

Chapter 7

Developing AEC into a Global Services Hub The Case of Interior and Fashion Design in Vietnam

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CHAPTER 7

Developing AEC into a Global Services Hub The Case of Interior and Fashion Design in Vietnam¹

VO TRI THANH, *et al.*

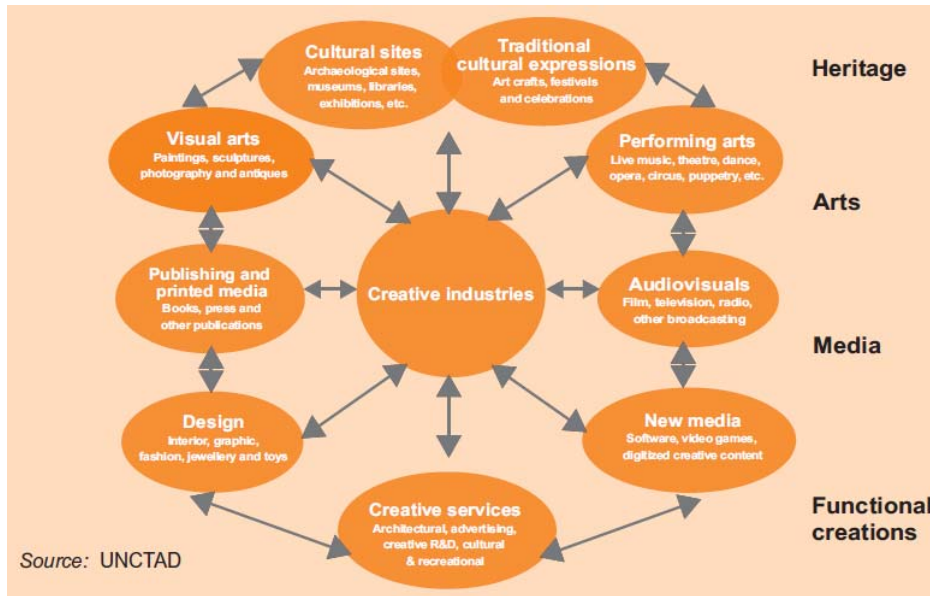
Central Institute for Economic Management (CIEM)

In the last decade, the creative economy has become a topical issue of international economics and development agenda. The knowledge-based economy is a new period of development, coming after the natural economy, agricultural economy and industrial economy. This period possesses the characteristic of relying on knowledge and information under the background of science and high techniques development. In this economy, physical resources do not only include traditional ones, which is also called visible factors (such as capital, materials and labor) but also comprise of new resources (such as knowledge, management and technology) – the human factor. Therefore, education and culture are the fundamental background for development under the knowledge-based economy.

Another reason for the development of this new knowledge-based economy is the globalization process, which create changes and linkages among countries, organizations and individuals both in terms of economics and culture. With regards to cultural aspect, the globalization process can create culture diversity for a person because he/she can contact with different cultural background. Globalization also helps people have better understanding of the world and its global challenges through the booming of information, popularization of tourism and easier access.

¹ The paper is part of a research series on “Developing the ASEAN Economic Community into a Global Service Hub,” with financial and logistical support of ERIA (Economic Research Institute for ASEAN and East Asia). It is led by Dr. Vo Tri Thanh, Vice President of the CIEM, the research team included Tran Binh Minh, Trinh Quang Long, Nguyen Cong Manh (CIEM) and Dinh Vu TrangNgan (Fulbright Economics Teaching Program). The views expressed here are those of the authors alone and do not necessarily reflect the views of ERIA, CIEM, or the Fulbright Economics Teaching Program

Figure 1: UNCTAD Classification of the Creative Industries



According to UNCTAD, the creative industries: (i) are the cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs; (ii) constitute a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights; (iii) comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives; (iv) stand at the crossroads of the artisan, services and industrial sectors; and (v) constitute a new dynamic sector in world trade. They are comprises of four groups, including heritage, arts, media and functional creations (Figure 1). Lying under the functional creation group, the design industries include of interior, graphic, fashion, jewellery and toys. It is defined as “the creation and development of concepts and specification that optimize the functions, and value the apperance of products and systems for the mutual benefit of users and manufacturers”²

In Vietnam, creative industry is a new concept and has not yet been appeared in the classification of official statistics. Within the scope of this paper, the fashion design and interior design is considered as inputs in its respectively textile and garment industries and wood products processing and furniture manufacturing sector. They are regarded as

²According to the definition of the Industrial Designers Association of America, the American Institiet of Graphic arts and the Design Council, London.

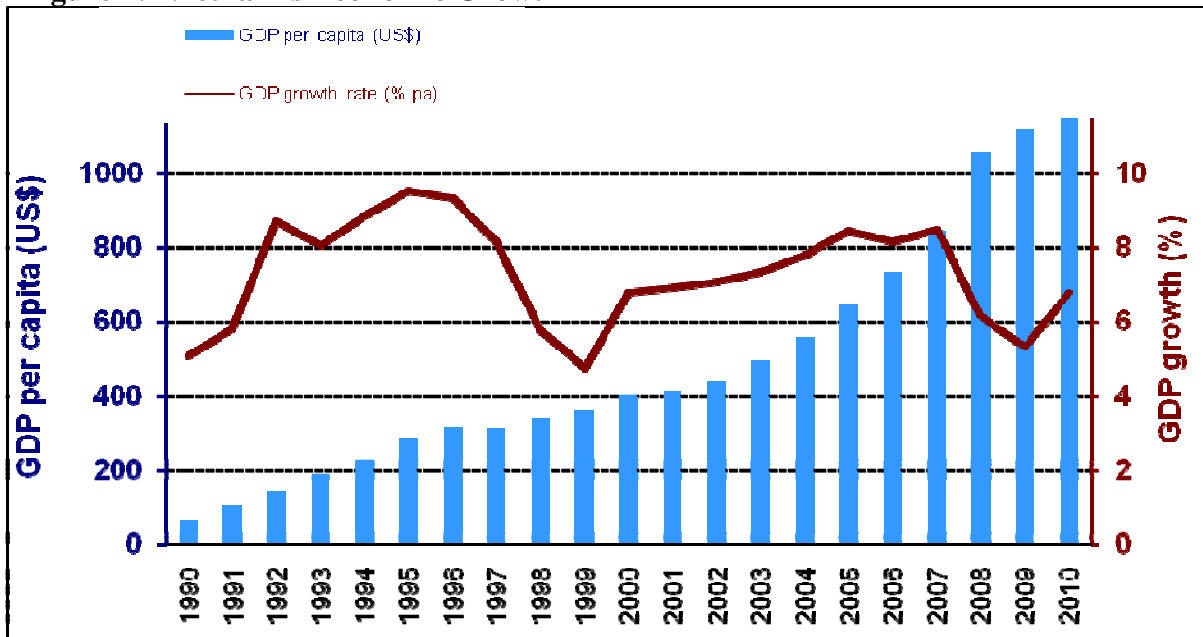
services, which can not be separated and not possible to isolate the design input from the final products, namely apparels, wood products and furniture. Therefore, the data for the industries of textile and garment, as well as wood products and furniture manufacture reflects the total value of final products, not the design content.

This paper concentrates on the two sub-sector of interior and fashion design in Vietnam, which is built upon the findings and recommendation from the national survey with key different stakeholders in these sectors. In responding to the need of understanding the development of ASEAN Economic Community into a global hub of services, the paper also provides some insights into the sectors, the profile of firms in the sectors, the characteristics that they owns, the SWOT analysis of the sector and some policy recommendation drawn from the survey.

1. Some Overview of the Economy

During the last ten year, Vietnam’s economy has been considered as one the fast-moving economy with positive growth rate. During 2006-2010, the average growth rate is estimated at 7 percent, higher than that of the countries in the region³. (Figure 2)

Figure 2: Vietnam’s Economic Growth



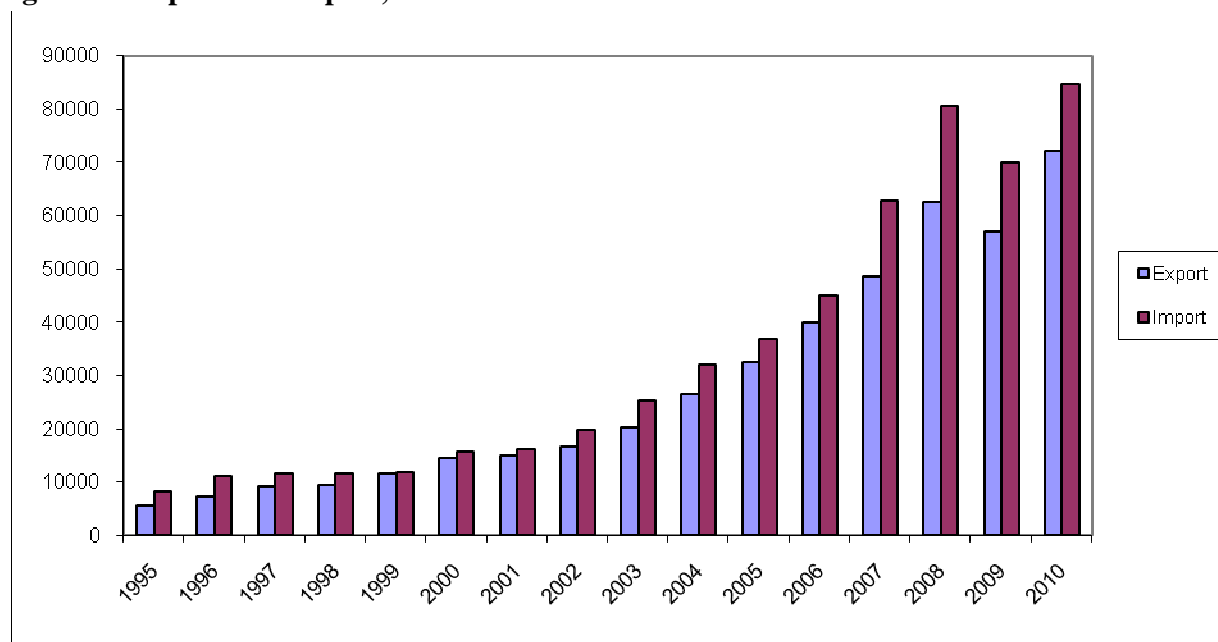
³According to ADB, during 2006-2010, the average growth rate of ASEAN countries is 5.6 percent, of which Thailand is at 3.6 percent, Malaysia at 4.5 percent, Philippines at 4.9 percent, Indonesia at 5.7 percent and Singapore at 6.5 percent.

