnam's case reflects the legacy of its history as a state-dominated command economy, and its transitional nature during the doi moi reform process. The foreign shares broadly accord with international norms, although if anything the garments figure is on the high side. A picture therefore emerges of a extremely high state share, a moderately high foreign presence, and a most under-developed domestic private sector. As is argued below, enterprise reform which enables the latter firms to expand efficiently is one of the principal challenges facing the industry.

Foreign investment: It was not possible to obtain data on the aggregate importance of textiles and garments in total foreign investment, but it is reasonable to assume that it is the largest component in 'light industry', which nevertheless at 11.5% is a surprisingly small percentage of the total approved foreign investment over the period 1988-97 (Table 6).

Table 6: **Approved Foreign Investment By Sector**, 1988-97 (% Of Total)

Construction	32.2
Heavy industry	19.9
Light industry	11.5
Tourism & hotels	11.3
Communications	8.3
Services	4.8
Oil & gas	4.3
Agriculture	4.1
Export/industrial zones	1.6
Culture & education	1.3
Finance	0.6

Source: Ministry of Planning and Investment

Foreign investment approvals jumped sharply in 1988 following the initial FDI policy liberalization (that is, the promulgation of the Law on Foreign Investment in 1987), but then languished until 1993 when they totalled over $500 million in one year (Table 7). Since 1993, they have exceeded $100 million annually, although in 1998 they are expected to decline significantly. Investors display a very strong preference for 100% ownership (80% of total approvals), which in Vietnam is permitted for export-oriented ventures. No breakdown of the data are available within the sub-sectors, but it is thought that fibre, spinning, and fabric manufacture are the major sub-sector recipients. East Asian countries are the major approved investors, dominated by South Korea (47%) and Malaysia (33%), which together constitute over 80% of the total. The major export

destinations for garments, Japan and Europe, are insignificant investors, as would be expected. Neither has been a major exporter in developing country garment industries. Buyers from these markets, and East Asian intermediaries who know them well, are the major actors in the garment export trade. Within Vietnam, foreign investors in textile and garments - as in most other footloose industries - display a clear preference for Ho Chi Minh City, which accounts for half of approved FDI in the industry.

Table 7: **Foreign Investment In Textiles And Garments, 1988-97**
(Total = $1,431.1 million; % of cumulative approved total unless otherwise indicated)

(A) Major Foreign Investors

SOURCE	
South Korea	47.3
Malaysia	33.3
Taiwan	9.6
Canada	3.3
Hong Kong	3.0
Russia	1.5
Others	2.0
Total	100.0

(B) Forms Of Foreign Investment

100% foreign-owned	80.1
joint venture	8.0
contract	12.0

(C) Annual Investment, 1988-97
($ million)

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
170	5.5	10	27.6	27.2	518.9	120	299.1	138.9	114.3

(D) Major Locations

Province	
HCM City	50.6
Dong Nai	26.3
Vinh Phu	6.5
Long An	6.0
Tay Ninh	3.5
Song Be	3.1
Bar Rai - Vung Tau	2.4
Others	1.6
Total	100.0

Source: Vietnam Economic News, No. 8, 1998, p. 8, citing Ministry of Planning and Investment data.

Factor proportions: Since Vietnam has never held an internationally comparable industrial census, and accurate output and employment data are not collected, it is not

possible to compute standard factor intensity ratios for the industry, and to place these in some sort of comparative international framework.[9]

The best that can be done is to compare the results of the UNIDO industrial statistics project, which has thus far generated data only for the greater Hanoi region (see UNIDO, 1996), with some international bench marks, as provided in UNIDO (1997). For illustrative purposes, we choose value added per worker, which is the most commonly accepted measure of capital intensity, and wages per worker, which is a proxy for skill levels. Both measures are at best proxies, and are based on a number of assumptions, including the existence of competitive product and factor markets. Obviously, the inclusion of just Hanoi in the comparison distorts the picture - this region would be expected to exhibit above average capital and skill intensity, as compared to the rest of the country, while the private sector is probably under-represented. For illustrative purposes, we include the US, South Korea and Indonesia, and present the statistics for textiles (ISIC 321) and garments (ISIC 322). Note that the data refer to the ratios for each country relative to the national industry-wide ratio for that country. That is, a figure of 200 for a certain country and industry indicates that the industry is twice as capital- or skill-intensive as the industry-wide average in that country. The data are thus focusing on international comparisons of within-country rankings.

The data indicate that factor proportions in Vietnam's textile and garment industry are broadly similar to those in the three other countries (Table 8). That is, the industries in Vietnam are less capital and skill-intensive than manufacturing industry as a whole. As in the other countries, this applies particularly to garments, although the precise ratios are of less significance than the broad industry rankings. Vietnam's ratios are somewhat higher in the case of wage levels, which could either reflect rigidities in the country's wage structure - especially in foreign and SOE firms - or the biased sample selection (Hanoi firms only). But, in sum, the industry's relative factor proportions are generally consistent with international norms.

[9] It is notable for example that a country of Vietnam's size and importance is not included among the 102 countries and territories for which data are presented in the latest UNIDO, International Yearbook of Industrial Statistics, 1997, Vienna.

Table 8: **Comparative Factor Proportions In Textiles And Garments**

	Textiles		Garments	
	VA/L	W/L	VA/L	W/L
Vietnam (Hanoi), 1995	66	96	40	89
Indonesia, 1994	84	87	41	88
South Korea, 1994	61	82	48	72
USA, 1994	55	69	42	50

Note: Data refer to value added per worker (VA/L) and wages per worker (W/L) for each country, as a percentage of the relevant ratios for the manufacturing sector of each country. Data for Vietnam refer to the UNIDO 1995 Survey; for the other countries, national data are used.

Sources: UNIDO (1996) Vietnam and UNIDO (1997) for the other countries.

Other structural features: Data are not available on the size distribution and geographic location of the industry. The UNIDO Hanoi survey found that, as would be expected, most of the garment firms were small-medium in size: 33 of the 53 firms employed fewer than 100 workers, although six were quite large, with more than 500 workers (Table 9). Also, as would be expected, textile firms were somewhat more located in the medium-large groupings, although more than one-third employed fewer than 50 workers, which by international standards is a very small textile factory. The size distribution of textile and garment firms was found to be broadly similar to that of manufacturing as a whole, which is also somewhat surprising (these firms are generally disproportionately located in smaller size groupings), but presumably reflects industrial infancy. The mission was unable to obtain any data on geographic location. It is well known that the industry developed historically mainly in the south, and as Table 7 shows, foreign investors have a clear preference for locating there. There are, nevertheless, a number of major SOEs located in the northern provinces.

Table 9: **Size Distribution Of Industry In Hanoi, 1995** (number of establishments)

	Number Of Employees					
	10-19	20-49	50-99	100-499	500+	Total
Manufacturing	121	189	131	183	54	678
Textiles	7	8	4	6	7	32
Garments	5	15	13	14	6	53

Source: UNIDO, 1996

Capital equipment: There are also no reliable information on the state of the industry's machinery, although press reports and informal information provided to the mission suggest that much of this equipment is antiquated, especially in textiles. Among

SOE weaving producers, the Ministry of Industry estimates that about 15% of machinery is adequate, 45% is in need of repair, while the remaining 40% should be scrapped. Most of the country's 8,000 weaving looms are narrow shuttle, and can only produce a limited range of low quality cloth. About half are at least 25 years old. There are frequent breakdowns, maintenance costs are high, and some firms are using Russian and Eastern European equipment which is no longer manufactured, and for which, in consequence, the lack of spare parts is a constant problem. As a result, many firms are operating at less than 50% capacity. The problem is just as serious in the predominantly state-owned spinning sector, which in the main produces low quality threads; 50% of the country's spindles were estimated to have been purchased before 1979.

Equipment in the garment industry is thought to be more modern, and it is in any case a very labour-intensive activity. Export orientation has conferred significant advantages, as garment producers have the foreign currency to purchase better equipment. In some cases, foreign buyers have provided such equipment also. But the backward state of most of the textile industry has meant that the garment industry is highly import-intensive, as we shall see shortly. Fortunately, the government has 'insulated' these exporters from the upstream producers by introducing a moderately effective drawback scheme. Nevertheless, many opportunities for economic import substitution in the labour-intensive components of the textile industry have gone missing, for reasons to be discussed shortly.

Wages: Accurate time series and disaggregated cross sectional wage data are not available for Vietnam, but it is well known that the country has one of the lowest real wage levels in Asia. Approximate pre-crisis wage data for textiles suggest that unskilled wage rates in the textile industry are at least 20% below those in such major low-income exporters as China, India, and Indonesia, and about one-third those of Thailand (Table 10). Owing to high literacy rates and business surveys which report high levels of worker productivity, these differentials probably translate into lower efficiency wages too. The recent currency depreciations in Southeast Asia would have pushed Indonesian wages below those in Vietnam, at least temporarily, but in mid-1998 the country's wage rates are almost certainly still among the lowest in Asia. Clearly unskilled wage rates are not an obstacle to Vietnam's international competitiveness in textiles and garments.

Table 10: **Comparative Labour Costs In Textiles, 1994** ($/hour)

Vietnam	0.4
China	0.5
Indonesia	0.5
India	0.6
The Philippines	1.0
Thailand	1.4
South Korea	4.0
Hong Kong	4.4
USA	11.9
Japan	25.6

Source: Werner International Inc, as cited in Suphat, 1997.

