

Vietnam: three times cheaper may not be enough

No less an authority than the China Leather Industry Association (CLIA) has said that production costs for footwear manufacturers in China at the moment are three times higher than in Vietnam. In comments the organisation made regarding the continued move away from established footwear manufacturing areas such as Guangdong Province, it said higher costs across China were forcing overseas buyers to source production in Vietnam and other parts of south-east Asia instead.

A large number of workers is certainly something Vietnam is blessed with. Silk Road Associates, a Hong Kong-based economic consultancy, said recently that it is fairer to compare Vietnam to Chinese provinces rather than to the country as a whole. And if Vietnam were a province of China, it would compare to the most populous. Its estimated population of 91.5 million would put Vietnam in the top four, behind only the provinces of Guangdong (104.3 million), Shandong (95.8 million) and Henan (94 million). However, if you look at the comparative gross domestic product figures, Vietnam's 2011 per capita total of \$1,224 (Silk Road Associates' figure) is substantially lower than that of even the poorest province in China, Guizhou, where the per capita GDP was \$2,541 in 2011.

The biggest province of all, Guangdong, has a special place in the recent history of the footwear manufacturing industry because so many of China's footwear manufacturers based themselves there. In the very recent past, Guangdong

The China Leather Industry Association has calculated that it may be three times cheaper for companies to manufacture their shoes across the border in Vietnam, but there is a danger that infrastructure challenges there may make any advantage short-lived.

accounted for 44.5% of total Chinese shoe production. There were around 6,000 shoemaking enterprises there in 2005, turning out four billion pairs of shoes a year. Exports were valued at over \$7 billion a year. As *World Footwear* has reported before, a substantial number of footwear businesses in Guangdong began to move elsewhere at the start of this decade. With average wage rates, even for unskilled workers, increasing by up to 100% since 2010, it's easy to see why many manufacturers have moved from Guangdong to China's vast hinterland. Chinese central government policy has encouraged this but it's the all-too-real upward spiralling wage levels that have made it happen, observers say.

Yet, the provincial capital, Guangzhou, China's third-largest

Delays in port developments in Vietnam detract from its attraction as a manufacturing location.

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city, remains a busy, bustling and – superficially at any rate – a typically confident Chinese metropolis in spite of losing industrial jobs. The most likely explanation seems to be that companies are indeed moving away from the now costly regions of China's coastal provinces to relocate inland, where costs are still low. But this applies primarily to the actual manufacturing stage. Other parts of the business, mainly those which could be termed 'white collar' have not moved. They have remained in cities like Guangzhou because those parts of the company—finance, design, sales and marketing and so on—are simply impossible to set up in the new locations because of a lack of people with the right skills, companies have found. This is pretty much what happened to Hong Kong companies some 10 years back. Manufacturing moved to the mainland, but the rest of the business, including for major footwear brands, remained in Hong Kong. Guangzhou is a new Hong Kong for the footwear manufacturing sector.

One of the key points Silk Road Associates has made is that Vietnam, especially northern Vietnam, can be an option for companies looking to move production now. "Let's remember that moving to inland China from Guangzhou is geographically farther away than moving to the north of Vietnam; Guangzhou to Wuhan is 1,019 kilometres, while Guangzhou to Hanoi is just 796," the consultancy says.

Vietnam currently has more than 230 footwear factories that together produced 850 million pairs of shoes in 2011, with most of the manufacturing facilities in the south of the country. Recent reports suggest export-focused footwear businesses have faced a fall in both output and revenues in the first part of 2012. According to the Ministry of Industry and Trade, shoe exports for the first four months of 2012 were down by 3.9% compared to 2011.

A recent article in the *Financial Times* seemed to confirm that the CLIA may be correct to say that Vietnam is three times cheaper for footwear production than China at the moment, but it warned that the situation may not be enough to attract large numbers of new brands or manufacturing companies, which a decline in exports would seem to support. The newspaper spoke to a number of manufacturers, across a



Current supply cycles suggest shoes are three times cheaper to make in Vietnam compared to neighbouring China.

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variety of industries, about the attractions of setting up production in Vietnam instead of China. Most agree that China has better infrastructure, including energy supply and port facilities. However, because manufacturers can pay unskilled workers \$100 per month in many parts of Vietnam compared to the \$300 per month their counterparts in China can earn, some companies are willing to put up with the shortcomings. However, what you win on price, you stand a good chance of losing on price, and the newspaper quoted inflation figures ("the highest in Asia") of 16.4% in February and an ageing population as reasons why any advantage the price difference gives Vietnam is likely not to last. Other obstacles include poor ports and road infrastructure, and corruption holding back projects to improve these.

Perhaps the attraction of outsourcing shoe production to manufacturing partners in Vietnam is less strong than the price difference between that country and China would suggest, or perhaps footwear companies have not yet had time to adjust and make the move. Those who do cross the border will have to work hard to make the most of the cost savings on offer. 🌀