Source: General Statistic Office, 2011

Although being affected by the global crisis and economic downturn, the growth rates in 2008-2010 have been at 6.31 percent in 2008, 5.32 percent in 2009 and 6.78 in 2010. By that, the economic scale and production capacity has been on the move. The Gross Domestic Product (GDP) at constant price has been doubled in 2010 (as compared to that of 2000) and in real term, it is 3.2 times bigger than that of 2000, attaining at USD 101.6 billion. GDP per capita in 2010 (in USD equivalent) has reached at USD 1,168, overcoming the level of low-income developing country.

The growth rates of the three sectors – i.e. agriculture-forestry-fishery, industry-construction, and services have maintained steady growth rate. The stable development of the agricultural sector has contributed to the assurance of national food security, and has played an important role in poverty reduction in the rural areas. The industry and construction sector has maintained high growth rate, in spite of being affected by the economic downturn in 2008. In 2010, the growth rate of this sector has reached at 15.3 percent. The services sector has been at the fastest growing sector, with expansion of market and the rapid development of tourism, transportation, and telecommunication.

Figure 3: Import and Export, 1995-2010



The export growth rate has been on the increase, except for 2009 (decrease by 8.9 percent) due to the global crisis and economic downturn. The average growth rate for 2006-2010 has been at 17.3 percent, higher than the planned figure. However, in response to domestic production, trade deficit has been at the average of 22.4 percent. With the controlling of import and some import restricted policies, the trade deficit in 2010 has been decreased to 17.5 percent. The export of services has been at high growth rate, attaining an average of 11.8 percent/year.

Table 1: Some Main Exported Goods

Unit: million USD

| No. | Product (mill USD) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----|--------------------------------------------|--------|--------|--------|---------|--------|---------|
| 1 | Crude oil | 7373.5 | 8312.0 | 8487.6 | 10356.8 | 6194.6 | 4957.6 |
| 2 | Coal | 669.9 | 914.8 | 999.8 | 1388.5 | 1316.6 | 1610.7 |
| 3 | Electronics, computers and parts | 1427.4 | 1807.8 | 2165.2 | 2640.3 | 2763.0 | 3590.2 |
| 4 | Articles of plastic | 357.7 | 452.3 | 709.5 | 933.7 | 867.4 | 1049.3 |
| 5 | Electrical wire and cable | 518.2 | 705.7 | 882.3 | 1009.0 | 891.8 | 1311.1 |
| 6 | Bags, pockets, wallets, hats and umbrellas | 470.9 | 502.1 | 627.1 | 773.1 | 824.1 | 958.7 |
| 7 | Footwear | 3038.8 | 3595.9 | 3999.5 | 4769.9 | 4071.3 | 5122.3 |
| 8 | Textile and sewing products | 4772.4 | 5854.8 | 7732.0 | 9120.5 | 9065.6 | 11209.7 |
| 9 | Pottery and glassware | 255.3 | 274.4 | 334.9 | 344.3 | 267.2 | 316.9 |
| 10 | Fresh, processed vegetables and fruit | 235.5 | 259.1 | 305.6 | 406.5 | 438.9 | 450.5 |

| | | | | | | | |
|----|--------------------------|--------|--------|--------|--------|--------|--------|
| 11 | Pepper | 109.9 | 114.8 | 83.0 | 90.3 | 134.0 | 117.0 |
| 12 | Coffee | 912.7 | 980.9 | 1232.1 | 1060.9 | 1183.0 | 1218.0 |
| 13 | Rubber | 554.1 | 703.6 | 715.6 | 658.7 | 731.0 | 782.0 |
| 14 | Rice | 5254.8 | 4642.0 | 4580.0 | 4744.9 | 5969.0 | 6886.0 |
| 15 | Cashew nut | 109.0 | 127.7 | 154.7 | 160.8 | 176.0 | 195.0 |
| 16 | Tea | 91.7 | 105.4 | 115.7 | 104.7 | 135.0 | 137.0 |
| 17 | Wood and wooden products | 1561.4 | 1943.1 | 2384.6 | 2767.2 | 2989.3 | 3435.6 |
| 18 | Fishery products | 2732.5 | 3358.0 | 3763.4 | 4510.1 | 4255.3 | 5016.3 |

Source: General Statistic Office, 2011

Table 1 shows the main exported goods for Vietnam in some recent years. Except for some agricultural and fishery products, such as rice, coffee, vegetables, the main and leading group of products in the list can be named as textiles and sewing products, and footwear, showing the competitive advantages of Vietnam in manufacturing industries. A report by the Central Institute for Economic Management has shown that the manufacturing industries has accounted for nearly 70 percent of the Vietnam's export in 2010, valuing at USD 48.8 billion, increased by 35 percent as compared to that of 2009. This is considered as the highest growth and key industries in the export structure of the country. The textiles and garment sectors has been the first industries in the list, reaching an average of almost USD 1 billion/month. Wood and wooden products also appears in the list of top ten exported goods in Vietnam, amounting at USD 3,435.6 million in 2010.

2. Profile of Firms in the Selected Sectors

2.1. Fashion Design and the Textile and Garment sector

There has been no separated fashion design sub-sector in the manufacturing sector in Vietnam. At present, the fashion design work is set up as a part/session of production in the textile and garment, therefore there has been no clear data for the fashion design in particular. However, realizing the close linkage and the important of fashion design in the textiles and garment sector, the paper focus on proving an overview of the textiles and garment sector as a proxy for fashion design.

In some recent years, the textile and garment industry has significant growth rate of about 20 percent/year, export value has accounted for about 15 percent of the total export of the country. The gross output of the industry has increased 17.9 percent in 2008 (as compared to that of the 2007). Main products has been on the increase with textile growth of 11 percent, finished cloth of 8.9 percent, knitting clothes of 8.8 percent, and ready-made clothes of 12.6 percent. The significant development of the textile and garment sector has brought about the result that Vietnam has become one of the nine leading countries in textile and garment export, out of the 153 textile and garment export countries. (VINATEX, 2009)

Since the implementation of the VN-US Bilateral Trade Agreement and the fully membership of the World Trade Organization, the share and market of Vietnam's garment has been on the move. The US is leading market with its share of 57.7 percent in 2008, following by EU and Japan.

2.2. Some Main Characteristic of the Textile and Garment Sector

During 2005-2009, the number of enterprises in the textiles and garment industries has increased rapidly, almost doubled after five years. The total number of textile enterprises and garment enterprises in 2009 were 2,027 and 3,451 respectively. However, if the number of enterprises in the manufacturing sector accounted for about 20 percent of the total enterprises in the period, the textile enterprise only accounted for about 4.5 percent and garment enterprise of 7.5 percent. In total, the textile and garment

industry has accounted for 12 percent of the total enterprises in the manufacturing sector or only nearly 2.5 percent of the total enterprises in the economy. (Table 2)

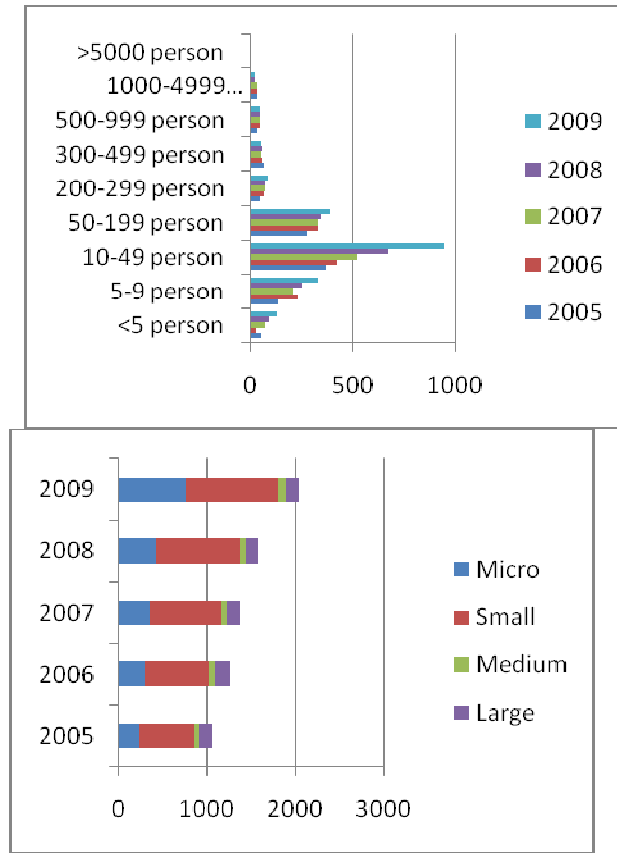
Table 2: Number of Enterprise in the Textile and Garment Industry (as at 31/12)

| Economic activity | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| <i>Total no. of enterprises</i> | 112,950 | 131,318 | 155,771 | 205,689 | 248,842 |
| Manufacturing | 24,017 | 26,863 | 31,057 | 38,384 | 44,707 |
| Manufacture of textiles | 1,046 | 1,250 | 1,367 | 1,577 | 2,027 |
| Manufacture of apparel | 1,745 | 1,958 | 2,352 | 3,174 | 3,451 |

Source: Enterprise survey, GSO 2011

Figure 4 and figure 5 present the number of enterprises in the textile and garment industry by size of employees with two way of disaggregation, either by number of employees or by size of employees. According to the classification of the General Statistics Office, the micro enterprises are those having less than 10 employees, small of less than 49 employees, medium of less than 299 employees and large enterprises are the rest. Following this classification, in the textile industry, the micro and small enterprises have accounted for a largest share, with the concentration of the 10-49-employees enterprises. Medium and large enterprises has accounted for one fifth of the total enterprises, 18.5 percent in 2005 and up to 21.1 percent in 2009.