(b) Exports

Major trends: Since the doi moi process got underway, and notwithstanding the collapse of the USSR market in 1990, textile and garment exports have grown strongly, illustrating once again the powerful connection between reform - even of the very partial variety which has occurred in Vietnam - and export performance. Exports have risen from $43 million in 1988 to over $1.3 billion in 1996 (Table 11).[10] [11] They approximately doubled (in nominal US$ terms) in 1989, 1989-91, 1991-92, 1992-94, and 1994-96. Even allowing for the small initial base, by any standard this is an impressive record. Garments have been by far the most important, its exports in the 1990s generally exceeding those of textiles by a factor of six. Nevertheless, textile exports have grown quite strongly, especially since 1991. Textiles and garments are Vietnam's largest manufacturing export by a large margin, in the early stage of the export drive generating more than 60% of the total value. As would be expected, this percentage is declining as the process of export diversification gathers momentum. The industry also ranks significantly in total exports, in 1996 accounting for one-fifth of the total. This share doubled 1991-96 as the country's export composition began to shift from commodities to manufactures.

[10] Note that the data used in this paper are from the UN trade data system, and that they generally exceed those reported in Vietnamese statistics. For example, Vietnamese statistics record textile and garment exports (also in US$ million) as follows: 1991 - 116, 1992 - 180, 1993 - 350, 1994 - 550, 1995 - 750, 1996 - 1,150, 1997 - 1,300. It was not possible during the mission to obtain an explanation for this discrepancy.

[11] It was estimated that Vietnam exported about 30,000 tons of textile and garment products annually under barter arrangements to Comecon countries, mainly the former USSR, in the late 1980s, just prior to the collapse. Estimates of the value of these exports in convertible currencies are not available, but it is probable that these exports were not recorded in the data presented in Table 10. Thus, to some extent the export growth rates from the late 1980s to the early 1990s recorded in Table 10 may have been overstated, but such an overstatement would not apply to the growth rates subsequently.

Table 11: **Vietnam's Textile And Garment Exports, 1985-96** ($ million)

Year	Textiles (T)	Garments (G)	T+G	T+G As % Of:	
				Total	Total Man.
1985	6.5	21.1	27.5	7.9	55.0
1986	11.1	36.0	47.1	11.9	54.4
1987	13.3	27.4	40.6	9.1	57.1
1988	15.8	27.0	42.8	7.9	53.5
1989	25.1	68.1	93.1	8.4	56.1
1990	27.8	90.7	118.5	7.9	56.4
1991	29.4	142.9	172.3	9.9	61.8
1992	39.6	357.2	396.8	15.6	62.2
1993	61.7	521.0	582.7	17.8	52.9
1994	107.8	691.6	799.4	17.8	49.3
1995	147.8	878.8	1,026.6	18.2	45.5
1996	175.5	1,162.7	1,338.2	19.8	41.3

Note: Textiles and Garments refer to SITC 65 and 84 respectively. The final two columns refer to these exports as a percentage of Vietnam's total and manufactured exports respectively.

Source: United Nations trade data tapes. Unless otherwise indicated, this is the source of all international trade statistics used in the report.

The achievement is also noteworthy in view of the fact that Vietnam had to quickly shift its commercial orientation away from the Comecon block in the early 1990s. This is a particularly important consideration in the textile and garment industry, given the intense international regulation which is present. Vietnam negotiated its first textile trade agreement in the post-Comecon era when it signed a textile trade facility with the EU in December 1992, which for the first time gave it access to MFA quotas. However, it still does not have access to the large US market, and for an early-stage exporter it has been forced to be unusually reliant on the tough, highly competitive non-quota markets, principally in East Asia. We return to this point below.

Almost all garment exports occur as international subcontracting arrangements, where buyers seek out domestic suppliers, and generally provide them with imported fabrics. This is known in the trade as CMT (cut, make and trim). On occasion, machinery and finance are also provided. Such an arrangement initially proved to be beneficial to Vietnamese producers, who almost uniformly lack international marketing knowledge. However, the benefits of this passive approach to exporting are now questionable. Exporters are trapped in very low value added production, especially during the current Asian crisis, when buyers have squeezed contract prices by as much as 20% in the past 12 months. Almost all producers - even the very large ones - lack the experience and resources to embark on energetic marketing programs. Some foreign and private firms

are now beginning to explore new markets. But the huge state-owned conglomerate VINATEX, which accounts for about half of the industry's exports, appears ill-equipped for this new challenge.

Net trade: Another perspective on Vietnam's export performance is provided by an examination of net trade aggregates and ratios, ie, net exports and net exports as a proportion of total trade (see Table 12). Vietnam is a large net importer of textiles. Its net trade ratio (NTR) has been high and broadly consistent throughout this period, underlining the fact that garments has been, and continues to be, a highly import-intensive activity. The fact that the ratio for textiles has not declined might be construed positively to suggest that at least import supplies to garment exporters have not been interrupted, thus assisting international competitiveness. However, it is surprising that the process of import substitution in textiles, especially its more labour-intensive components, has not proceeded further. The absence of this process is presumptive evidence of deep-seated inefficiencies in the industry.

Table 12: **Vietnam's Textile And Garment Trade** ($ million, or ratio)

Year	Textiles		Garments		T+G	
	NET X	NTR	NET X	NTR	NET X	NTR
1985	-80.5	-0.86	20.3	0.93	-60.2	-0.52
1986	-58.9	-0.73	35.4	0.97	-23.5	-0.2
1987	-43.9	-0.62	26.8	0.96	-17.2	-0.17
1988	-47.6	-0.60	26.0	0.93	-21.6	-0.2
1989	-35.6	-0.42	66.0	0.96	30.4	0.2
1990	-107.4	-0.66	84.9	0.88	-22.5	-0.09
1991	-154.2	-0.72	136.3	0.89	-17.9	-0.05
1992	-292.3	-0.79	334.8	0.88	42.5	0.06
1993	-491.1	-0.80	491	0.89	-0.1	0
1994	-599.9	-0.74	649.7	0.89	49.8	0.03
1995	-843.4	-0.74	828.1	0.89	-15.3	-0.01
1996	-1007.4	-0.74	1104.1	0.90	96.7	0.04

Note: 'NET X' refers to exports minus imports (ie, X-M). 'NTR' refers to net exports as a proportion of total trade in each case (ie, [X-M]/[X+M]).

In garments, by comparison, the industry's strong export orientation has been maintained, and the NTR has been virtually constant throughout the 1990s. In part, of course, this reflects the country's restrictive trade regime, apart from the duty-free provisions for garment exporters. It should be noted that, obviously, these figures do not include the unknown but very significant volume of garments smuggled in from China. Combining these two series, Vietnam emerges as a marginal net exporter of textiles and

garments. Such a conclusion - that net garment exports only just exceed net textile imports - is surprising, as will be underlined shortly in some international comparisons.

Comparative perspectives: How does Vietnam's export performance compare with those of other Asian developing economies? We choose here China, which the Vietnamese authorities and firms appear to regard as a competitive benchmark, two more industrially advanced (at least pre-crisis) Southeast Asian economies, and another two low-income recent exporters, Bangladesh and Sri Lanka.

In this comparative picture, Vietnam is clearly a late-comer, and its export record is satisfactory but not outstanding. Its exports are dwarfed by China; even on a per capita basis, they are little more than one-half (in 1996, the comparative figures were $16.7 and $31; Table 13). Vietnam's exports are also well below those of the other two low-income comparators, Bangladesh (especially) and Sri Lanka. In its aggregates, Vietnam is now close to Indonesia in the late 1980s and Thailand in the mid 1980s. In fairness to Vietnam, all these countries began their export drive earlier - in all cases, their exports in 1985 were significantly higher than those of Vietnam in 1990. The latter's growth rates are comparable, but its lower levels underline the costs of delaying the process of significant policy reform until the 1990s.

Table 13: **Vietnam's Comparative Export Performance** ($ million, or %)

Vietnam:	**1985**	**1990**	**1996**
Textile exports (T)	6.5	27.8	175.5
Garment exports (G)	21.1	90.7	1,162.7
Textile & Garment exports (T+G)	27.5	118.5	1.338.2
T+G as % of total exports	7.9	7.9	19.8
T+G as % of manufactured exports	55.0	56.4	41.3
China:			
Textile exports (T)	,654.8	,201.6	12,155.0
Garment exports (G)	,729.8	9,610.1	5,000.4
Textile & Garment exports (T+G)	,384.6	16,811.8	7,155.4
T+G as % of total exports	6.4	7.1	4.6
T+G as % of manufactured exports	2.6	7.3	8.8
Indonesia:			
Textile exports (T)	239.3	1,256.2	2,830
Garment exports (G)	339.7	1,671.1	3,674
Textile & Garment exports (T+G)	579	2,927.3	6,504
T+G as % of total exports	3.1	11.5	13.1
T+G as % of manufactured exports	19.8	30.8	24.8
Thailand:			
Textile exports (T)	415.6	917.9	1,419.7
Garment exports (G)	572.6	2,825.7	2,958.5
Textile & Garment exports (T+G)	988.3	3,743.6	4,378.2
T+G as % of total exports	14.0	16.3	8.2
T+G as % of manufactured exports	33.8	25.6	11.2
Bangladesh:			
Textile exports (T)	366.7	342.8	247.1
Garment exports (G)	167.5	643.1	2,711.9
Textile & Garment exports (T+G)	534.2	985.8	2,959
T+G as % of total exports	54.9	63.3	80.2
T+G as % of manufactured exports	83.4	81.7	90.6
Sri Lanka:			
Textile exports (T)	11.3	24	163.5
Garment exports (G)	284.8	643.7	1,886.6
Textile & Garment exports (T+G)	296.1	667.6	2,050.1
T+G as % of total exports	23.8	35.3	59.3
T+G as % of manufactured exports	72.9	65.9	71.3

Two other points emerge from the comparison in Table 13. One, noted above, is how relatively underdeveloped Vietnam's textile industry is, as indicated by its low share of total textile and garment exports. It shares this feature with Bangladesh and Sri Lanka,

and contrasts with the export patterns of the more industrialized economies of China, Indonesia and Thailand. There is nothing inherently desirable in having a 'balanced' export structure. Indeed, as argued below, it would be dangerous to promote the textile industry if it was achieved via protection which penalized the efficient garment industry. But the fact that these more industrially advanced countries do have a sizeable textile export industry suggests that, in the right policy environment, Vietnam could also aim in this direction. A second, more positive, observation is that Vietnam appears already to have a more diversified export structure than either Bangladesh or Sri Lanka. The latter two, and especially Bangladesh, exhibit an extreme - unhealthy in fact - reliance on textiles and garment exports. Vietnam is somewhere between these two countries, and the more balanced structures of its three more industrialized neighbours.

