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COMMENTARY

The Textile Offensive

By **EMILY PARKER**

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HO CHI MINH CITY -- For a journalist, there's nothing quite like having someone throw back his head and laugh at the absurdity of a question you've just asked. But that's exactly what Le Quoc An, chairman of the Vietnam Textile and Apparel Association, did when I asked him if anyone in Vietnam supported textile quotas.

As the world scrambles to prepare for the new quota-free era that began on Jan. 1, Vietnam finds itself at a unique disadvantage. The end of the Multifiber Agreement will open garment trade among members of the World Trade Organization. But that will effectively raise the relative costs of goods made in Vietnam, since its nonmember status means that the country will still be bound by the costly quota system. Despite this, there is a quiet confidence here that the Vietnamese garment industry can hold its own by sharpening its competitive advantages.


This confidence may seem remarkable considering that the end of the quota system has spurred fears that smaller garment-producing countries like Bangladesh and Cambodia will be crushed by textile giant China. Vietnam has an additional obstacle: "Now China has no more quotas so they can reduce [costs], so they can be very competitive," explains Mr. An. When companies aren't allocated enough quotas to utilize their full capacity, they find themselves having to bargain with other companies for their quotas, a trading process that adds extra cost.

The garment industry employs about two million Vietnamese workers, representing almost 25% of the industrial labor force in Vietnam. It also accounts for \$4.5 billion in exports, of which \$2.5 billion go to the U.S., according to the American Chamber of Commerce. Yet despite the prominence of this industry, many Vietnamese are not panicking about China trouncing them in 2005. One reason is that Vietnam is not trying to compete head-on with China, but is trying to land the position of a viable No. 2 option. Foreign businesses understand that all of their needs cannot be satisfied by China alone. So instead of trying to compete with China's enormous low-cost labor force, Vietnamese producers -- with their emphasis on quality and timely delivery -- have won the loyalty of international retailers.

As one buyer who represents major U.S. retailers explained: "China can produce all categories, from low-end to high-end, but performance is not consistent. . . . We have a commitment to stay in Vietnam. We don't believe in putting all eggs in one basket."

Realizing how much quotas crimp Vietnam's potential, many Vietnamese are looking forward to the WTO accession, which will be realized in the next couple of years, they hope. But in the meantime, both the Vietnamese government -- as well as individual companies -- face the

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challenge of working within the confines of the quota system. Indeed, some private Vietnamese companies are less worried about the threat from China than about obstacles within Vietnam itself -- namely the lack of clarity in Vietnamese laws, and unfair advantages for government-owned companies in the Communist country.

Some private companies, for example, claim that obtaining quota allocation can be difficult. "Private companies don't get much quota, but still [have] many customers," said one director of a private Vietnamese import-export company, as she proudly showed me around her clean and spacious factory outside Ho Chi Minh City. Why? "Because I always try to make what a customer wants -- high quality and delivery on time."

While it is encouraging to see that some companies still manage to compete despite these obstacles, the onus cannot fall on business alone. As long as Vietnam isn't a WTO member, the government will need to concentrate on making the quota-allocation process efficient, transparent and fair. The American Chamber of Commerce is suggesting that the government allocate quotas on the basis of performance, as opposed to arbitrary, non-market factors such as the use of "local fabric." Issuing quotas on the basis of performance will help eliminate opportunities for corruption, and will also help ensure maximum utilization of the quotas.

Another weakness that needs to be addressed is Vietnam's shortage of raw material: Around 80% of cotton needs are reportedly met by imports. To address this problem, some interesting ideas are already on the table. Mr. An, for example, suggests ways that Vietnam and the U.S. could form a mutually beneficial relationship. For while the U.S. textile industry may not be the most competitive in low-cost labor, it has advantages in raw material, technique and management.

He explains, "We want to attract more U.S. textile manufacturers . . . that can supply us fabric produced in the U.S., or they can bring facilities to Vietnam to make fabric in Vietnam and re-export clothing to the U.S. market. That is a win-win procedure." While some will cast off this suggestion as simplistic or unrealistic to implement, it nonetheless shows an appreciation of the fundamental laws of comparative advantage -- exactly the kind of thinking that will keep Vietnam moving forward.

This type of thinking would be valuable for U.S. textile lobbyists as well, who would do better to recognize that restraining Vietnamese imports is not the way to bring business back home. After Saturday, when textile and apparel quotas were eliminated for all members of the WTO, the U.S. will have quota arrangements with only Vietnam and Belarus, according to the U.S. Association of Importers of Textiles and Apparel. Decisions by the European Union and Canada to drop their textile and apparel quotas on Vietnam have prompted calls by U.S. importers for America to do the same.

Vietnam's textile industry will face many challenges in 2005. But the silver lining is that Vietnam is responding to these challenges not by lobbying for protection, but rather by trying to capitalize on the advantages that set the small country apart.

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