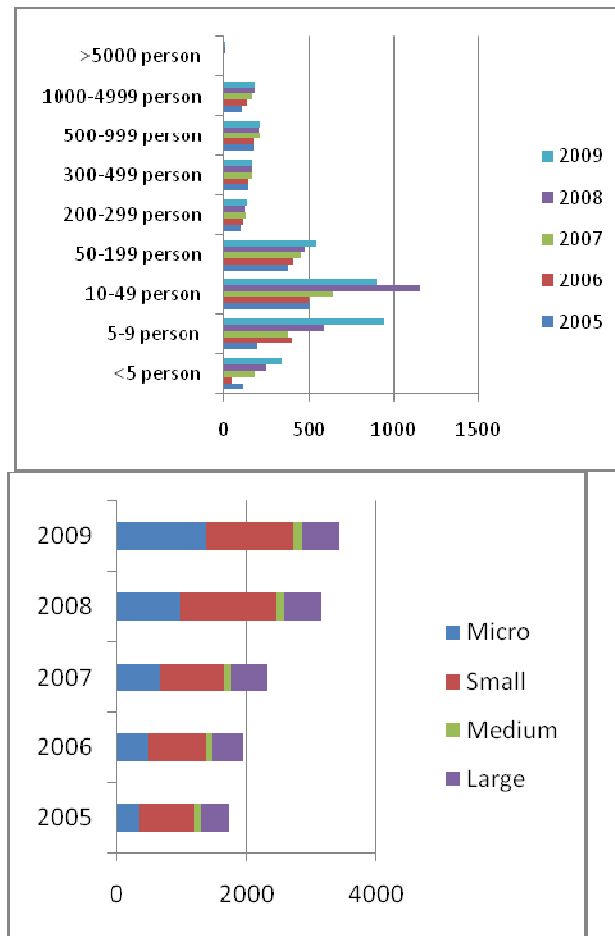
Figure 4: Number of Enterprises by Size of Employees in the Textile Industry



Source: Enterprise survey, GSO 2011

The garment industry also shares the same characteristic with textile industry. Small enterprises, having 10-49 employees, has largest share during the 2005-2009, which was 48.3 percent in 2005 and 39.4 percent in 2009 respectively. The micro enterprises have increased after five years, from 20.5 percent in 2005 up to 39.9 percent in 2009. In contrast with this, large enterprises have been on the decrease, from 25.2 percent in 2005 to 16.7 percent in 2009. The garment industry seems bigger than textile industry in terms of employees where there were 13 large enterprises with more than 5,000 employees. (Figure 4)

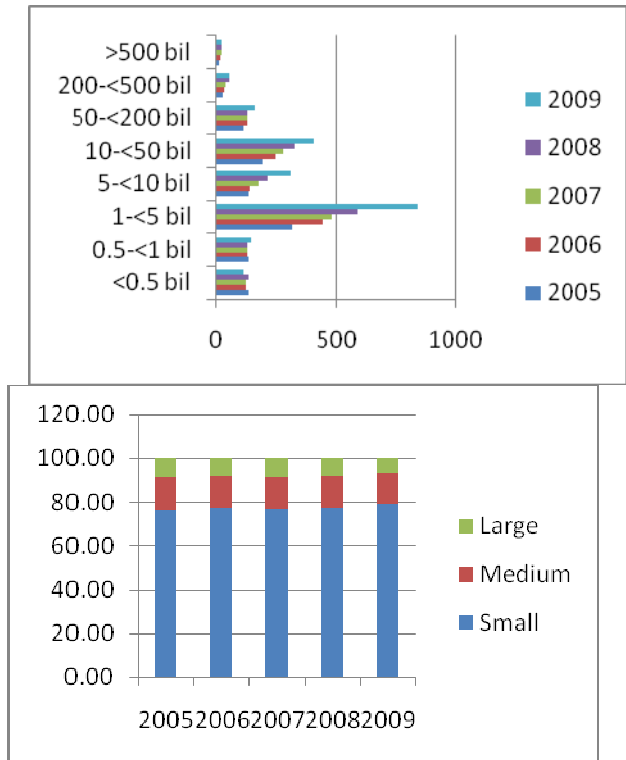
Figure 5: Number of Enterprises by Size of Employees in the Garment Industry



Source: Enterprise survey, GSO 2011

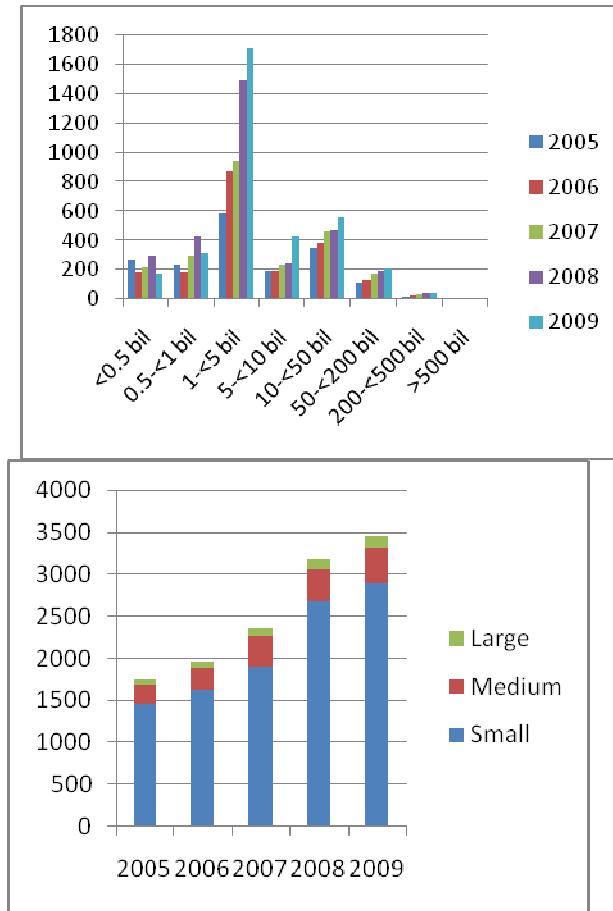
With regards to the size of capital, small enterprises are those having capital of less than VND 20 billion, medium of 20 to less than VND 100 billion, and the above are large enterprises (Figure 4). It is clearly seen in figure 6 and 7 that the small enterprises have played a big part in both textile and garment industry, with 76.4 percent in 2005 and 79.1 percent in 2009 and 83.8 percent in 2005 and 83.7 percent in 2009 respectively. The largest share among them is VND 1-less than 5 billion enterprise. The medium enterprises has accounted for 14.1 percent in 2009 for the textile industry while that of the garment industry was 12.1 percent. Large ones accounted for only small share of 6.8 percent and 4.1 percent respectively in 2009.

Figure 6: Number of Enterprise by Size of Capital in the Textile Industry



Source: Enterprise survey, GSO 2011

Figure 7: Number of Enterprises by Size of Capital in the Garment Industry



Source: Enterprise survey, GSO 2011

Of all the total number employees working in registered enterprises, the workers in manufacturing sector has been on the increase in 2005-2009 (from more than 3 million employees in 2005 to more than 4 million in 2009) and has accounted for a large proportion, nearly 50 percent of the total. As mentioned above, if the number of enterprises has accounted for only 12 percent, the number of employees in the textile and garment industry has accounted for a total of 23.3 percent of the manufacturing sector in 2009, of which the textile industry accounted for only 4.8 percent (198,371 employees) while that of the garment industry was 18.5 percent (764,879 employees) in 2009. (Table 3)

Table 3: Number of Employees in the Textile and Garment Industry

| Sector | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------|-------------|-------------|-------------|-------------|-------------|
| Total | 6,237,396 | 6,715,166 | 7,382,160 | 8,154,850 | 8,921,535 |
| Manufacturing | 3,099,386 | 3,401,627 | 3,773,533 | 3,943,221 | 4,133,943 |
| Textiles | 188,365 | 203,829 | 195,139 | 179,076 | 198,371 |
| Garment | 511,278 | 585,414 | 706,093 | 758,274 | 764,879 |

Source: Enterprise survey, GSO 2011

In general, it can be seen that the textile and garment industry comprises of small enterprise, with less than 50 employees and VND 20 billion. They are paid attention to due to its original nature of taking advantage of the cheap labor resources for processing export. The total number workers was almost 1 million workers in 2009, however, it is not stable. The main reason comes from its low income for the workers, leading to the fact that they are ready to move to other higher income industry. Therefore, in the textile and garment sector, although enterprises have increased their salary and benefits, the number of workers dropping out of the sector has increased as compared to newly recruited ones.

Another feature that the Vietnam's garment possesses is the simple manufacture of export for foreign partners. Through our interview with some big enterprises in the garment sector, although they have their own designers, the ability of designing as well as capacity of production is still limited. In some recent years, some small enterprises whose are towards the domestic market have their own design and market share, especially for medium and high income class, namely NEW NEM, IVY Moda and Eva De Eva. Even big enterprises such as Garco 10, Viet Tien (for garment) and PhongPhu and Viet Thang(for textile) have their own designing department, the model and design are not fully on their own and for their own market. Most of the design patterns are somewhat imitate the international trends or copying from the orders of their international partners.

The leading actor in the market is Vietnam National Textile and Garment Group (VINATEX), a big complex that comprises of the mother company VINATEX and its 120 joint-stock members. It also includes 5 textile and garment school, which have their own fashion design division, and a national Vietnam Fashion Design Institute. Despite the purpose of creating opportunities for talented designers to meet apparel firms and extending support to those with strong potentiality in product development,

the Vietnam Fashion Design Institute’s role in the sector is blurred. For the first time on 23 December 2011, the Vietnam Fashion Design Institute has their own study on “Color trend for fashion in 2012”, which is considered as the first professional and practical study, both for the textile and garment industry as well as for consumer. However, one of the regular activities that have been carried out by the Vietnam Fashion Design Institute is the organization of Vietnam Fashion Weeks and annual fashion design competition.

At this moment, only five textile and garment company have been listed on the stock market, namely Thanh Cong Textile and Garment Joint-Stock Company (TCM), Thai Nguyen Investment and Trading Company (TNG), BinhThanh Joint-Stock Company (GIL), Saigon Garment Joint-Stock Company (GMC) and PhuThinh – Nha Be Garment Joint-Stock Company (NPS), of which 3 are listed on the Ho Chi Minh Stock Exchange and 2 are listed on Hanoi Stock Exchange. Out of the listed companies, TCM is the biggest company with the charter capital of VND 447 billion and the production capacity of 20 million products per year. (Table 4)

Table 4: Some criteria of the listed companies (as at June 2011)

| Code | Main product | Capacity (mil. products/years) | Total Asset (VND bil.) | Charter capital (VND bil.) | Rate of return (%) |
|-------------|-----------------------|---------------------------------------|-------------------------------|-----------------------------------|---------------------------|
| TCM | Cotton clothes | 20 | 2,021 | 447.4 | 9.47 |
| GMC | Sports, jacket, short | | 465.2 | 88.7 | 5.28 |
| GIL | Clothes, handbags | 1.3 | 616.8 | 127.2 | 9.42 |
| TNG | Jacket, trouser | 10 | 881.8 | 134.6 | 3.37 |
| NPS | Jacket, trousers | | 82.4 | 7.99 | 7.99 |

Source: Consolidated from HNX and HSX

The last layer in the profile of firms are micro and small enterprises which are the majority of the sector, whose activities are processing for bigger enterprises and not having frequent orders from international trading partners. For those enterprises, it is

not necessary to have separate design division because it is not as important as direct workers.