Vietnam is clearly unusual in the comparison of net trade ratios (Table 14). Like the two low-income recent exporters, it is a net importer of textiles. By comparison, China, Indonesia and Thailand are all net exporters. All six countries exhibit very high NTRs for garments, of at least 0.9, reflecting the interplay of comparative advantage and import restrictions. But the really surprising feature of Vietnam is that its net textile and garment exports are so low - virtually zero, compared to ratios in the range 0.34-0.67 for the other five countries in the comparison. To repeat, there is nothing inherently desirable in high NTRs, but where they are not found in such labour-intensive activities in which low-income countries might be expected to have a strong comparative advantage, serious domestic supply-side obstacles must be presumed to be present. In Vietnam's case, this almost certainly points towards the textile industry, and again underlines the need for structural adjustment based on the kinds of enterprise reform discussed in the next section.

Table 14: **Vietnam's Trade In Comparative Asian Perspective** ($ million, or ratio)

Vietnam:		**1985**	**1990**	**1996**
Textiles	- NET X	-80.5	-107.4	-1,007.4
	- NTR	-0.86	-0.66	-0.74
Garments	-NET X	20.3	84.9	1,104.1
	- NTR	0.93	0.88	0.90
T+G	- NET X	-60.2	-22.5	96.7
	- NTR	-0.52	-0.09	0.04
China:				
Textiles	- NET X	1,526	1,925.1	191.3
	- NTR	0.26	0.15	0.01
Garments	- NET X	3,628.1	9,547.2	23,967.5
	- NTR	0.95	0.99	0.92
T+G	- NET X	5,154.1	11,472.3	24,158.8
	- NTR	0.54	0.52	0.48
Indonesia:				
Textiles	- NET X	113.8	471.1	1,565
	- NTR	0.31	0.23	0.38
Garments	- NET X	336.8	1,658.5	3,651
	- NTR	0.98	0.99	0.99
T+G	- NET X	450.6	2,129.6	5,216
	- NTR	0.64	0.57	0.67
Thailand:				
Textiles	- NET X	187.3	21	179.2
	- NTR	0.29	0.01	0.07
Garments	- NET X	568.2	2,799.1	2,810.4
	- NTR	0.98	0.98	0.9
T+G	- NET X	755.5	2,820.1	2,989.6
	- NTR	0.62	0.49	0.52
Bangladesh:				
Textiles	- NET X	224.9	-108.1	-902.7
	- NTR	0.44	-0.14	-0.65
Garments	- NET X	166.8	628.7	2,678.5
	- NTR	0.99	0.96	0.98
T+G	- NET X	391.7	520.6	1,775.8
	- NTR	0.58	0.36	0.43
Sri Lanka:				
Textiles	- NET X	-161.9	-388	-795.4
	- NTR	-0.88	-0.89	-0.71
Garments	- NET X	282.1	635.2	1,840.4
	- NTR	0.98	0.97	0.95
T+G	- NET X	120.2	247.2	1,045
	- NTR	0.25	0.23	0.34

Unit values: Data on unit values (value divided by quantity) are an approximate comparative indicator of quality, and the extent to which countries are moving up the 'value added' ladder. There is a clear correlation between unit value data and industrial sophistication across countries. The data are of course crude - they depend crucially on export quantities being accurately recorded, and the comparisons need to be undertaken for finely disaggregated categories. Even here, for such a heterogeneous industry as garments, the data are at best indicative.

Table 15 reports some comparisons for widely exported garment products at 4-digit SITC codes for Vietnam and, by comparison, two more established exporters, Indonesia and Thailand. The data are normalized for Vietnam's ratios, with the latter equal to 100. Import data (for Japan and the US) are employed since quantities are recorded more accurately. Clearly, Vietnam's ratios are much less than those of Indonesia and Thailand for almost all comparisons. These data corroborate field surveys, in which it was widely reported to the mission that Vietnamese exporters rely very heavily on low value added segments of export markets. Such a position for an early-stage exporter like Vietnam is not surprising. It illustrates the scope for shifting up to higher quality products, even in quota-constrained markets. It is important to emphasize that such a transition does not necessarily imply a major transformation in product range and composition. More often it entails modifications such as improved quality control, reliable delivery, and attention to fashion trends, for all of which overseas buyers are prepared to pay a premium. Experts in the industry estimate that productivity gains from a variety of these simple, low-cost measures would be at least 25% and in many cases considerably more (see Thornton (1998) for further discussion of these points).

Table 15: **Unit Values Of Selected Garment Exports** (Vietnam =100)

SITC	Item	Vietnam	Indonesia	Thailand
8412 - clothing accessories, not knitted				
	1995	100	191	471
	1996	100	128	218
8413 - leather clothing				
	1995	100	185	176
	1996	100	259	243
8414 - clothing accessories, knitted				
	1995	100	105	120
	1996	100	100	119
8415 - headgear				
	1995	100	148	144
	1996	100	157	144

Note: The data refer to unit values (price/quantity) of each countries' exports to the USA and Japan (owing to data limitations, to Japan only in the case of SITC 8413), as recorded in the USA and Japan.

Source: Calculated from United Nations trade data tapes

Major export markets: As noted earlier, Vietnam's garment exports rely very heavily on Europe and Japan, which in 1996 absorbed 43% and 42% respectively of the total. That this is an unusual pattern of exports is illustrated in Table 16. The distinctive feature of early-stage East Asian garment exports has been the dominance of the US market, and the unimportance of Japan. For example, the US dominated Indonesian and Thai exports in the mid 1980s (58% and 41% respectively), while Japan was just 1%. (China was somewhat different owing to the prominence of Hong Kong as an entrepot, explaining the higher percentage going to - and through - East Asia.) There are good reasons for these export shares. The US is a large market catering to virtually all market segments (in terms of quality, price, fashion), and once a quota has been secured, it is a relatively open and uncomplicated market. Although not quota constrained, Japan by contrast is regarded as a much tougher market to penetrate, in terms of standards of quality and complex marketing channels.

Table 16: **Major Garment Export Markets For Selected East Asian Countries**
(% Of Total)

		USA	EU	Japan	East Asia	Other	Total
Vietnam	1996	2.2	43.3	42.2	8.8	3.5	100
China	1985	28.2	12.6	12.3	36.8	10.1	100
	1990	11.3	10.9	48.6	49.2	14.6	100
	1996	12.7	10.7	32.9	30.5	13.3	100
Indonesia	1985	57.7	12.7	0.5	10.0	19.0	100
	1990	38.1	35.6	6.5	6.4	13.5	100
	1996	34.1	32.0	8.4	5.2	20.4	100
Thailand	1985	41.1	27.3	1.2	5.3	26.9	100
	1990	19.3	34.1	7.9	5.9	32.7	100
	1996	44.1	29.9	16.9	4.5	4.7	100

Note: East Asia refers to all countries in East Asia except Japan.

These differences among markets are narrowing, but the fact remains that Vietnam's export patterns are quite different from its neighbours. Vietnamese exporters have in effect been excluded from the US market, initially owing to the absence of diplomatic relations and more recently because it still does not enjoy MFN status in that market. Hence the US is a tiny market, and buys just 2% of Vietnam's exports. By comparison, Japan has been a large market from the very beginning of the country's export drive. Seen in this light, Vietnam's export performance in the 1990s is all the more impressive. While receiving relatively generous quota treatment from the EU, in the main its firms have had to compete in the tough East Asian market, against more established exporters, and without the benefit of initial quota advantages.

These export share data also highlight the importance of Vietnam securing MFN status in the US market as quickly as possible, a point to which we return in the next section.

5. DEVELOPMENT POLICY ISSUES AND CHALLENGES

The purpose of this section is to highlight some of the major challenges which the industry is currently facing, and to argue the case that reform is required to sustain the recent growth momentum. The analytical framework introduced in section 3 above guides the discussion in this section. Eight issues are addressed here. No doubt the list could be extended, but these issues do seem to be among the most important. It needs to be emphasized that most of these issues are economy-wide in nature, and generally do not relate just to the textile and garment industry.

