



A busy street in Ho Chi Minh City. Vietnam could become a middle-income country by 2030 and a high-income country by 2045.
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Country Commentary

Innovative companies can lead the way

As we approach the end of 2019, the signs point to a positive start to the new decade for Vietnam. Its government is stable and policies such as ongoing economic liberalisation are boosting growth. A more liberal economy in the south-east Asian country will mean the restructuring of state-owned enterprises and greater encouragement of foreign direct investment (FDI). Vietnam hopes not just for an increase in manufacturing there, but for an increase in value-added manufacturing, not just for the generation of new jobs, but for the creation of better-quality jobs for its people.

Jobs in manufacturing industries, including leather and footwear, are far from new in Vietnam. Taiwan-based outsourced shoe manufacturing group Pou Chen opened its first factory there as long ago as 1994 and the leather manufacturing group that it co-founded, PrimeAsia, opened for business near Ho Chi Minh City in 2003 (see the Tannery of the Year reports in this issue). Pou Chen and PrimeAsia both still run extensive operations in China, too, as do other major leather and shoe manufacturing groups.

In the case of Stella International, however, it seems that Vietnam will occupy an increasingly important place in its production landscape. Stella also has production facilities in the Philippines, Bangladesh and Indonesia. Although its established manufacturing base is still in China, in 2016 it was already producing around one-third of its annual output of 50 million pairs outside China. It said in

Vietnam is likely to remain one of the fastest-growing economies in Asia. China's transition to a buy-not-make economy, with increasing labour costs, has been tempting manufacturers across the border for a number of years. If Vietnam is to make its own transition to a middle-income country by 2030 and a high-income country by 2045, companies that are willing to adopt innovative technology will be key.

this October that, in an effort to grow its margins, it would move more production capacity away from China to south-east Asia. Specifically, it explained it would do this by "ramping up our new manufacturing facility in Vietnam".

Tanning group ISA TanTec is another that has spoken enthusiastically about Vietnam as a good place in which to invest and from which to distribute its leather. In 2018, ISA TanTec announced that it would build a second tannery in Vietnam taking



the number of leather manufacturing facilities it runs around the world to five. It said increased demand for leather from its customers made expansion necessary. Founder and executive chairman, Thomas Schneider, explained that Vietnam was the group's preferred location for its fifth tannery because ISA TanTec's experience of working in Vietnam so far has been "outstanding".

Overtaking China

Their enthusiasm for Vietnam as a hub for making and shipping leather, leather shoes and other finished products that use leather is reflected in the sector's trade figures. The government in Hanoi expects leather and footwear to bring in more than \$22 billion in export revenues this year, which will mean Vietnam overtaking China as the number-one supplier of these products to the US market. Of this total, the government expects \$3.75 billion to come from shipments of handbags and other accessories and \$18.3 billion from shoes. By July, the most recent month for which there are official figures at the time of writing, leathergoods had brought in more than \$2.1 billion, 57% of the full-year target, while the figure for footwear was nearly \$10.4 billion, 56.5% of the way to target. Growth compared to the first seven months of 2018 was 10.6% and 12.9% respectively, giving leather and footwear a higher rate of growth than Vietnam's overall export growth for those seven months, which stood at 7.8% at the end of July.

Two-way trade

China's trade tussle with the US is a factor in this growth, of course, but Vietnam is also a beneficiary of free-trade agreements it has concluded successfully in the last few years. It has been a member of the Association of Southeast Asian Nations (ASEAN) for 25 years, giving it access to the markets in China, South Korea, Japan, Australia, New Zealand and India. In June 2019, it signed a trade agreement with the European Union, which is awaiting ratification. With regard to the US, the US-Vietnam Bilateral Trade Agreement came into effect at the end of 2001, ending decades of business frostiness following the war that ran until 1975. Two-way trade between them reached almost \$3 billion in 2002, but, with normal trade relations starting to work well, almost-doubled to \$5.9 billion in 2003. By 2018, this figure had reached \$58.9 billion.

Inclusive growth

At a World Bank workshop on economic growth in March, the organisation's country director for Vietnam, Ousmane Dione, described it as "a thriving lower middle-income economy and export powerhouse". He pointed out that Vietnam's economic growth since the launch of its Doi Moi (renovation) economic reform programme in 1986 has been "inclusive", because the percentage of the population officially living in poverty is below 7% now, compared to more than 60% in the late 1980s. He said the World Bank will work with Vietnam to help it become a middle-income country by 2030 and a high-income country by 2045.

At the moment, according to national leather industry body Lefaso, the tanning and shoe-making sectors have more than 2,000 companies operating in Vietnam, employing a combined total of 1.5 million people. The leather industry's important contribution to continued growth and to the ongoing fight to eradicate poverty in Vietnam is undeniable. However, Lefaso warns, it still faces considerable challenges.



The World Bank's country director for Vietnam, Ousmane Dione, says the country needs a new economic revolution.

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A prime example of these challenges is the lack of domestic raw materials available to tanners in Vietnam, which makes it necessary for them to import most of their material. Vietnam imported 25% of all the wet blue hides exported from the US in the first eight months of this year with a volume of 643,000 hides. Only Italy and China imported more; both these markets for US wet blue exports are declining by around 30% year on year, whereas Vietnam is growing by 4%. If this trend continues, Vietnam will soon become the biggest market for US wet blue exports.

A productive future

Productivity is another challenge, according to Lefaso. Labour costs may be lower in Vietnam, around \$3 per hour for a manufacturing worker compared with \$6.50 for China, but the industry organisation points out that if Vietnamese workers can produce three or four pairs of shoes each in a working day, their Chinese counterparts produce seven or eight pairs.

An increase in productivity is one of the measures World Bank's Ousmane Dione wants to see. He points out that productivity-led growth, with a substantial increase in the average growth rate of productivity, is an achievement that has been attained by "only a few countries to date". He says building an environment in which companies operating in Vietnam at the moment are able to adopt advanced technologies is a must, and that the companies that are able to embrace the technological and productivity revolution should be at centre of the innovation agenda. He says: "Vietnam needs another Doi Moi today to achieve its aspiration of becoming a modern, high-income country by 2045. In the era of disruptive technologies, this presents challenges as well as opportunities. I would like to call it 'Doi Moi 4.0'."

Anything can happen between now and 2045, but other countries' experiences of riding the highway to high-income economy status suggests this transition will alter Vietnam's leather and footwear manufacturing sectors for ever, but innovative companies could still have many years of growth and success ahead of them. 🌐