In conclusion, there has been no official data on the fashion design aspect of the textile and garment industry, it is difficult to have concrete comments on this part. One of the finding through our interview with key stakeholders and some apparel company is that even the textile and garment companies are small and mostly processing export, the design division seem to be blurred. Most of the design patterns are influenced by their international trading partner as well as the international trends. The very small domestic market share is dominated by fragmented and single fashion designer, such as NEW NEM, IVY Moda, Eva De Eva, FOCCI, NINOMAXX,... The enterprises in the sector are mainly processing export; their own design divisions are still finding a market room and consumer taste in affirming themselves.

2.3. Interior Design and the Wood Processing and Furniture

In similarity with the fashion design and as mentioned in the introduction part of the paper, the interior design strongly associated with the manufacture of wood and wood products and the manufacture of furniture as classification by the Vietnam General Statistic Office. Table 5 shows the overview of enterprises that are in the two sectors.

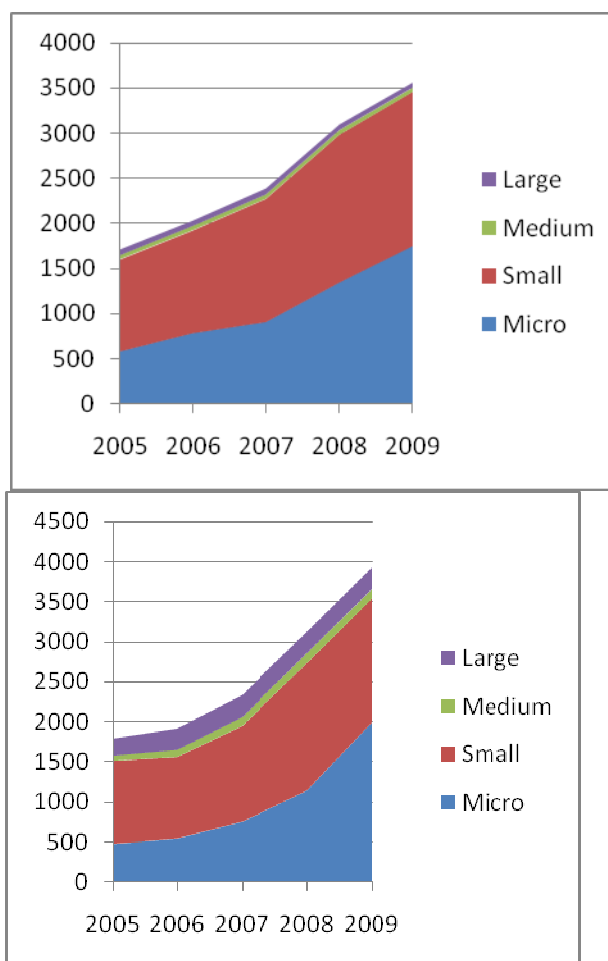
Table 5: Number of Enterprises in the Wood Products and Furniture

| Economic activity | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <i>Total no. of enterprises</i> | 112,950 | 131,318 | 155,771 | 205,689 | 248,842 |
| Manufacturing | 24,017 | 26,863 | 31,057 | 38,384 | 44,707 |
| Manufacture of wood and wood products | 1,710 | 2,032 | 2,390 | 3,098 | 3,562 |
| Manufacture of furniture | 1,796 | 1,921 | 2,343 | 3,126 | 3,930 |

Source: Enterprise survey, GSO 2011

There has been a significant development of the number of enterprises in the manufacture of wood and wood products and manufacture of furniture during 2005-2009. The number of enterprises has been doubled after five year, from a total of 3,506 in 2005 to 7,592 in 2009. In other words, of all the registered companied, the manufacture of wood and wood products and manufacture of furniture has accounted for only 3 percent in 2009, however, out of the manufacturing sector, they have contributed to 16.76 percent of the actors in the sector.

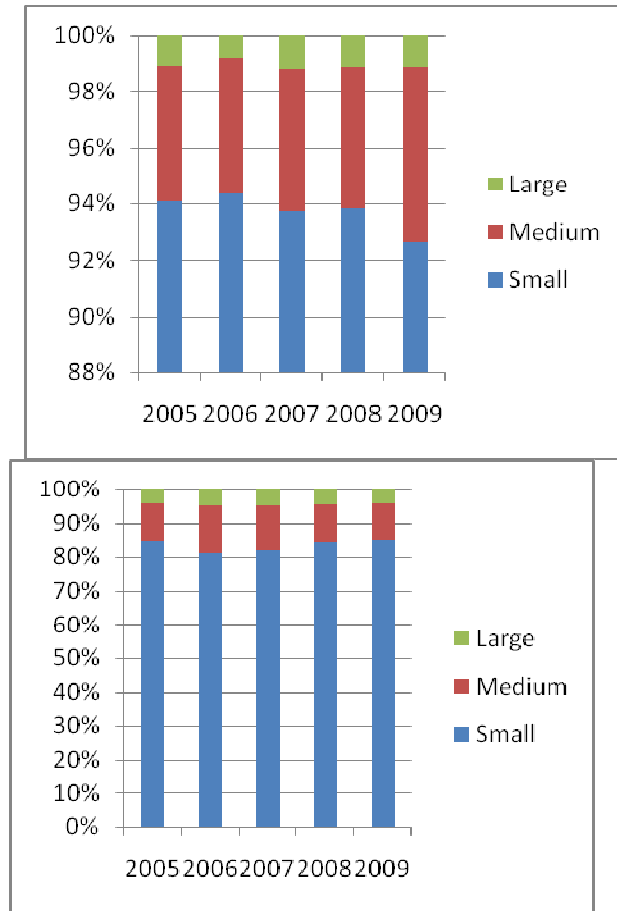
Figure 7: Number of Enterprise by Size of Employees, 2005-2009



*Source:*Enterprise survey, GSO 2011

The number of enterprises of the manufacture of wood and wood products is presented in the left-hand side of figure 7 and the manufacture of furniture is on the right-hand side. It is clearly seen in the figure that the majority of enterprises are small and medium in terms of employees, i.e. having less than 50 employees. Enterprises in the manufacture of furniture seem a little bit bigger with some bigger share of large enterprise, with 6.8 percent or 269 enterprises in 2009.

Figure 8: Number of Enterprises by Size of Capital



Source: Enterprise survey, GSO 2011

Figure 8 shows that of all the enterprises that are active in the manufacture of wood and wood products (the left-hand side) and the manufacture of furniture (right-hand side), the majority are small with the capital of less than VND 20 billion, which is about 93 percent for those operating in the manufacture of wood and wood products and about 83 percent for those operating in the manufacture furniture. The large enterprises, in term of capital with more than VND 100 billion, only accounted for a small share, 1 percent for the manufacture of wood and wood products and 4.3 percent for manufacture of furniture.

Table 6: Number of Employees, 2005-2009

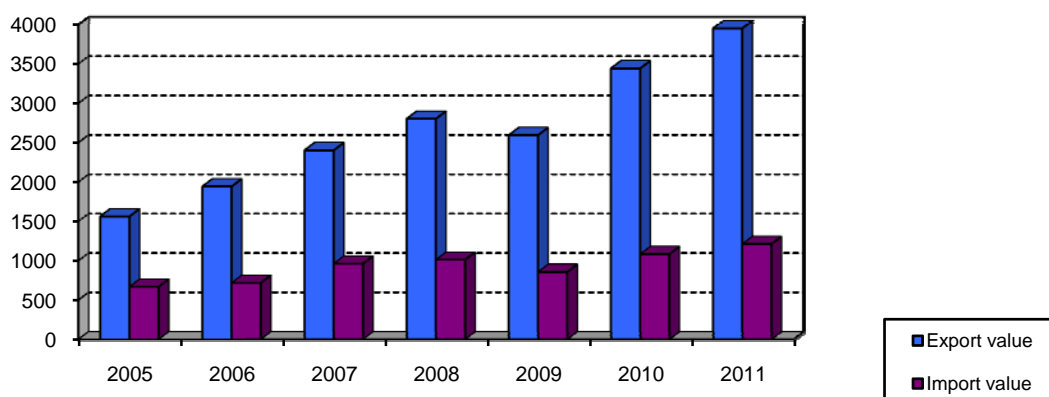
| Sector | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| Total | 6,237,396 | 6,715,166 | 7,382,160 | 8,154,850 | 8,921,535 |
| Manufacturing | 3,099,386 | 3,401,627 | 3,773,533 | 3,943,221 | 4,133,943 |
| Wood and wood products | 113,979 | 112,440 | 124,477 | 130,443 | 126,940 |
| Furniture | 260,235 | 320,147 | 356,500 | 352,247 | 355,539 |

Source: Enterprise survey, GSO 2011

As at 31 December 2009, the total number of employees working in the manufacture of wood and wood products and manufacture of furniture was amounted at 126,940 and 355,539 persons respectively, accounting for 4.8 percent and 18.5 percent of the wider manufacturing sector. That is, in total, the two sectors have contributed up to 23.3 percent of the employees in the manufacturing sector or 5.4 percent of the employees in the registered enterprises sector.

One common feature of the manufacture of wood, wood products and furniture is the small and labor-intensive enterprise, which is also seen in the textile and garment industry. In some recent year, together with the development of society and increasing demand in having more luxurious wood furniture for medium and high income class in the country, there has been a significant number of interior design enterprise established. In addition to that, a numbers of individual interior designers have been developed to meet the niche demand of the market.