(a) The China Factor

The clear impression obtained during interviews with both government officials and at the enterprise level is that China's textile and garment industry poses the major competitive challenge for Vietnamese firms. It is apparent from the trade statistics presented above (Table 16) that China is the dominant East Asian textile and garment exporter. Its exports dwarf those of Vietnam on an absolute basis, and even in per capita terms they are larger. Smuggling of Chinese textile products in to Vietnam is reportedly widespread, and has been the subject of several (unsuccessful campaigns to eradicate it - see Luong, forthcoming), while in direct competition in third country markets Vietnamese forms are said to be uncompetitive.

It needs to be emphasized that concern about competitiveness vis-a-vis China is a positive factor, to the extent that it spurs on Vietnam's efforts to develop an internationally efficient industry. The practice is undesirable in that it results in lost government revenue, although it should not be forgotten that consumers benefit through access to cheaper products. It also needs to be stressed that it is almost certainly futile for the government to attempt to prohibit it, given Vietnam's long international coastline and its administratively weak customs service. The challenge of China should rather be approached positively, and employed as a means of discovering why and how its firms are so competitive. Direct cost and efficiency comparisons between Chinese and Vietnamese enterprises are not available, and at some future stage such an exercise would prove to be illuminating.

Several points need to considered in the China-Vietnam comparison (see Yang (1997) for a detailed study of China's industry):

First, China has a much longer industrial history than Vietnam, and it commenced the process of export-oriented industrialization at least a decade earlier. To the extent that successful industrialization is in part an exercise in 'learning by doing', China obviously has a head start.

Secondly, export quota arrangements have worked in China's favour. Following its normalization of relations with the US, and given the international commercial-diplomatic influence which flows from its immense size, China was able to negotiate a more significant increase in export quotas during the 1980s than any other developing East Asian exporter (Cline, 1987).

Thirdly, China enjoys special advantages which flow from the presence of Hong Kong and, to a lesser extent, Taiwan. As they lost comparative advantage in these industries, China was the major beneficiary of the relocation effects. Moreover, firms based in these two territories have unparalleled knowledge of the international market for textile and garment products, including retail outlets in major markets, export-import procedures, and fashion requirements. They are able to transmit this knowhow immediately to highly competitive firms in China, especially those located in the southern coastal region.

Of course, Vietnam can never duplicate a 'Hong Kong' of its own. But there are lessons for its own export strategy. One is that Vietnam enjoys close proximity to both Hong Kong and Taiwan, and thus it should be better placed than most countries to capitalize on its geographic location. Another, and probably the key lesson, is that Vietnam has the capacity over time to attract the same international expertise as is present in these territories by providing a conducive commercial environment. This in turn entails reform to achieve higher levels of efficiency, and an attractive business infrastructure with competitively-priced facilities (infrastructure, etc) and a simple, clean regulatory policy framework.

Fourthly, China enjoys a competitive advantage over Vietnam owing to its major devaluation in 1994 which, combined with modest inflation, significantly reduced its domestic costs in international prices.

Finally, it is probably the case that business costs are lower in China: while real wages are thought to be similar, utilities and tax rates are almost certainly lower in China. Moreover, Chinese enterprises (especially the Township and Village Enterprises) are able

to operate in a freer, less restrictive business environment than is possible in Vietnam. More detailed research is required here.

It is sometimes argued that China enjoys a competitive advantage in garments owing to the fact that it has a fully integrated textile industry, and thus garment exporters are able to source their cloth locally. While there is no doubt greater convenience from a wider domestic supply base, which also reduces working capital requirements (in the form of imported cloth), it is not clear how important this factor is. Indeed, recent research on China's industry suggests that something of the problem found in Vietnam - a competitive garment industry alongside a less efficient textile sector - is probably also present to some degree in China (see Yang, 1997). If this is the case, then the major focus in the comparison ought to be the comparative cost structures, rather than a strategy designed to encourage vertical integration within the industry.

(b) US Market and MFN Status

As was shown above (Table 16), the US has been the major export market for East Asian textile and garment exporters. Vietnam has suffered through its inability to secure effective access to this market. This is especially the case given the significant Vietnamese community residing in that country who, in a more favourable environment, could make a major contribution to the development of strong trade links between the two countries.

It is impossible to overstate the importance of securing US market access on an MFN basis, a point which is of course clearly understood by the Vietnamese authorities. Not only is the US market the largest in the world, but it is a relatively open one, and it caters to a large range of qualities, thus enabling exporters to develop market niches (both geographic and quality-based) which suit their circumstances. Obtaining MFN status is clearly a complicated negotiating process, and in an era of intrusive, hard-nosed US commercial-diplomatic policy it will involve the Vietnamese authorities making economic and political concessions which may appear unreasonable. However, the benefits will almost certainly outweigh the costs, and thus there is a strong case for assigning the highest priority to this objective.

(c) The MFA and Export Quotas

As argued earlier, textiles and garments are the mostly intensely regulated of any major internationally traded manufacture. The imposition of export quotas is obviously commercially unreasonable and harmful, and Vietnam has been disadvantaged as a very

late quota entrant. But it is a fact of life in the international market place, it is not without its advantages once quota access is secured, and there is a prospect that the regulatory environment (ie, the MFA) will be gradually dismantled in the coming decade. Moreover, it always needs to be emphasized that, even in the presence of quotas, the fundamental determinant of export performance is domestic efficiency. That is, securing a quota does not guarantee access - price and quality requirements also have to be met. In addition, there is always scope for export growth even in a quota-constrained environment: firms can shift to non-quota items (although the number of such items is now much reduced), they can move to higher value items (since quotas are generally quantity-defined), and they can seek out non-quota (non-MFA) markets. Thus countries can achieve solid export growth even in the presence of seemingly very restrictive quotas, as Indonesia and Thailand did before exchange rate movements in the early 1990s eroded their competitiveness in labour-intensive manufactures (see Hill and Suphat, 1992). It is therefore important not to overstate the disadvantages of export quota restrictions.

With the major exception of the US, Vietnam has done reasonably well out of quota growth in recent years, especially to the EU, albeit from a low starting point. Negotiating continued quota expansion must always be a high priority for the government.

There is in addition the question of how export quotas should be allocated. The most important requirement in quota allocations is that the process be efficient, clean, and transparent. This is to ensure that the country's quota allocation is fully utilized, and that the quota-destination markets are satisfied with domestic allocation procedures. A subsidiary issue concerns the mechanics and criteria of the allocation process, in particular whether quotas should be awarded on the basis of past performance, or whether some form of auction system should be instituted. The latter issue arises because quota restrictions imply 'rents', or additional profits created by supply limitations, and these accrue directly to the quota-holder.

It was not possible for the mission to obtain a clear and unambiguous statement concerning the government's allocation criteria, nor are data readily available on quota utilization rates by major products and markets over time. It appears that quotas are awarded mainly on the basis of past export performance. A clear preference exists for quotas to be awarded to state owned companies over foreign or domestic private firms. Such a policy represents a significant implicit subsidy to these state enterprises. It is also reported that, on occasion, small-medium firms and those from more remote regions are given some preference.

Private firms may apply for export quotas, but the application procedures are reportedly extremely tedious and protracted, and generally result in - at best - only very small quotas. The resale of export quotas is officially illegal, but it is widely known in the industry to occur. The usual practice is for a state enterprise to in effect 'subcontract' the production of quota items to a private firm, even though the output will still be officially recorded as having originated from the state firm. It is impossible to quantify the significance of this practice.[12]

It is not possible to obtain an accurate picture of how quickly export quotas are allocated. Some enterprises report that quotas may arrive quite late in the quota year, thus resulting in under-utilization of quotas. But aggregate information on this phenomenon is not available.

Authorities in the major quota markets are reportedly unhappy with these quota allocation procedures, especially their lack of transparency and the apparent discrimination against foreign and domestic private firms (see for example a long and detailed letter to the editor of the Viet Nam News, May 11, 1998). These problems almost discourage the entrance of much-needed private capital into the industry, they appear to be a factor in the decision of some foreign firms to locate in other countries, and they could even jeopardize Vietnam's existing and future export quota entitlements.

There is a strong case for the introduction of an auction system to allocate quotas. As noted above, the current system involves the granting of significant implicit subsidies to quota recipients, and it is not obvious that this is consistent with the authorities' professed desire to treat all firms equally. A quota system has two advantages. First, it would ensure that the most efficient firms obtain the quotas, since only those firms able to pay for them would bid. Secondly, it would be a fairer system of allocating the quota rents - these could be returned to the government's consolidated revenue or ploughed back to the industry in the form of much-needed enterprise support facilities such as training and marketing assistance. Some of the funds could be used for the government's industrial equity objectives (eg, SME development and rural industrialization).

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[12] In addition to our field interviews, several reports have documented this practice. Schwarz (1996) reports that the large domestic conglomerate, Huy Hoang, exported about one-quarter of its $28 million total in 1995 through SOE quotas, for which it usually paid a 'quota fee' of 5% of the value. Luong (forthcoming, p. 12) also reports that the practice of quota sales is widespread.

The introduction of an auction system is obviously predicated on the existence of an efficient administrative agency with highly transparent and predictable procedures. If such an arrangement cannot be established, the case for auctions is greatly diminished, as there is a real danger of supply disruption and quota under-utilization.

(d) Strengthening International Connections

Vietnam has made a remarkable transition from a centrally planned economy whose economic relations were almost wholly with the Comecon block of nations and in the direction of a mixed market economy increasingly integrated into the world economy. A key element of this transition is understanding the way international markets for goods, services and investment operate. This issue is of prime importance in the textile and, especially, garment industry. As emphasized in this report, garments is a consumer-oriented industry employing standard, 'mature' technology. Significant capital investment is not required; what is highly important is knowledge of international marketing channels, attention to quality control, management of stocks, and a capacity to deliver reliable supply.

