

KEY	
■	Vietnam
■	China
■	South Korea
■	Thailand
■	The Philippines
■	Indonesia
■	Hong Kong
■	Taiwan

An economy waiting for the green light

Vietnam hasn't really, like, you know, well, 'happened'. Following the eventual normalisation of relations with the US a decade or so back, great things were predicted for this small country with a troubled past.

Few would doubt its potential: a hardworking, disciplined people, stable, and, apparently, anxious to reap the benefits of a global economy.

The problem lies with the politics. Similar in certain respects to China, with an all-powerful Communist party desperate to retain its privileged position and a centrally controlled economy, except that the Chinese leadership (initially, under the then paramount leader, Deng Xiaoping) recognised the time had come for the Party to offer its population something more substantive than mere promises of a better future.

The Chinese authorities welcome foreign investment of capital, technology and management technique: the leadership in Hanoi seems suspicious at best. The Chinese leadership was prepared to take risks: the Vietnamese were not. Whereas in China it seems to consist of two bold steps forward followed by one shuffling step

back, for Vietnam it looks much more like one tentative step forward with a full reverse following almost immediately. The 1997 Asian financial crisis highlighted the problems in the Vietnamese economy but, rather than prompting reform, reaffirmed the government's belief that shifting to a market-oriented economy would lead to disaster.

Thus far the Chinese approach—keeping the lid on firmly politically, but permitting change economically and socially at a steady pace—would look the more successful model.

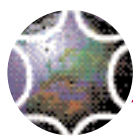
Still, things are changing in Vietnam. The pace may be glacial, but they are there. Many leading footwear manufacturers, including Nike, Reebok, adidas, Diadora, Timberland and Clarks have some production capacity in the country and footwear production is rising. Leather manufacture is on the increase too.

In 2003 Vietnam possessed a production capacity of 390 million pairs of footwear, 32 million square feet of leather, and 35 million units of bags and handbags. The

major portions of each sector are for the lower end of the market. Export sales were hardly stellar but totalled some \$2.3 billion and offered employment to just under half a million people

Comparative statistics anticipated for 2004 are 430 million pairs of footwear; 35 million square feet of finished leather, and 37 million units of bags; all with an export value of around \$2.5 billion. Those employed in the industry should rise from just under half a million to something slightly in excess of that figure. All of which would indicate that—as with so many developing economies—the leather industry in Vietnam is a substantial employer and a valuable resource for export development.

LEFASO, the Vietnam Leather and Footwear Association which was formed back in 1990, noted in its report of footwear exports in July of this year that Vietnamese footwear is facing stiff ►



Country Commentary: Vietnam

Footwear Imports into the enlarged EU Top 10 EU-25 suppliers (in 1000 pairs)

	1999	2000	2001	2002	2003	share of imports	% growth 1999-2003
World	984,492	1,033,823	1,160,619	1,239,987	1,442,316	100.0%	46.5%
China	367,695	384,239	415,855	468,704	676,097	46.9%	83.9%
Vietnam	196,148	211,925	275,312	284,028	282,798	19.6%	44.2%
Romania	42,941	51,046	60,988	66,505	72,013	5.0%	67.7%
Indonesia	66,948	66,911	66,105	62,552	53,074	3.7%	-20.7%
India	28,889	29,966	32,789	36,064	41,967	2.9%	45.3%
Thailand	35,442	35,973	36,393	37,428	34,964	2.4%	-1.3%
Türkiye	15,775	14,139	20,081	25,893	30,883	2.1%	95.8%
Hong Kong	30,426	16,757	28,514	26,077	24,944	1.7%	-18.0%
Malaysia	6,991	10,145	14,925	23,076	24,754	1.7%	254.1%
Taiwan	58,256	61,424	50,493	39,824	22,942	1.6%	-60.6%

Products covered : CN Codes 6401-6405

Share of imports: the country's individual share of total EU imports

Source : Eurostat

competition from China in key markets such as the EU and US, and that this competition continues to grow in intensity. Onerous technical barriers applied in those markets only add to the problems.

Nonetheless, during July footwear exports to the EU, the industry's number one market, grew although this was probably due to EU enlargement in the main. The Japanese market and others remained stable, fortunately. More good news comes with the export value in the first seven months of 2004 reaching over \$200 million, equal to 70% of the total footwear export value for 2003.

At present, about 80% of Vietnam's businesses in the sector are involved in contractual production with foreign partners. As a result they are largely dependent on foreign partners for technical equipment, technology, product design, raw material and chemical supplies and, of course, markets. Vietnam regularly imports annually between \$170-230 million worth of imitation leather and between \$80-100 million worth of leather, mainly from Thailand, Taiwan and Korea.

Vietnam Leather & Footwear Association President, Phan Dinh Do, says the leather and footwear industry will concentrate on rising in the ranks from its current eighth place in the league of leading footwear exporters. He pointed to the implementation of five major measures originally laid out in the Association's 2002 blueprint. These consist of:

One: the industry intends to make better use of its human resource advantages by

increasing the training of skilled labour and strengthening managerial techniques so they can operate in a market economy.

Two: capital investment will be intensified and technology up-dated.

Three: more investment will be channelled into developing raw material production and design creativity improved.

Four: the industry will strive to reduce the volume of contractual production and increase direct exports of its products to customers.

Five: product outlets, especially in the US market, will be developed and, at the same time, the industry will continue to improve product designs to meet the demand of domestic customers.

These are long-term measures to realise the industry's development strategy to achieve an export turnover of \$4.7 billion by 2010, according to Mr Do. Of course China is doing much the same, but with the added advantage of a vastly bigger domestic market to tap into while competing economies such as Thailand are already well travelled along this route.

Hopes for a resurgent Vietnamese economy are likely to remain marred by a lack of economic freedom. Transparency International (TI) gave the country a mere 1.3 rating for Economic Freedom in 2003, which put it in the number 138 slot (out of 161).

TI's Corruption survey of 145 economies placed Vietnam at 102, alongside the Philippines. In other



south-east Asian countries Indonesia was far worse (133) but Thailand managed 64. More worrying is that arch-competitor China rated 71—not great, but considerably better than Vietnam.

These results, while not crippling in themselves, reflect a perception of Vietnam that is not encouraging. It has been suggested that as costs in China rise—as indeed they are—more foreign investors will look to countries like Vietnam for future development.

The notion that China will become un-competitive contains a fair bit of wishful thinking. Even if true, substantial changes need to be in effect for Vietnam to be ready to take advantage of such a development occurring. ●