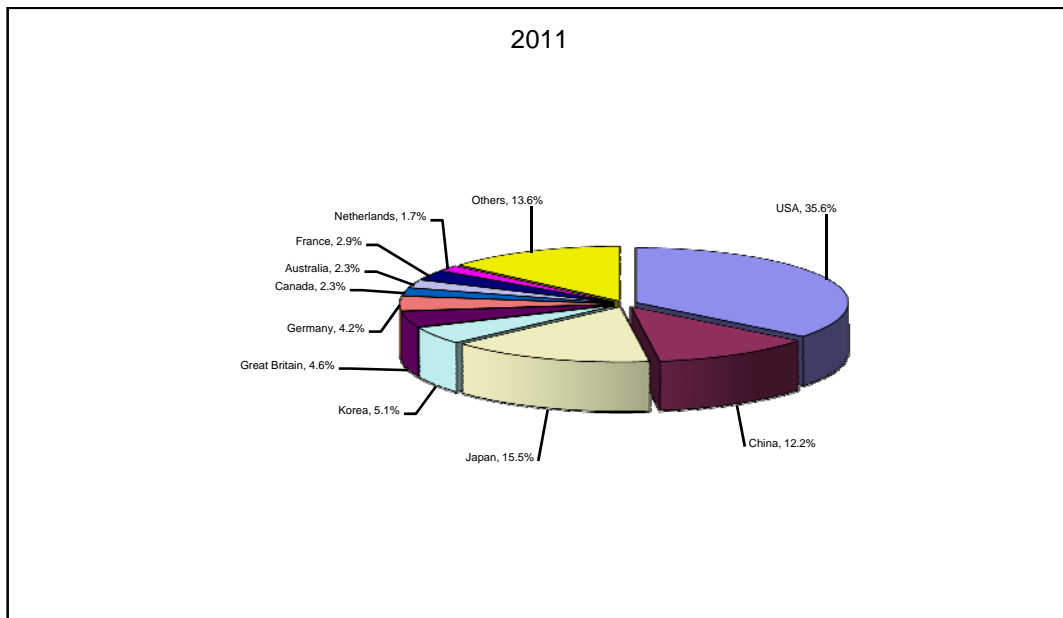
Figure 9: Export Value and Import Value of the Wood Products and Furniture Industry, 2005-2011



Source: MOIT, 2012

Figure 9 has shown the increasing trend of the wood products and furniture during 2005-2011. In spite of it, the wood products and furniture processing sector has experienced from the overall impacts of global crisis and economic downturn in 2008 and 2009. Therefore, the total export value of the sector in 2009 has decreased by 8.25 percent as compared to that of 2008. However, since the end of 2009, more orders have come into the sector, and new market has been developed, such as Russia, Latin America and Middle East, leading to an increase of 5.3 percent and amounting to USD 2.735 billion.

Figure 10: Export Structure by Market as at end of 2011



Source: MOIT, 2012

The break-down of export of wood product and furniture industry by market share has been shown in figure 10, where USA has been the largest with its market share of 35.6%, following by Japan (15.5%), China (12.2%). New other markets have been emerged in some recent years and still are on the increase (such as Great Britain and Germany).

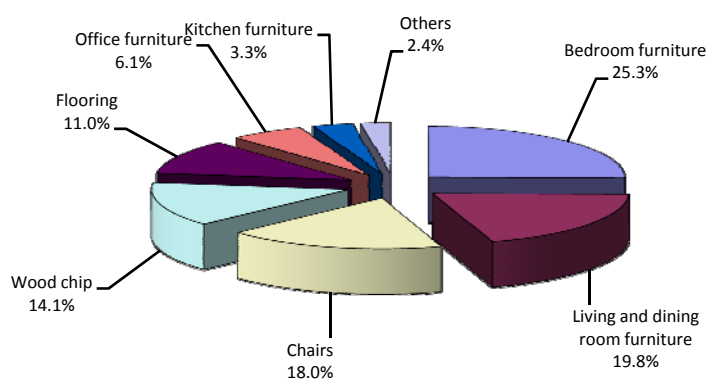
Table 7: Three main export markets of wood products and furniture industry, 2006-2011 (million USD)

| Market | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------|-------|-------|-------|-------|-------|-------|
| USA | 744.1 | 944.3 | 1,045 | 1,100 | 1,400 | 1,423 |
| EU | 500.2 | 633.1 | 791.8 | 545 | 644.7 | 519.5 |
| Japan | 286.8 | 300.6 | 365.9 | 355.4 | 454.6 | 585 |

Source: Ministry of Industry and Trade, 2011

The leading market for wood products and wood furniture industry has been confirmed in table 7 with the three main export markets. Accounting for nearly 36% of the total export, the export value to the US market has amounted to USD 1,423 million in 2011, while that of the EU market and the Japan has been at USD 520 million and USD 585 million respectively.

Figure 11: Export structure by type of products in 2011



Source: Ministry of Industry and Trade, 2011

With regards to type of products, in 2011, the bedroom furniture and living/dining room furniture has accounted for the highest percentage of export, with 25.3% and 19.8% respectively. In total, the furniture has account for larger share in total export, with the sub-total of up to 54.5%, while the wood products account for the rest, with three type of chairs (18%), wood chip (14.1%) and flooring (11%).

In spite of no official data for setting up a profile of firms in the sector, the paper has developed its own firm profile based on observation and interview with key stakeholders.

The leading companies in the interior design industry seems to be the AA Construction and Architect Joint Stock Company (AA Corporation) and the Truong Thanh Furniture Corporation. The AA Corporation was established in 1990 in the production of wood products and luxury interior furniture. At the moment, with more than 2,000 employees, the company has supplied both for domestic and international market. More than 50 percent of its production are for export, AA Corporation produces both ODM (Original Design Manufacturer) and OEM (Original Equipment Manufacturer) to big market such as the US, UK, German, Japan, Srilanka and Cambodia. Employing traditional techniques in water gilding, marquetry, carving and hand polishing, within its production facilities for ensuring their products. For the domestic market, AA Corporation has been known through its brand name of AA Décor, Bellavita, NhaXinh, BoConcept, Teknion. The AA Corporation has its own interior design staffs, that make their own study on the market demand and individual customers. With a network of 3 factories and certified by ISO 9001 as well as by COC to produce Forest Stewardship Council (FSC) Products, AA Corporation is experienced in producing both loose furniture as well as architectural mill work products used in fit out projects.

Truong Thanh Furniture Corporation (TTF) is one of the leading domestic companies, which is in the 3rd position in terms of export value, after two foreign-invested enterprises. The foundation of TTF is a wood processing workstation in DakLak, a province in the Central Highlands, which was established in 1993. Currently, TTF is the leading company in the wood manufacturing and is the biggest enterprise out of the three listed companies in the stock market. The company owns a network of 8 wood processing manufacturers in Ho Chi Minh City, Binh Duong, DakLak and Phu Yen. In 2010, there are three groups of products in the Corporation, namely the exterior furniture (accounted for 37 percent), interior furniture (51 percent) and wood floor (12 percent). The export value of the company has amounted up to 85 percent of the total production in 2008. However, in some recent years, realizing the increasing demand of the sector, TTF has paid more attention to the domestic market, leading to 30 percent of domestic share in 2010.

The second layer of actors in the interior design industry is the three listed companies in the stock exchange market, namely DucThanh Wood Processing

Company (GDT), Thuan An Wood Processing Joint-Stock Company (GTA), and SAVIMEX (SAV). They are specialized in wood and wood products processing as well as furniture manufacture. However, the production is on average, 65 percent for domestic market and 35 percent for export.

Table 8: Some Selected Criteria of the Listed Companies

| <i>Code</i> | <i>Market capitalization⁴ (VND billion)</i> | <i>Total Revenue (VND billion)</i> | <i>Profit after taxes (VND billion)</i> |
|-------------|------------------------------------------------------------|----------------------------------------|---------------------------------------------|
| GTA | 119.6 | 286.4 | 9.2 |
| GDT | 224.0 | 174.3 | 30.8 |
| SAV | 318.8 | 403.4 | 14.6 |
| TTF | 747.2 | 1,901.7 | 23.1 |

Source: Consolidated from HNX and HSX

The second layer also experienced some other companies that have not been listed in the stock market but have medium operational activities such as Hoang AnhGia Lai Furniture (under the big Hoang AnhGia Lai corporation), Starwood Furniture (a 100 foreign-invested company), Thompson Furniture (a 100% foreign-invested company).

The third layer comprises of a variety of small enterprises that has accounted for large share in the sector, more than 80 percent of the total enterprises. Their purpose of operation is toward medium and lower income class in society. However, these enterprises do not have their own design staffs. The patterns and design are copied and adjusted from the existing ones and the quality is not as good as the bigger ones.

2.4. Some Common Characteristics of Interior and Fashion Design in Vietnam

The creative industries comprise of variety of types of development with special characteristics and different from the normal industries. Known as the nurturing industries in Vietnam, interior design and fashion design have some following characteristics:

⁴As at the end of the first quarter in 2010.

- Products of the interior and fashion design contain the factor of creative, therefore, to some extent, they are uncertainty. Designer and producers can not be sure of the profit of their products when they are sold in the market.
- Because the interior and fashion design is at the early stage of development, there is no leading trend in the sectors, they are being influenced by international trend, which is sometimes not suitable with Vietnam's tradition and culture, and can not be consumed.
- There is "colorful" team of designers that are finding a place in the market. Although some of them are known with certain products, the coordination among designers is still weak and conflict is a must. However, this is a common characteristic of not only the creative industries, but also other business sectors.
- The interior design sector has not been clearly defined. It is still mixed up and considered as one component of the larger construction sectors. That is also a reason why there has not any development plan yet for this sector.
- There is variety of products and they are different from each other. This characteristic can be interpreted to, in one hand, meet the increasing and different demand of the society, and to confirm the characteristic of immature sectors.
- The durability of the sectors is different. Interior design can possess this characteristic, but it is not true for the fashion design.
- The lifetime of a product is short. Containing the characteristic of creativeness, it takes time to produce one product, and it is not sure of the delay in production. It is appropriate with fashion design sector.

In the current context, the development of interior and fashion design in Vietnam is depended on some following trends:

- Being influenced and led by developed market such as France, the UK, China, and the US.
- The internationalism and localism is parallel existed. It is reflect in most of the stage of production, not only included in building market and consumers, development and distribution, but also in developing idea into products, which is known as individual creativeness.