The mission formed the view that key officials in the industry tend to adhere to a 'production/engineering approach' rather than a 'market/efficiency approach'. Both approaches of course are needed, but in such labour-intensive consumer-oriented industries, the latter is arguably more important. The overwhelming impression of the mission is that Vietnam's industry is almost entirely passive in its marketing approach - firms are adept at producing products efficiently and reliably for buyers, but the initiative to seek out new buyers, understand and engage international marketing networks, and experiment with new designs and products is rarely taken. There is concern that firms are producing low value added products, and that they are to some extent at the mercy of international buyers, particularly at present following the sharp devaluations in some competitor countries. As long as this passive approach persists, Vietnam's firms are likely to be locked into a low value added production cycle, with little scope to upgrade.

How might Vietnamese firms overcome this problem? There is no simple solution, but the key general point to emphasize is that the country will need to strengthen its international connections in a variety of ways. To illustrate how this process may work, it is useful to consider a number of examples.

First, 'country reputation' is important. As Wells (1993) and others have demonstrated, East Asian business is characterized by great mobility of both investors

and buying agents. Perceptions in this community about countries as places to invest, trade with, and live in are highly significant, and in a very competitive environment these agents can quickly relocate elsewhere. Vietnam is in the early stages of creating such a reputation, but its reputation is still very much that of a late-comer, and much needs to be done to cement its place as an important 'fourth tier' economy in the long sweep of East Asian development.

Secondly, it needs to be emphasized that the establishment and strengthening of international linkages is not a large-scale, one-off process. The channels consist of many, often small-scale, commercial agents, involving repeat transactions. The importance of Hong Kong as a key source of marketing, financial and technical expertise was emphasized above. It is instructive also to recognize that these international linkages are often informal and small-scale. The success of Bali's garment export boom, which developed quickly and unexpectedly, is a case in point (see Box 1).

Box 1: Bali - Simple Networks Can Deliver Big Dividends

Bali has long been known as one of Southeast Asia's premier tourist resorts. What is less well known is that, accompanying the tourist boom which gathered momentum in the early 1970s, has been extremely rapid growth in garment exports from the early 1980s. Precise estimates of these exports are not available, since much is exported indirectly through tourist sales and there are some exports through other ports. But rough figures suggest garment exports from this province of 3 million people grew from about $10 million to around $180 million over the period 1980-95. Export unit values have approximately trebled in the past decade, indicative of the much improved quality and the shift to a more fashion-oriented industry.

The growth was quite unexpected and unplanned, and took the Indonesian government by surprise. Bali had long had a handicraft garment industry and local artisans possessed great design talent, but there was almost no experience in large-scale manufacturing for export prior to the boom. The key factor linking these local producers to world markets were long-term recreational tourists, mostly American and Australian, who wish to reside on the island and who had some knowledge of fashion trends and retail outlets abroad. They were able to act as the crucial initial intermediaries, linking Balinese producers to international outlets. Their frequent contact with both parties enabled them to transmit fashion and quality requirements immediately to market outlets. They also assisted in ensuring that production schedules were met, and some facilitated access to financial markets. As the process gathered momentum, the Balinese firms increasingly developed an independent marketing capacity, and foreign buyers sort them out; fashion shops proliferated around the capital city, Denpasar, and in major tourist areas. Most garment exporters were small-medium operations (those with a workforce of more than 200 were unusual), sub-contracting arrangements were common, and the employment and income spinoffs to the local community were very significant.

The government played almost no role in the process, apart from general economic reforms which commenced in the early 1980s and the devaluations of 1983 and 1986 which boosted international competitiveness. The local government eased immigration and export procedures, although these remained somewhat unpredictable. This was a case of 'accidental industrialization', which illustrates the essential role of forging international networks, which are informal and small-scale. Bali is of course a special case given its tourism industry. But there is no reason why the same formula cannot work in Vietnam, given the country's tourism potential and the strong local skills base in sewing and embroidery. Opening up to the world will help realize these great local potentials.

Source: Cole, 1998

Thirdly, governments can assist the process of shifting to best-practice, higher value added activities by overcoming problems of market failures in the provision of key inputs. These initiatives need to be linked to - and indeed will only work if accompanied by - enterprise and institutional reforms of the type discussed below. The issue is not so much the government itself undertaking a major modernization and re-equipment of the industry, but rather in creating a commercial environment in which firms have the

incentive and capacity to undertake this themselves. In such an environment, the government could make a great contribution through facilitating the establishment of industry-driven research institutes which quickly disseminate the latest information on global trends in markets, fashion, and design, together with more technical production knowhow. Over time, these sorts of activities are best left to the industry, but governments can creatively initiate the process and provide 'seed' funding. Vietnam's embassies abroad can assist in the provision of commercial information flows; thus far, it is the mission's impression that these embassies are not very active in this field.

Fourthly, it makes sense for a country to exploit whatever international connections it possesses to facilitate commercial success. Vietnam's international exposure is still quite limited, but it is not entirely absent. It has historical links to Eastern Europe and the former USSR. As these economies recover from the traumas of transition, they could be become significant markets for Vietnamese firms. There is a sizeable Vietnamese population residing abroad (Viet Kieu), principally in the US, France, and Australia. Notwithstanding the political sensitivities involved, this community could become an important source of finance and market intelligence for Vietnamese industry. Already there are reports of Viet Kieu investment in the garment industry, although the amounts are apparently small concerned to those in real estate, restaurants, and hotels. One of the lessons from Asian economic development is that countries with large communities abroad - China, India, Korea, The Philippines are obvious examples - can benefit immensely from these connections if the commercial/legal climate at home is supportive.

More generally, the establishment of strong international connections requires that the international movement of people and goods be as simple as possible. This means that restrictions on the entry of foreigners need to be the minimum possible consistent with national security requirements, and likewise Vietnamese business people need to be able to travel abroad without hindrance. Deservedly or not, Vietnam has a reputation as a 'difficult' place for foreigners to live (see footnote 5). As long as this reputation persists, the country will have difficulty attracting the agents of the internationalization process which are so vital to export success.

(e) Linkages: How Important?

Development planners have long employed 'linkage analysis', in the form of input-output tables, to measure the extent to which various activities are connected through their purchase of inputs (ie, upstream linkages) or sale of outputs (ie, downstream linkages). Textiles and garments are an illustration of the presence of such linkages:

cotton and petrochemicals are the major inputs into natural and synthetic yarns respectively, which are in turn the major inputs into the weaving process, which supplies cloth to the garment industry. Other linkages in this chain are machinery and parts manufacturers, together with smaller items such as buttons, labels and padding in the case of garments manufactures.

It needs to be emphasized that linkages are primarily an engineering, not an economic, concept. High levels of linkages are not necessarily desirable. Given the diverse array of factor proportions in an industry, it is unlikely that a country will have a comparative advantage across the chain of linkages. For example, Taiwan may still have a comparative advantage in fibre manufacture but it no longer occupies such a position in garments.[13] In low-wage economies such as Vietnam, the reverse can be expected to apply.

Much linkage analysis has taken place in a closed-economy framework which ignores the most important linkage of all, which is to the international economy. To see that linkages and efficiency are quite unrelated, one only has to compare the economy of the former USSR, which was characterized by high linkages (in an input-output sense) and high inefficiency, and Singapore, which displays low linkage coefficients and high efficiency. It is of course technically possible for a country to produce virtually anything - the real issue is, is it internationally competitive? The experience of successful Asian developing countries clearly illustrates that export-oriented activities with limited domestic linkages can contribute significantly to development. Indeed, high linkages may more often be associated with lower employment and export growth to the extent that they involve the promotion of inefficient, upstream, capital-intensive industrialization.[14]

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[13] However, it would be a mistake to assume that garments is associated only with low-income countries. In certain high-fashion locations, such as Milan, it has evolved into a dynamic, high-wage activity (see the Economist, April 11, 1998).

[14] For an Indonesian case study which demonstrates this proposition empirically, see Athukorala and Santosa (1997).

In the case of Vietnam's textile and garment industry, the most competitive component is clearly garments. This is as would be expected since it is the most labour-intensive sector. It is imperative that, if garments competitiveness is to be preserved and developed, firms are able to secure inputs at internationally competitive prices. As noted in the previous section, there is every reason to believe that Vietnam could develop a competitive weaving industry, although it is doubtful if the process of backward integration could efficiently proceed much beyond this stage at present. Thus, the relevant question concerning the desirability of developing the weaving industry is, 'is it (or can it be) internationally competitive?', rather than 'how strong are its inter-industry linkages?'

Box 2: 'Enclaves' And Exports: A Malaysian Success Story

It is sometimes argued that 'enclave' export-oriented manufacturing - that which is highly import-intensive - is undesirable on account of its low linkages. This is particularly so if, in addition, firms are located in a geographic enclave such as an export processing zone (EPZ).

To see why this view is mistaken, consider the successful Malaysian experience. Malaysia commenced its export-oriented industrialization in the late 1960s, and introduced a number of EPZs (termed free trade zones in that country) to attract foreign and domestic investment. These zones successfully attracted much foreign investment to the country and by the mid 1980s the country had become one of the world's largest exporters of semi-conductor components. Employment in manufacturing increased rapidly, and by the early 1990s labour shortages were becoming widespread, resulting in rising real wages, and substantial labour in-migration from neighbouring countries. Firms, both foreign and domestic, began to shed labour-intensive activities and shift up to 'middle technology' products, although skilled labour shortages had become a significant obstacle. The zones were managed efficiently, and generally did not entail public subsidies to firms.