- The sector is developing towards market-based demand.
- Within the industries, the creativeness of individual designers and groups is increasing, which play an important role of ideas and new approaches and increasing the value added of products and services provided for consumers.
- Digitalization is key in the design sector due to the strong development of informatics' infrastructure.
- The supporting industries is developing

3. Policy Review

3.1. Over Business Climate of the Sectors

The new Enterprise Law and Investment Law in 2005

The Law on Enterprises, which took effect on 1 July 2006 (replacing the previous Enterprise Law 1999 and adjusted State-owned Enterprise Law 2003) applies to all domestic, foreign-invested and State-owned enterprises established in Viet Nam and specifies voting procedures and quorum requirements in both limited liability companies and joint stock companies. The Investment Law, also coming into effect since 1 July 2006 and replacing the Law on Incentives for Domestic Investment and the Foreign Investment Law 2000, promulgate common application on investment activities, regardless of foreign or domestic sources of capital. These changes have been viewed as breakthrough in the economic development and thinking and reform process of legal and regulatory framework in Vietnam. The enactment of Enterprise Law and Investment Law in 2005 was implemented as there are additional conditions positively affecting the Vietnam economic reforms and development. It was the event that the country was joining WTO, whilst its economy has actually gained good momentums with high annual growth rates, thus making foreign investor redirect their capital flows from other countries into Vietnam. Updated information shows that FDI in Vietnam has risen with much larger scale and higher speed in comparison with previous years.

According to the “Doing Business 2012” report, the ranking of Vietnam’s overall business climate has fallen in 2011 because the country has failed to improve its electricity system. Also, this Report mentions the slow pace of administrative reforms in Vietnam. In general, the Vietnam has just improved only three out of the ten areas that the Report looked at, including construction permits, investor protection and contract enforcement. A worsening of conditions was seen in areas such as starting business (licensing), registering property, paying taxes and obtaining credit.

However it is believed in Vietnam’s ability to remain competitive and maintain sustainable economic growth over the long term because the Vietnamese government is taking actions in several key areas, including stabilizing the macroeconomic environment in Vietnam, protecting better investor’s rights in particular in the areas of licensing, protection of intellectual property rights and efficient enforcement in cases of IPR violations, continuing the implementation of infrastructure projects and guaranteeing reliable energy supply, improving the quality of labor force by promoting higher education and vocational training, tackling red-tape and corruption and continuing to reduce and simplify administrative burdens on all levels (should be at the high in the government’s agenda).

Over the last years, Viet Nam has greatly benefited from significant foreign direct investment, triggered upon its accession to WTO and the resulting liberalization in services sectors. While Viet Nam, over the last years, has renewed significantly its legal frameworks, the full and timely implementation of WTO commitments in practice represents a fundamental for Viet Nam’s ongoing attraction of FDI in 2012-2015. In facilitating this, the administrative procedures has improved as the Government has introduced and adopted the one-stop-shop approval for investment activities that reduce the time in setting up business, the number of documents required has reduced significantly, the licensing regulations, the opening of a branch, relocating branch procedures are simplified. Together with the implementation of Enterprise Law, the issuance of guiding decrees and circular has been in progress in further facilitating the business environment climate. Recently, the Decree 102/2010/ND-CP on 1st October 2010 (in replacement for Decree 139 of 5th September 2007) has been welcomed by the business community because it clarifies that companies established in Vietnam with foreign ownership of up to 49 percent can enjoy the same investment rules an conditions

as those applicable to local companies. Concurrently, those with foreign ownership of more than 49 percent will be subject to same conditions as applicable to foreign investors. This should make the acquisition and operation of companies with less than 49 percent foreign ownership easier. In addition to that, there are some certain areas that entitled to favorable investment conditions and incentives through investment regulations and tax regulation (import duty and corporate income tax).

At the beginning of 2011, the Vietnamese Government announced it would be emphasizing “quality over quantity” where foreign direct investment is concerned. This presumably meant that Viet Nam would be focusing on attracting high-technology value-added manufacturing from foreign companies. One important component of this is the implementation and enforcement of intellectual property rights. The Law on Intellectual Property Rights has been the first time passed in 2005 and being effected from 1 July 2006. The issuance of the Law has change the mindset and understanding of people in respecting, encouraging and rewards the products of human mind. The guiding under-law documents are on progress and the enforcement of IPR will help create an environment to motivate to produce new ideas and technologies; protect Vietnamese consumers from the danger of counterfeit products and attract more advanced foreign technology to Vietnam. However, the enforcement of IPR is still a problem because the attitude of Vietnamese public toward counterfeiting and IPR infringement remains ambivalent.

Policies related to the development of SMEs

The overall SMEs development plan 2011-2015 is on the drafting process. However, the latest seminar on recommending for development plan held at end of 2011 shows that SMEs in Vietnam, and is small in scale and weak in competitiveness. A survey carries out by the Ministry of Planning and Investment has revealed that nearly 50 percent of SMEs has capital less than VND 1 billion; 75 percent less than VND 2 billion and 90 percent less than VND 5 billion. The common difficulties of SMEs include lack of capital and access to land, with the addition comprise of weak management skills, low technology, small and fragmented market and lack of linkages with big enterprises. This requires a proper plan of amending regulatory framework as well as support from Government for facilitating the development of SMEs.

3.2. Policy Review related to the Fashion Design and Interior DesignFashion design

For the large textile and garment sector, the national strategy for the development of textile and garment industry till 2015 and orientation to 2020 has approved by the Prime Minister in 2008. The overall objectives for development of the industry is to become one of the key industries and one of the leading export industries which meet the increasing domestic demand, creating jobs as well as increasing the competitiveness and sustainable integration into the region and the global. To support for the overall objectives, the target for development till 2020 has defined the growth rate for annual production from 12 percent to 14 percent and for annual export of 15 percent and some main criteria as follows:

Table 9: Some Selected Criteria for the Textile and Garment Sector

| Criteria | Unit | Target for large industry by | | |
|----------------------------|------------------------|------------------------------|--------|--------|
| | | 2010 | 2015 | 2020 |
| 1. Total revenue | Million USD | 14,800 | 22,500 | 31,000 |
| 2. Total export | Million USD | 12,000 | 18,000 | 25,000 |
| 3. Employment | Thousand people | 2,500 | 2,750 | 3,000 |
| 4. Domestic content | % | 50 | 60 | 70 |
| 5. Main products: | | | | |
| - Fibre yard | 1000 ton | 20 | 40 | 60 |
| - Fibre, synthetic fibre | 1000 ton | 120 | 210 | 300 |
| - Other fiber | 1000 ton | 350 | 500 | 650 |
| - Cloth | Million m ² | 1,000 | 1,500 | 2,000 |
| - Garment products | Million products | 1,800 | 2,850 | 4,000 |

Source: VINATAS, 2010

Policy orientation and recommendation has been developed in the national strategy, including the followings:

i. Products:

- Concentrate on developing and increasing the competitiveness for the export of garment and textile industry; increase the local content for better effective production; pay attention to fashion design to have special and different products and gradually build the trademark for enterprises; increase the adaptation of quality management standard to meet the requirements of integration.
- Encourage domestic and foreign investment in the sector, especially on the production of synthetic fibre, replacing material and supporting industries
- Make a production plan for the development of exporting cloth with the leading role of the Vietnam Textile and Garment Association
- Make a development plan for cotton trees.

ii. Investment and production development

- For garment enterprises: Production base should be located where there are favorable resources of labor and transportation. Establish fashion centers, research institute for fashion design, material-providing centers and trading centers in Ha Noi and Ho Chi Minh City and big cities
- For fibre, clothing and dyeing enterprises: Construct specialized industrial parks and zones which have adequate conditions for production.

iii. Environmental protection

- Build the Environmental Assessment Report for the Garment and Textile and regulatory framework related to environment
- Have special treatment for serious polluted areas and construct water treatment system in garment and textile zones

- Adopt and conduct the Green Production Program in the sector, encouraging the adoption of ISO 14000 and creating good working conditions under SA8000
- Build and implement the roadmap for technology innovation in the sector towards environmental friendly
- Enhance the research and study on environmental issues
- Meet the requirement of environment and technical barriers in international economic integration

Interior design

At this moment, there is not clear legal framework for the development of interior design industry. It is only recognized as one component of the broader construction and design sector. Therefore, the existing Law on Construction in 2003 is seemed to be the highest and overall regulatory framework, which contains one Chapter with 2 Items, and 16 Articles for the development of the sector. However, there is no clear and targeted article on the interior design, which is regarded as one part of the architecture design. Some under-law and guiding documents have been issued since the effectiveness of the Law, but almost nothing touch upon the interior design.

4. SWOT Analysis

This section provides an analysis of the strengths, weaknesses, opportunities, and threats confronting Vietnam's creative services in the case of interior and fashion design. Our SWOT analysis is drawn from the initial results of our surveys on 17 respondents, including managers, designers, entrepreneurs, educators and policymakers from Hanoi and Ho Chi Minh City in the designated fields. The list of survey respondents is in Appendix 1.

Our preliminary findings suggest that while the country enjoys a number of strengths and opportunities for a thriving creative service industry, at least in the case of fashion and interior design, the challenges rooted from fundamental weaknesses are immense. We identify some of the key issues facing Vietnam, as the nation moves forward in an integrated global economy with increasingly sophisticated demands for creative goods and services. Our SWOT matrix is summarized in Appendix 2.

According to UNCTAD's Creative Economy Report (2010), "Design", including interior, graphic, fashion, jewelry, and toys, is classified as Functional Creations, which comprises the goods and services that are more demand-driven and services-oriented with functional purposes. Four out of seven UNESCO Cities of Design are in Asia (Kobe, Nagoya, Japan, Shenzhen and Shanghai, China). In the area of interior and fashion design, Vietnam is among the newcomers even compared with countries in the region. We will examine different factors that may affect the potential development of these designing services in Vietnam.

4.1. Strengths

Creative individuals

Vietnamese people from the ancient times were believed to be skillful, particularly with their hands, hence the existence of traditional handicraft villages has been persistent until now. There is an innate tendency to create something unique and different from what is seen and learned. Almost every respondent in our survey would agree that there is a large number of very creative individuals in the field of architecture, interior, and especially fashion design. One can go as far as saying "every Vietnamese is an artist". This creativity, however, exists and is more visible at the individual level.

Abundantly dynamic and talented youth

Vietnam has a population of nearly 90 million people. Over half of the labor force is under the age of 30. It is a country rich in labor and vigor, with great potential in services or any consumer markets. According to the most recent Population Census⁵, Vietnam has entered a period of "Golden Population", during which the proportion of

⁵Population Census 2009 Report, "Báo cáo kết quả chính thức, tổng điều tra dân số và nhà ở 1/4/2009," Ban Chỉ Đạo, Tổng điều tra dân số và nhà ở trung ương, July 2010.

children below 15 falls below 30%, and the elderly above 65 is below 15% of total population. With a population of over 86 million people, the numbers of people aged 15-65, the main contribution to our labor force has increased to nearly 70%. In other words, two thirds of the population is in their working ages, creating a young and abundant labor force for economic development activities. The textile and garment industry alone has employed over 3 million workers, of which over 1.3 million are industrial workers, taking up to 10 percent of the total industrial workers nationwide⁶.

Educators, managers, and senior designers often commented that there is a young Vietnamese generation of very passionate soon-to-be, or want-to-be designers. This group of young designers has a strong thrive for knowledge, which they seem not to get from arts schools or the traditional training channels. Many have taken up almost any opportunities to practice, either by working alongside with the more senior designers in an apprenticeship, or for learning-by-doing purposes. These young designers are said to have a lot of new and bold ideas. They are also very up to speed with the latest trends, are fully informed about discussions, events, and demands around the world. They are active seekers for opportunities to study abroad, participating in designing contests, or fashion events around the world. They are also very ambitious, with strong desires to become internationally known in the bigger world. If properly trained and motivated, over time with more experience and exposure, these young and energetic designers could be a great source of growth for the field.

Culturally valued details

One cultural characteristic has been an excessive focus on details, subtle sophistication, the best, the selected few, over massive production, or large quantities (“*quýhòitinhbátquýhồđã*”). This characteristic is pervasive across all service sectors, but are of particular importance to the designing industries. The attention and demand for detail, or detailed differences, serves every market segment, from low to high-end customers. There is a great strength in miniscule product differentiation that calls for creativity.

⁶Vietnam Textile and Apparel Porter, <http://www.vietnamtextile.org.vn>.

4.2. Weaknesses

An uneven playfield for SMEs

While garment, textile, and furniture manufacturing firms are mostly large ones with a lot of capital and support from the state, interior and fashion design firms are usually small. The competition for resources and support among large and small firms is a source of weakness for potential designing firms.

From 2004 to 2007, while the state sector has absorbed over half of the growth in capital, sales growth was much slower than other sectors, and job growth was negative. As a result, with such an impressive growth rate and export performance over the past two decades, Vietnam however does not have internationally competitive firms. Most export successes have come in the forms of agricultural products and raw materials, or the low-technology, labor intensive manufacturing industries. Vinatex is a reputable garment producer, but has not yet moved upstream to textile, and thus remains a low-skilled and lower-tier contractor to many other firms. These labor- and import-intensive large firms cannot compete in the global market until they find a way to move up the production chain to capture more value added.

Insufficient education and training

While there is a young, passionate, and dynamic generation of new designers, unfortunately they are not best equipped with a good training program. Almost every of our respondents acknowledged an insufficient training, the lack of professionalism, and the out-of-date materials that are mostly theory with very little, even out-of-date, practice. There is a weak linkage between the education and training curriculum, and the real demands from employers in practice. As a result, employers often have to “retrain” the new graduates. Even the educators from different universities share similar views, reflecting their limited capability in expanding knowledge, given a rigid framework that is barely up to date. Moreover, designing, whether in the forms of arts, architecture, or industrial designing, is a new field.

This problem is not new, and not specific to the design industry. It is difficult to exaggerate the problems facing Vietnam’s education at all levels. However, in an area with constantly evolving contents, which requires a large amount of hands-on practice, it is more important than any others to have faculty and training programs that reflect the “creativity” component outside textbooks. As a result, each designer receives small

pieces from his formal training, and picks up the rest from whatever opportunities he may find, through apprenticeships, short-courses, on-the-job training, or the internet. Those who can afford, or those who are lucky or talented enough to find scholarships for a program overseas could realize their potential through a period of time absorbing into an environment abroad. Many designers commented that it was not until they left the country, and came back, that they realize the tremendous potential, or creativity the Vietnamese endow. Unfortunately, but not surprisingly, not everyone who is trained overseas come back.

Lack of managerial capacity

There is a strong consensus among our respondents that while the workforce has very talented people at the individual level, we have not been able to bring them together and make a talented, productive team. There is a lack of professional management, insightful decision makers, and action takers. In some views, “good artists are not good managers,” or “managers do not speak artists’ languages.” Decisions are often made in an ad-hoc base, with little systematic or general assessment. Compounded with the lack of vision and strategies, firms with weak managerial capacity often function on a basis of “trial and error,” which can be costly. Contracts in both the input and output markets are being negotiated and evaluated on a case-by-case basis, formulating a fragile production unit. There is also a lack of communication skills, including foreign languages, even among the young managers.

As a result, the lack of effective team work continues to push designers to separate ways and work more or less in isolation. Ironically, business management is among the most flourishing fields in many universities, mostly private, in Vietnam. The quality of management has seemed to make very little progress.

Small businesses, not an industry

There is a strong desire among the artists that their products are not *arts for arts sake*, but that they are marketable as well. Creative entrepreneurs therefore are not hard to find. Many if not most of the very talented designers, both in fashion or interior décor, would have an independent business, functioning on a basis of small contracts with large corporations, or responding to individual demands. Since 2008, the British Council office in Ho Chi Minh City has organized frequent networking events for

artists, designers, and the creative entrepreneurs in the area. These events attract a large number of highly energetic, business-minded creative entrepreneurs who share a love for art, but are also seeking ways to marketize their talents. The number of small designing companies is no longer few and far between.

However, the market has not succeeded in scaling up these creative talents into large scale production. For the case of fashion design, large corporations are reluctant to sign contracts with “creativity” terms. For them, this item is hard to price, with a value hard to evaluate, so they are not ready or willing to invest time into an intangible, never-existed product such as “a new design”. Large garment corporations are still heavily dependent on a mass production of standardized products using original designs from clients. Their value added is simply the low assembly labor cost.

For example, according to the Vietnam Textile and Apparel Association 2010 report, Vietnamese textile and garment exports are 60% CMT, 38% FOB, and 2% ODM⁷. The total value added from textile and garments is only 25% of total exports value (\$11.2 US billion in 2010), with a profit margin of 5-10%, and 70-80% imports of input materials.

As a result, the design industry has limited capacity to compete without achieving economies of scale. Small businesses has a limit to self grow, and large corporations are not willing to expand their creative components of production. Designing is costly, and until the full cost can be shared, there is a socially suboptimal level of investment in creativity businesses. At least for the design industry in Vietnam, it is possible that the story of the 1990s as Hobday (2003)⁸ mentioned still carries on to the 2000s.

⁷CMT (Cut Make Trim) is the most basic form of garment manufacture, where garment firms are provided all input materials and designs from foreign buyers, and would only carry out the most labor intensive tasks of cutting and tailoring. Under FOB (Free on Board), the garment firm is responsible for obtaining fabrics, with fabrics accounting for between 50-80% of the final FOB price, but still use the foreign firms’ designs. ODM (Own Design Manufacturing) is the highest production modality, where Vietnamese producers would design their own products and purchase their own inputs.

⁸Mike Hobday (2003), “Innovation in Asian Industrialization: A Gerschenkronian Perspective,” Oxford Development Studies, Vol. 31, No. 3, September 2003.

Table 10: Technological Progress in South East Asia

| | Singapore | Malaysia | Thailand | Indonesia | Vietnam |
|--------------|---------------------|---------------------|---------------------|---------------------|----------------|
| 1960s | Assembly | | | | |
| 1970s | Process engineering | Assembly | Assembly | | |
| 1980s | Product development | Process engineering | Assembly | Assembly | Assembly |
| 1990s | R&D | Product development | Process engineering | Process engineering | Assembly |

Source: Hobday (2003)

For the interior design industry, similar story holds. Small businesses have less capacity to upgrade to the most recent technology, or experiment with new material inputs. The construction project bidding process hardly cover a new or creative interior design that is home-grown. As results, consumers would choose between a low-cost, existing design, or a high-cost, imported design from abroad. There is very little room to industrialized new designing ideas.

Poor supporting industries

Vinatex, the state-owned national textile and garment corporation, claimed to take up 80% of Vietnam's capacity in spinning, 50% in weaving, knitting, dyeing and finishing, and 45% in garment production. Among over 40 of Vinatex's member firms, 22 only manufacture garments, while 14 of the 18 textile firms produce garments as well as fabrics⁹. According to the designers, however, the limitations in the supply of high quality fabric is a major weakness holding back the fashion designing industry. Fabrics are critical to the final cost and quality of a garment item. The domestic market has not provided the quality products that serve designers' need. Imported fabrics, on the other hand, could come cheaply from China, or more expensively from Japan and other countries.

⁹Nadvi and Thoburn (2003), "Vietnam in the global garment and textile value chain: implications for firms and workers," DFID Globalisation and Poverty Programme Working Paper.

Similarly in interior design and home furnishing, there is a very limited selection of quality input materials from domestic markets. Most designers rely more on the international markets, with different levels of tolerance for costs, import taxes and procedures, as well as the long periods of time it takes to process orders. The lack of a strong support for input materials is a major drawback, remarkably weakening the competitiveness of both design industries.

Ineffective associations

Most of our respondents are either not aware of the existence of any business associations in their field, or commented that these associations only functions intermittently, with little effects. Most forums or meetings organized by these associations are on the basis of information and experience sharing, informal recruiting channels, or business idea exchanges. There is little connection between the associations and universities, and the market. These business associations have not been able to “connect the pearls”, relating individual talents across the country to help forming a coherent strategy for the industry development at a broader level. In short, associations play almost no impacts in enabling small private designing firms in becoming more competitive, generating information about export markets, supporting research and development. As a result, the many small but dynamic companies continue to struggle on their own.

4.3. Opportunities

Information inflow from media and social networks

Being open to the greater market outside means a great strength for the designing industries. In the case of fashion design, the international market plays an important role in informing domestic designer what the world population are demanding, and how domestic young people respond to social trends. For interior design, new ideas for designs and materials come more from the interaction with the outer world and social networks. This openness to the outside world is also evident in the rapid growth of internet usage in Vietnam. In the last ten years, from a Vietnam where almost no one has access to the internet, now at least over a third of the population has been accessing the internet resources. The majority of internet users are the young (aged 15-30).