It needs to be recognized that Malaysia succeeded in part because of its efficient and good quality infrastructure, its fundamentally open economy, the careful siting of its zones, and smooth administrative/regulatory procedures. But there is no reason why other countries cannot emulate its experience providing these prerequisites are met. These lessons from Malaysia are especially relevant for industries like textiles and garments, whose products are intensely traded.

It also needs to be emphasized that EPZs are transitional devices which do not work in highly distorted domestic policy environments. For example, where there is a very large difference between domestic and international prices for products imported through EPZs, the temptation for smuggling will be correspondingly large. Over time, as industrial competence increases, the case for a 'dual' trade regime - which is implicit in the concept of EPZs - diminishes, and unilateral trade liberalization becomes politically impossible.

Sources: Athukorala and Menon (1997), Hobday (forthcoming), and Warr (1989).

(f) Enterprise and Administrative Reform

For firms to be internationally competitive, they require not only supportive macroeconomic and exchange rate policies, as argued above, but they also need a conducive microeconomic environment. Wherever there are obstacles to efficient business practice, which prevent firms from achieving best-practice standards of management and production, commercial opportunities will be missed, production will be less than it otherwise could have been, international competitiveness will be harmed, and Vietnam's capacity to deliver productive employment will be diminished.

These are economy-wide issues which affect all industries. The purpose of this sub-section is to draw attention to them, since they constrain the growth of the textile and garment industry, like all other activities. Where relevant, any special implications for textiles and garments are highlighted. The discussion focuses separately on state-owned enterprises (SOEs), private firms, and administrative-regulatory reform in general.[15]

State-owned enterprises: No accurate data on the financial performance of SOEs in the textile and garment industry are available. Nor have any of these firms been equitized as yet, and so it is not possible to reach any conclusions concerning the impact of these reforms on the industry. Financial data would in any case need to be interpreted with great caution, as these SOEs receive many implicit subsidies, including preferential access to credit from state banks, direct capital injections (even during the current era of so-called 'hard budget constraints), export quotas (which as noted above are frequently resold), access to land (which is also commonly re-leased to private firms), and easier access to the bureaucracy. Moreover, there has been a tendency to group together a number of SOEs in a single corporation, and to require that loss-making enterprises within a group are subsidized by the more profitable ones. This further complicates any attempts to estimate financial performance, in addition to generating a net loss in efficiency as once-profitable enterprises are overwhelmed by the problems of the less efficient units with which they are now merged.

The most widely publicized case of SOE performance is of course the Nam Dinh textile complex. Its details are well-known in Vietnam, and need not be repeated in any

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[15] There is a substantial literature on the general issue of enterprise reform in Vietnam. In addition to UNIDO-DSI (1997), recent analyses include CIE (1998), Mallon (1998), MPDF (1998), and Riedel (1997).

detail in this report.[16] It is worth mentioning the case, however, because it is one of the few documented examples of SOE performance. The corporation, located 90 km south of Hanoi, once employed some 18,000 workers, and was a major national textile producer. It is apparent that mismanagement, poor investment decisions, and corruption occurred on a grand scale. These problems first surfaced in 1995, when some senior officials were arrested. In October of that year, the State Bank rescheduled its short term debt of 130 billion dong, and the Ministry of Industry and a company provided additional loans of 19.5 billion dong. Six months later the State Bank provided another loan, of 50 billion dong, while in January 1997 a further 172 billion dong loan was extended. Additional assistance of 59 billion dong over this period was also granted, as well as various other subsidies. If, as appears to be the case, a substantial proportion of the corporation's debt cannot be repaid, the cost to the state banking system and the state budget could be 500 billion dong (about $ 40 million), equivalent to more than 10% of the total industry's value added in 1997.

The state budget has not been the only casualty of the Nam Dinh case. Its workforce has been more than halved, to about 7,000, and its workers have a reduced working week, resulting in monthly salaries of one-third to one-quarter the industry average.

The precise causes of these unfortunate developments are not known to the mission, but it is worth underlining the dangers inherent in a heavily regulated, state-controlled economy. In a predominantly market-oriented, private sector economy, these losses would be incurred by the agents directly involved (banks, owners, managers, share-holders, etc) and not, as seems likely to be the case here, the state and by extension Vietnamese tax-payers.

As noted above, most textile and garment SOEs are grouped under the VINATEX umbrella, but in addition a number operate independently, reporting to central government ministries or local committees. There is a considerable range of firms in terms of size, number of years of operation, sales orientation, and age of equipment. The mission formed the impression that the SOEs in Ho Chi Minh City are run on somewhat more commercial lines and have greater managerial autonomy than those in Hanoi, but the sample of firms visited was too small to reach definitive conclusions on this point.

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[16] In addition to frequent press reports, see Luong (forthcoming, pp. 18-23).

The mission formed the strong impression that the senior management of SOEs lack significant autonomy, and that the link between commercial performance and compensation is very weak. These firms seem to operate as little more than 'production units', with most major commercial decisions being taken by management boards without the commercial experience which is a customary prerequisite for running a large corporation. Managers operate under a number of fairly obvious constraints:

- There seems to be substantial over-staffing, as these SOEs have to comply with government employment regulations. One senior executive, for example, reported that the labour force could be pruned by up to 40% without affecting production. Dismissal of employees is a very difficult process.
- The management of SOEs seem to lack any real international marketing expertise, and appear content to wait for overseas buyers to approach them with orders. Exposure to and knowledge of international market trends is very rudimentary. International marketing managers seem rarely to be fluent in the English language.
- The stock of equipment in many cases appears to be antiquated. Moreover, most firms seem to have an unusually wide range of machinery, some of which has reportedly been delivered on an ad hoc basis to firms as part of aid programs, and without any integrated production operating plan.

Some SOEs operate joint ventures with foreign firms, with mixed results. The mission formed the impression that SOEs see these joint ventures as a means of covering their basic operating costs, rather than as a dynamic business calculation in which local partners can absorb, emulate and then ultimately innovate on the basis of the foreign firm's superior technological, managerial and marketing skills. The literature on foreign investment and 'spillovers' suggests that this is the major potential benefit for local partners, and that in the right environment these dynamic benefits can be substantial. It was not possible for the mission to visit any foreign joint venture firms, and so the magnitude of these spillovers cannot be assessed. Surprisingly, the SOEs interviewed did not appear to attach much importance to the possibility that joint ventures could provide a means of increasing their own levels of efficiency and productivity.

Owing to data limitations, it is not possible to estimate the likely 'reform dividend' which might accrue in the textile and garment industry. Since SOEs form such a large part of the industry (at least 50% of gross output - see Table 5), and many of them appear to be very inefficient, the benefits of reform are likely to be significant. As noted, the

process of equitization has not yet begun in the industry. As a prerequisite for reform, it will obviously be important to ensure that these firms operate in a competitive environment, that the myriad implicit subsidies they now receive be recorded as transparently as possible, that in the transitional period the process of managerial autonomy be expedited, and that, if disposal occurs, the return to the central government be maximized and the funds be used primarily to retire public sector debt.

The government has announced that, notwithstanding apparent resistance from some SOE senior management in the industry, about 18 textile and garment SOEs are to commence the equitization process in 1998, although a clear timetable for the industry has yet to be announced, and it was not possible for the mission to obtain a list of the firms so designated. It has been suggested in some quarters that this equitization would be only partial, in the form of joint ventures in which the SOE would continue to maintain majority ownership. Such an approach would be unlikely to deliver the potential gains of equitization since it would not facilitate the much-needed injections of managerial expertise if the new private owners were unable to assume full control.

Private firms: As noted above, textiles and garments are usually dominated by small-medium private firms, especially in the labour-intensive weaving and garments sectors. As the government continues to implement its 'even-handed' approach to all firms regardless of ownership, such an ownership pattern is also likely to emerge in Vietnam. Here, too, this is an economy-wide issue, and not just confined to the textiles and garments industry.

The mission formed the strong impression that, notwithstanding the reforms under doi moi, private textile and garment firms operate in a difficult business environment, and at a distinct disadvantage as compared to SOEs, and that these factors hamper their ability to compete internationally. Three obstacles appear to be important:

- It is difficult for these firms to acquire land for industrial sites. The process of land acquisition appears to take several years of complex negotiation. And even when they obtain access to land, their title is based on very insecure access. Buildings are erected on the basis of this limited security, which involves firms having to make significant fixed investments without guaranteed title. The mission understands that a major report on the land market is in preparation as part of a World Bank project. The findings of this report will be highly relevant to the textile and garment industry.

- The problem of obtaining secure land titles contributes to a second major difficulty for private firms - access to the financial sector. It is well known that small-medium enterprises rely heavily on land as collateral in loan applications. If, owing to imperfections in the land market, they are not able to use land as collateral, they are forced into the informal financial market, where interest rates are typically 3-4 times higher.[17] This appears to be the case also in Vietnam. Private firms report great difficulty in obtaining finance for both fixed and working capital. Indeed, the mission encountered private firms with a workforce of 400 or more who had never borrowed from a formal financial institution.
- The problem of access to finance involves much more than reform of the land market, of course. Vietnam's financial system is still under-developed, the dominant state banks appear unwilling to lend to private firms, while most private firms do not have the resources to borrow from foreign banks with branches in the country (see Leung and Doanh, 1998). It is quite extraordinary that virtually all of Vietnam's large private garment firms developed without any access to the country's formal financial sector.
- Finally, private firms complain about the unpredictable commercial regulatory environment in Vietnam. This issue, to be discussed shortly, in principle affects all firms, but it appears to bear more heavily on private firms.

Administrative and regulatory reform: The mission formed the strong impression that Vietnam's commercial regulatory environment is not business-friendly. While it is difficult to document - much less quantify - these regulatory impediments, they are emphasized in all major studies of business development in Vietnam, and the firms interviewed by the mission highlighted this issue. As in all countries, there is obviously great variation in bureaucratic efficiency among government agencies and regions. It was reported to the mission, for example, that export processing zones generally work quite well.

To give some illustrations of the problems allegedly faced by firms, particularly those outside the SOE sector:

[17] A major study demonstrating the link between the operation of the land market, access to finance, and small enterprise productivity is that of Feder, et al (1988) on Thailand.

- Regulations are not clear; frequently they are not published, and so firms are not aware of the prevailing legal situation.
- Taxation appears to be somewhat arbitrarily, and variable, across ownership groups and regions.
- Frequent bureaucratic harassment, often related to trivial legal infringements, is alleged to occur.
- Bureaucratic complexities seem to be a major obstacle to business development. Firms appear to require specialist staff just to manage government relations. Those firms with a direct entree to senior echelons in the bureaucracy (for example, a family member in current or recent government employment) appear to be at a considerable advantage.
- Regulations appear to be implemented unevenly across different regions; firms outside Hanoi complain about the necessity of frequent trips to the capital for often minor and routine matters.
- Import-export procedures are often complex and time-consuming, a factor of great importance for a highly trade intensive activity such as garments.

It is customary for firms to complain about the government's operations, and of course not all these complaints will be justified. However, it is the mission's impression that the mistrust of the bureaucracy among Vietnam's private firms is much higher than that prevailing in neighbouring Southeast Asian countries. Since the private sector could become a major engine of growth in Vietnam, this issue is one of the major challenges for the government. The mission was frequently informed that, while attitudes among senior officials were consistent with the spirit of doi moi, at lower echelons and outside major urban centres the changes had proceeded much more slowly.

Trade policy: The current structure of import duties is complex, arbitrary, and discriminates between different sectors of the industry.[18] The general structure of duties is as follows:

0%	cotton, synthetic fibre, filament, dyestuff, machinery
10-20%	cotton and mixed yarn
40%	woven fabric
50%	garments

Several points need to be made about this structure:

[18] See CIE (1997) and Kokko (1997) for comprehensive studies of Vietnam's trade policy regime.

- First, it was not possible to obtain a simple printed listing of these rates, which would desirably be available to any investor - domestic or foreign - interested in entering the industry.

- Secondly, there seems little case for variable rates within the industry - in an undistorted economy, a dollar of value added and an additional unit of employment are desirable, regardless of which sector generates them. The principle would appear to be that the government wishes to confer the most protection to the downstream textile and garment producers. But such an approach is open to question since (a) widespread smuggling of these products dilutes this protection - in practice these firms might be receiving negative protection since the smuggling is concentrated mainly on the downstream sector; (b) the labour-intensive sectors of textiles and garments accord with Vietnam's comparative advantage, and therefore should not really require special protection; and (c) most garments are destined for export markets, and so the notion of protection is therefore irrelevant.

- Thirdly, there is no documentation available concerning non-tariff barriers (NTBs). These formally do not exist, but in practice they apply for firms without access to foreign exchange, who must first obtain a foreign exchange allocation. The issue of NTBs will become increasingly important as Vietnam's membership of the ASEAN Free Trade Agreement begins to take effect. These barriers will have to be explicitly announced and defined, and if they are to be maintained the products will need to be placed on the exclusion list of products outside the AFTA framework, which would certainly be to the country's disadvantage in its commercial and diplomatic-negotiating relationships with the region.

- Fourthly, it appears that a good deal of firm-specific and ad hoc modification of tariff rates does occur, with the primary beneficiary being the SOE sector, especially when these firms can demonstrate that they may be in financial difficulty.

- Fifthly, there can often be large differences in rates for quite similar products, which result in much discretionary authority being placed in the hands of customs officials. One example which came to the attention of the mission concerns textile and garment machinery, which enters at 0% if it is for industrial use, but 50% for used sewing machines which are regarded as

being for household use. Since irregular sewing activities during slack agricultural periods are a common feature of households in rural areas in Vietnam, as elsewhere, in effect this provision discriminates against poor rural households.

There is a strong case for a simple, uniform, and low tariff rate across the industry, with no exemptions and no resort to NTBs. If the government believes that certain sectors or firms in the industry deserve special support, then the most effective strategy is a transparent and time-bound subsidy clearly specified in the state budget. It is the view of this mission that there is no case for such assistance, although there may be an argument for transitional assistance for certain SOE firms in the process of equitization, and for industry support in the form of seed money for the establishment of dynamic, industry-driven institutes such as an industry association, and technical, research, and design institutes (see below).

While import-export procedures are now thought to operate more effectively than in the past, several problems remain. One provision, reportedly in the process of being reformed, is that exporters are generally only allowed a period of 90 days in which to re-export imported inputs which enter duty free. In the normal cycle of production and sales, this period is generally too short, and imposes an unnecessary complication on stock management, especially in view of the fact that import-export procedures are cumbersome and complex. It also biases firms' location decisions since, given the country's severe infrastructure bottlenecks, firms in more remote locations - which the government is keen to promote - are seriously disadvantaged. Firms generally report that the country's export processing zones (EPZs) operate quite effectively, especially in the case of those located in close proximity to international harbours and ports. This fact, alongside the partially reformed main economy, probably biases the location decision of some firms , especially those which are export-oriented and foreign-owned. The outcome is therefore contrary to the government's professed desire to achieve more balanced spatial development and to stimulate industrialization in poor remote regions.

Firms also complain that Customs staff often make arbitrary calculations of what is a reasonably required import volume for a given export volume, and that such calculations may vary among ports, staff, and even orders. Here, too, illegal payments are reported to be widespread. As noted above, smuggling of Chinese textile and garment products reportedly occurs on a very large scale.

Labour market reform is not generally a major issue of concern for firms. As noted above, Vietnam's wages are very low by international norms. There are however some rigidities in the labour market. The principal one concerns dismissal regulations, especially in SOEs. Overstaffing in SOEs is a universal phenomenon, and it appears also to be quite serious in Vietnam. One firm informed the mission that it could operate effectively with 40% fewer staff, but that it was unable to shed redundant employees. This will become an issue in the industry as equitization proceeds: buyers will be reluctant to purchase firms if such social obligations are to be transferred to the new owners. In effect, state finances will suffer, to the extent that disposal price will be discounted.

One other minor issue concerns the practice of denominating the wages of employees in foreign firms in US dollars. This introduces a form of a dual labour market for which there is no justification. As the dong is now likely to depreciate quite quickly against the US$, the government has announced that it intends to review this practice.

Other regulatory issues: Many other examples of regulatory obstacles and ambiguity were provided to the mission. Most of these are general in nature and not confined to the textile and garment industry, but they are mentioned here as impediments to the growth of the industry.

One example concerns the import of second-hand equipment. As noted above, much of the industry's equipment is quite antiquated, and in many cases it makes sense for firms to purchase second-hand equipment from firms in countries which have lost comparative advantage in labour-intensive activities. Whether to buy new or second-hand equipment is a commercial decision best left to firms. However, the authorities appear to regard second-hand machinery imports unfavourably, and have stipulated that such equipment should be at least '80% equivalent to original value'. It is obviously impossible for Customs staff to make an informed judgement on this question, and thus arbitrary judgements - often facilitated by illegal payments - have to be made.

As in some other countries, sales tax provisions implicitly favour integrated textile mills. This arises because the yarn and fabric which transfers to the next stage of processing within an integrated mill is not taxed, whereas independent single-stage entities who purchase these inputs through arms-length arrangements are require to pay sales tax. Clearly, there needs to be even-handed treatment, which would apply if some form of value added tax were in place.

(g) Industry Associations

The literature on economic development increasingly emphasizes the importance of institutions as a key factor contributing to good policies. Much of this literature is, appropriately, general in nature, focusing on issues such as the legal system and the judiciary. Where institutions are not well developed, markets and governments both often 'fail', in the economics sense that efficient solutions are not adopted by economic agents because of deficiencies in information and price signals.

The development of institutions at the micro, industry level is just as important as at the macro level, and a case in point in Vietnam's textile and garment industry concerns the absence of an effective industry association. Such an association is vital to the development of the industry for at least two reasons.

First, an association can overcome problems of 'market failure', which arise when certain measures are desirable on an industry-level basis but are unattractive or unprofitable for private firms. Numerous examples in support of this proposition were provided during firm-level interviews. Firms are reluctant to provide advanced training to staff for fear that other firms would 'poach' them, and they would thus not reap the benefits of their training. Timely and sophisticated international marketing knowledge is generally very expensive for firms to obtain, especially in a country such as Vietnam which is just re-engaging with world markets; and yet such information is critical to the government's oft-stated objective of promoting the industry beyond its current 'passive' approach to international marketing. In both these examples, it is profitable for the industry to train its workers and acquire such information, but the calculus at the firm-level is quite different. This is especially so in the garments sector, where most firms are small-medium in size, and hence do not have the resources to employ specialist staff.