Table 11: Internet Usage and Population Statistics

| YEAR | Users | % Pop. |
|-------------|--------------|---------------|
| 2000 | 200,000 | 0.3 % |
| 2005 | 10,711,000 | 12.8 % |
| 2007 | 16,737,129 | 19.7 % |
| 2008 | 20,669,285 | 24.0 % |
| 2009 | 22,779,887 | 25.7 % |
| 2010 | 24,269,083 | 27.1 % |
| 2011 | 30,248,846 | 34.8 % |

Source: Vietnam Internet Center (VNNIC, <http://www.vnnic.vn/>)

Similarly, there have been impressive progresses and developments in the Vietnamese media market in all forms. The press has played an increasingly important role not only in delivering news and information, but also serves as a forum for debates about social, economic, and political issues. Radio and television programs have also gone through rapid changes, delivering the most updated worldwide news and information. As discussed earlier, the cost of having internet connection has gone down so dramatically and the network effects are so vast that almost anyone could be online. There are still debates about the amount of freedom, or the unintended consequences of the increased openness in public media. But it is hard to deny that a more open media market brings in the latest information and knowledge about suppliers and demanders worldwide. This is a great opportunity for the functioning of any market.

Vibrant domestic markets

As a result of economic growth, the standards of living for many people in Vietnam have improved. Families have more resources to invest in educations, health, and social activities. There are fewer people who have to care about having enough to eat and to wear. Many households have choices about the quality of goods and services they consume, and they spend more on recreational activities, or products of quality or style. As more people can afford to read books and magazines, buy a cell phone, be online, go

to movies, or spend time socializing at home or outside, their demands for design intensive products go up. As people care more about how they look, and if their home is comfortable and cozy, opportunities for interior and fashion designers are becoming more abundant.

Demanding international markets

The increasingly demanding market for sophisticated products is a great opportunity for Vietnamese designers. Together they create a “high-end” segment of the market, in which firms compete by brand-names, new ideas and designs, with cultural characteristics. Many firms have started having their office or showrooms in Singapore, Japan, and some countries in Europe. Higher demands from international markets create a great incentive for Vietnamese designers to reach out and “learn to serve” the high-end customers. Demand creates supply, and improves firms’ capacity to invest more in productivity and differentiation. The demand for sophisticated products also forces designers to revert to the unique styles through cultural characteristics.

4.4. Threats

Cheap labor

Many investors when considering Vietnam in their investment portfolio puts “cheap labor” as a score of attractiveness. This is becoming a threat instead of a source of strength especially for the creative industries. When investors come to Vietnam for the cheap labor, they may have exhausted all other options, and Vietnam becomes a “producer of last resort.” There is very little room left for creativity cultivation, demands for products that are skill intensive. There is simply very little resources devoted to the development and marketing of new design ideas.

Such types of low cost investments result in garment factories chronically in labor shortages, high labor turnover rates, of factory workers suffering from low wages and poor working conditions. Wages and compensations paid for workers in these factories cannot attract talented designers who work for ideas. Attracting foreign investments with cheap labor is a threat to the development of a skillful labor force, and prevents the economy from producing more sophisticated products in larger units.

High costs of doing business

For all businesses, especially small and medium enterprises, infrastructure is one major contributing factor to the high costs of doing business in Vietnam. Despite a high level of investment, Vietnam is still undergoing various infrastructure bottlenecks. The design industry is both directly and indirectly affected by the public provision of electricity, water, and transportation. Vietnam yet cannot produce enough electricity to power the country's major cities and industries without seasonal rolling blackouts and other interruptions.

Besides a lack of access to capital and land, small businesses may find it difficult to form partnerships and trade across national boundaries. Many of our respondents commented that they needed to take great efforts in forming connections and business network overseas. It was further suggested that support from a business association in this matter would be valuable, especially with during the early phase of development for small designing businesses.

Global competition and China

Vietnam continues to run large trade deficits with China. Compared to other countries in the region, Vietnam's trade deficit with China ranked highest in absolute terms and has grown at an alarming rate. A close look at the specific commodities imported from China reinforced many problems identified earlier for the designing industries, such as supporting machinery and materials, including textile yarn, fabric, clothing and accessories.

Table 12: Top Ten Vietnam Imports from China

2007/09 three year average, USD millions

| | |
|----------------------------|-------|
| Textile yarn, fabric | 1,927 |
| Iron and steel | 1,858 |
| Telecom sound equipment | 1,031 |
| General industry machines | 856 |
| Petroleum, petrol products | 773 |
| Road vehicles | 712 |
| Electrical machines, parts | 693 |
| Power generating mach | 628 |
| Special industry machines | 587 |
| Clothing and accessories | 507 |

Source: UN Comtrade

While the market is full of “cheap Chinese goods”, protection is clearly not a solution. Only when domestic firms can improve their competitiveness, by making and producing differentiated products, with high quality and trusted brand-names, can the designing industry find a position in the global market, attracting international demands. Interestingly, many of our respondents were still looking for some “protection” from the state, either in the form of tax subsidy or trade tariffs. When the mindset that the government needs to protect an infant industry is still imbedded in many business leaders, it will be a great challenge for the state to create a playground that fosters competition and a healthy development of creative service markets.

A “creativity is free” mindset

In many Vietnamese people’s mind, creativity is a godsend, some people have it, some others do not, and no one should have to pay for it. The idea of “creative products,” or “marketable creativity” is not new, but bringing creativity to the market is a learned process.

Added to this challenge is a problem of “a nation in rush.” Vietnam is among the countries with very high saving rate (over 40% of GDP). As a result, one would expect a lot of resources could be mobilized for investments. However, most investments in Vietnam has relatively short life cycles. People prefer to reap the rewards quickly, and tend to invests in goods or services with high returns in the shortest time. Much investment therefore has been put in real estate, the stock markets, or more recently, gold and dollars trading. Long term investments such as education, health, and especially research, innovation activities, are the last items on the desired investment list.

Racing to the bottom

The pressure to compete with cheap products abroad, especially China, may force domestic firms to join a “race to the bottom” and compete by price. When costs are cut, something has to go, and most likely that is quality, and the willingness to invest in new designs. Firms and businesses end up delivering low price, low quality products. Firms advertise themselves and take great pride in being “the cheapest,” not “the best.” As a habit, consumers are not faithful to any brand-name, they continue to seek cheap products if that is the only differentiation firms are making. Businesses cannot rely on cost cutting strategies, and certainly market competition will not sponsor a long-term designing capacity building. As designers seek ways to create the cheapest products, quality, reputation, brand-names will be the trade-off. Large corporations will continue to struggle to move out of FOB into ODM production mode. As a result, workers are trapped in a production cycle using only low-skilled labor and cheap inputs. That is exactly the suicidal recipe for the creativity business.

This section presents some preliminary results from our examination into the interior and fashion design services in Vietnam. We identify some of the issues facing Vietnam as we enter a new phase of economic development, and respond to a set of new demands for sophisticated, skill-intensive goods and services. This analysis sets out the key strengths, weaknesses, opportunities, and threats over the medium to long period. Rather than cataloging all of the challenges or opportunities facing Vietnam, we have focused on issues that we believe deserve policy attention, both at home and from a regional viewpoint. The next sections will discuss the policy recommendations that

could foster the development of the design industry, and creative services in general, for Vietnam.

5. Policy Recommendations

Policy to foster the development of the creative economy must recognize its multidisciplinary nature – its economic, social, cultural technological and environmental linkages. Key elements in packages to shape a long-term strategy for the creative economy should involve concerted inter-ministerial actions to ensure that national institutions, a regulatory framework and financing mechanism are in place to support the strengthening of the creative and related industries.

At the national level, some following policy should be paid attention, including:

- Improving the supporting infrastructure for the fashion and interior design: regulatory framework, development strategies, and supporting policies;
- Creating significant step in trade promotion, such as establishing wood products and furniture storage at the targeted market, buliding a network of sales or direct sale in those market;
- Increasing awareness and advocating for having better understanding of the industries
- Enhancing the linkages between creative industries (fashion and interior design) with financial sector for having better investment opportunities
- Developing support program for enterprises in designing for interior industry
- Enhancing the implementation of Law on Intellectual Property Rights to facilitate the international trade and to protect the right of knowledge.

- Protecting the basic cultural resources for ensuring the culture and creative industries
- Promoting supporting policies and encouraging the development of SMEs
- Closer link a between education and practical production
-

At the regional level:

- Soft and hard infrastructure
- Information exchange and knowledge sharing
- Common fund for supporting the new ideas and creation and for networking

Appendix 1

List of Survey Respondents

Fashion Design

1. Công ty TNHH Thời Trang Song Nam (MASCHIO)
2. Công ty TNHH thiết kế và kinh doanh thời trang ACQUA GUSTO
3. VC Modeling
4. Công ty TNHH Nguyễn Công Trí
5. Tiến Lợi's House
6. Viet Tien Garment Corporation
7. ADS International Design & Art Center
8. Công ty TNHH Quỳnh Paris
9. British Council

Interior Design

1. University of Architecture, Ho Chi Minh City
2. Van Lang University, Department of Industrial Arts, Ho Chi Minh City
3. Institute of Architecture, Association of Architects, Vietnam
4. Công ty TNHH Lũy Tre Làng
5. Công ty TNHH Đạt Sanh (Sanh Decor)
6. Công ty cổ phần xây dựng kiến trúc AA (AA Decor)
7. Tập đoàn Vingroup (Vingroup)
8. Công ty cổ phần Bethoda

Appendix 2

SWOT Matrix – Interior and Fashion Design Services in Vietnam

| STRENGTHS | WEANESSES |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Creative individuals</p> <p>Abundantly dynamic and talented youth</p> <p>Culturally valued details</p> | <p>Uneven playfield for SMEs</p> <p>Insufficient education and training</p> <p>Lack of managerial capacity</p> <p>Small businesses, not an industry</p> <p>Poor supporting industries</p> |
| OPPORTUNITIES | THREATS |
| <p>Information inflow from media and social networks</p> <p>Vibrant domestic markets</p> <p>Demanding international markets</p> | <p>Cheap labor</p> <p>High cost of doing business</p> <p>Global competition and China</p> <p>A “creativity” mindset</p> <p>Racing to the bottom</p> |