The second justification is that governments need an effective voice to pass on industry concerns to it on a wide range of domestic and international issues. Senior policy makers charged with responsibility for the development of the textile and garment industry need to be attuned to its major challenges and obstacles, and yet they can hardly be expected to be fully acquainted with these issues, especially as the industry is competing in a fast-changing international market place.

The impression gained during the mission was that, while senior government officials have great background knowledge of the industry and its historical development,

there seem to be significant information gaps, especially concerning the private sector. In most countries, garments and weaving are predominantly privately owned activities. Now that the government has announced that it will adopt an even-handed approach to all firms regardless of ownership, and plans to equitize state-owned firms proceed, it is likely that private firms will become the major engine of growth in Vietnam also. As noted above, rightly or wrongly private firms apparently feel that the government knows little about this sector, is not interested in their problems, and presides over an unfriendly regulatory environment. A well run industry association could transmit these grievances to senior government officials, and assist them in devising policies to promote the industry's growth.

Currently, there appear to be two industry associations representing textile and garment firms, one mainly for state enterprises, and the other for private firms. There does not appear to be much contact between them, nor do the bodies appear to be functioning in a manner designed to perform the tasks usually expected of them. Channels of communication between the industry and the government do not appear to be well developed. The key to success here is the establishment of a single, demand-driven, industry-responsive association. Such a body might be assisted in its early stages by some initial government funding, but it is important that firms in the industry quickly acquire 'ownership' of it. Its activities could be financed by a simple and transparent levy on all firms in the industry, proportional to turnover or exports. Such a model already exists in the form of the highly impressive Taiwan Textile Federation. It is recommended that, providing firms in the industry express a desire to develop such an institution, the government or an international agency fund a study to examine the feasibility of establishing a similar body in Vietnam.

(h) Data Base

The development of a comprehensive, accurate, timely, and internationally comparable data base is a critical ingredient in the formulation of good policy. As Vietnam's economy internationalizes rapidly, and the country joins such bodies as ASEAN (1995), APEC (late 1998), and WTO (in prospect), and acquires MFN status with the USA, senior officials more than ever will need to have a comprehensive picture of recent industrial trends. The current Asian economic crisis is a good example of the importance of such a data base, to ensure that the government and the industry have a clear picture of the impact of the crisis on the real economy.

Although general trends in the textile and garment industry are known, a clear impression formed during the mission is that senior officials do not currently have the data resources they need to make informed decisions. The information gap seems especially serious as it affects the private sector. Institutional weaknesses referred to in the previous sub-section compound the problem.

Most of the statistical information sought during the mission was either unavailable or available only as incomplete series. Very little data for 1997 were available. Unfortunately, the author seemed to have access to more complete trade data on Vietnam in Canberra than did officials in Hanoi. A data request comprising some 13 standard items was furnished at the commencement of the mission, but in no cases were complete and up-to-date statistics available. (A copy of the data list is appears as Appendix 1 in this report.)

To support the efficient development of the industry, and provide a basis for informed policy-making, an upgraded statistical series would seem to be a very high priority. At the very least, quick-release, disaggregated data should be available for output (both physical and value added) and international trade. An industrial census, on a regular decennial basis, is also a high priority. The current UNIDO project has begun to improve the country's industrial data base, but thus far its coverage is limited to the greater Hanoi area.

6. CONCLUSION AND RECOMMENDATIONS

To conclude, Vietnam's textile and garment industry has registered impressive achievements over the past decade. It has managed to make the transition from a command economy oriented heavily towards the former Comecon block to an outward looking economy strongly integrated within the East Asian region. The challenge now is for the doi moi reform process to be implemented with renewed vigour, so that the industry may survive the current East Asian economic crisis and achieve higher levels of growth, employment and efficiency.

The most important elements in such a strategy, as emphasized in this report, are general policies aimed at macroeconomic stabilization, exchange rate management, and microeconomic (enterprise reform). In this context, the observations and recommendations below, mostly general in nature but some specific to the textile and garment industry, appear relevant.

It needs to be emphasized again that there is an obvious structural imbalance as between garments and textiles. Garments has developed into a reasonably efficient and competitive export-oriented activity, albeit producing at the low end of the market. It has progressed on the basis of cheap and efficient labour, a broadly realistic exchange (notwithstanding reservations expressed in this report), moderately efficient export-import procedures for exporting firms, and a reasonably open policy towards foreign investment. The garment industry now faces the challenge of maintaining its competitiveness in the current environment, of diversifying its product range and markets, and of shifting out of its CMT focus and into higher value added activities.

However, this 'CMT model' will not work in the textile sector, where the production requirements of more substantial domestic transformation expose the industry to weaknesses in the general regulatory and enterprise environment. It is clear that the industry needs major injections of capital, and that weaving in particular could quickly become internationally efficient. However, there is little point in making these new investments without enterprise reform, since the factors which have created the past inefficiencies will frustrate the achievement of higher productivity even with improved machinery. The following recommendations are made in this context:

(1) The government's announced strategy of treating all firms equally still apparently needs to be implemented more vigorously in the textile and garment industry.

(2) Private firms continue to face major obstacles to growth. These obstacles appear to be concentrated in the areas of access to land and credit, but in addition bureaucratic complexities and harassment retard their expansion. Without further reform in these areas, it is difficult to envisage how the industry can progress significantly.

(3) State firms also operate in a difficult environment owing to the very limited autonomy accorded to senior management. Reform of this sector would appear to require at least the following elements:

- increased managerial autonomy;
- removal of special subsidies currently received, including in the interim a clear estimate of the value of these (explicit and implicit) subsidies;
- equitization of as many firms as is administratively and politically possible, with the possibility that a portion of the funds so obtained be earmarked for structural adjustment assistance, including loans (at commercial rates of interest) for re-equipment.

(4) Linkage analysis should be avoided as a basis for industry promotion. All sectors and firms within would desirably be treated equally. Where the government believes that certain sectors may not develop in such a policy environment, owing to market failures or cost obstacles, the government might consider some industry-wide assistance, such as that indicated below. It is important, however, that such assistance be: available to all firms, not granted on a firm-specific basis, granted in a transparent fashion through the state budget, time-bound, and that it not jeopardize any of Vietnam's current or likely future international commercial treaties.

(5) Import protection for the industry should take the form of a uniform and low tariff rate, consistent with Vietnam's economy-wide obligations to AFTA, APEC and (in prospect) the WTO.

(6) Import-export procedures appear to be unnecessarily complex, especially for firms located outside the EPZs, and these need to be reformed so as to match international standards in terms of simplicity and transparency. (It might be useful for Vietnam to target the standards applying in economies such as Taiwan or Malaysia, for example.)

(7) It might be useful to employ China as a competitive yardstick in the development of the industry, since that country is a major competitor in international markets, as well as a significant source of illegal imports to Vietnam. Any attempts to eradicate smuggling by administrative decree will almost certainly be futile. The challenge of China is to match - and not ignore - its competitiveness. Detailed comparisons of cost structures, at the enterprise level, would be useful to uncover the sources of China's presumed competitive edge.

(8) Vietnamese firms have suffered greatly from their inability to penetrate the huge US market. Obtaining MFN status would be the single most important contribution the government could make to fostering its firms' international market access.

(9) Vietnam's export drive would be greatly assisted by measures which make it easier for foreigners of whatever nationality to reside and do business in the country.

(10) The process of allocating export quotas needs to be reformed to ensure that they are delivered in a quick, equitable and transparent manner. It would be desirable to introduce an auction system, with the funds so obtained being employed to finance general industry promotion and restructuring programs.

(11) The most effective means of efficiently promoting the industry, alongside the macro and microeconomic measures alluded to above, would be the establishment of demand-driven support institutions which enable firms to increase their productivity. These institutes would cover areas such as technical training and innovation, fashion and design, managerial training, and international marketing. The nucleus of such institutes exists already, but the current agencies appear unable to provide the services which are really demanded by firms. Some phased-in recovery mechanisms should be in place to ensure that costs are contained and that the services delivered meet market requirements.

The productivity dividends from the establishment of efficient support institutes are likely to be significant. Much of their work would focus on relatively simple activities - improving quality control, increasing awareness of international fashion trends and marketing channels, and more generally increasing firms' awareness of export opportunities. A 'high-tech' approach is not needed, and would prove to be unnecessarily costly.

(12) While incremental reform is needed in garments, clearly the challenges are much more serious in weaving, where major injections of capital and technology are

required, in the context of sweeping institutional and enterprise reform. Desirably, this reform would take the form of a major structural adjustment package in conjunction with funding from an international development agency (eg, ADB, World Bank). It is crucially important that these two elements go hand-in-hand - simply injecting funds into the industry without far-reaching reforms will not produce the desired results. A proposal for something like a 'Weaving Industry Rehabilitation Project' should be prepared as a matter of priority. The involvement of foreign firms in such a program should be explicitly targeted, on the assumption that their skills and technology will quickly diffuse to domestic firms.

(13) Related to (11), industry policy and support measures would be more effective if a single, powerful, industry-wide association could be established. This would need to be a demand-driven organization, which might be organized along the lines of the Taiwan Textile Federation. A creative and imaginative government could foster the development of such a body, but to be effective the real impetus must come from the industry.

(14) An upgraded statistical series would seem to be a very high priority. At the very least, quick-release, disaggregated data should be available for output (both physical and value added) and international trade. An industrial census, on a regular decennial basis, is also a high priority. The current UNIDO project to strengthen Vietnam's industrial statistics base should be extended beyond Hanoi to the rest of the nation as quickly as possible.