

Laos Textile and Garment Industry Profile

The Lao textile and garment sectors must be looked at from the context of the nation's status as a least developed country. The industries are critical not just because of the revenue they bring in, but also because of the job opportunities for the country's 6.9 million people. Laos is blessed with an abundance of natural resources, but its annual per capita income is still only US\$850.

“Most Lao people, particularly rural dwellers, still live under the poverty line. By that I mean they have an income of less than \$2 per day,” said Xaypaseuth Phomsoupha, Mines and Energy director-general for Laos.ⁱ

Growth in the Lao textile and garment industry has been impressive from a base of only two companies in 1990 to 116 in 2006 employing 30,000 workers.ⁱⁱ Laos became a market-oriented economy in the mid-1980s, meaning it had a short learning curve to pick up the basics about the industry.

Foreign direct investment (FDI) and joint ventures control much of the market. FDI companies created 13,703 jobs (63% of garment jobs) in 2007, purchased 9,130 machines (59% of the total for the garment sector) and produced 28.9 million pieces (58% of the total) in the export-oriented garment sector.ⁱⁱⁱ

Garment manufacturers concentrate on producing low value-added items, as several factories work only on a cut, make and trim basis. Brand owners in Western countries often place an order with an agent in Hong Kong, who will divide production among suppliers in the region based on production capacity. Its limited capacity puts Laos at a disadvantage and is why some donor agencies are frustrated that the industry has not evolved.^{iv}

Garment exports reached a peak of \$189 million in 2008, with the bulk going to the European Union (\$149.7 million) and the United States (\$27.6 million). The EU is by far the main destination for the country's clothing exports, though shipments to the US have grown recently, perhaps because the textile and garment industry enjoys export tax preferences from the latter.^v In 2008, the EU accounted for 79% of total exports, the US 14%, Japan 2%, Canada 2% and other countries 3%, as seen in Table 1.

As a Least Developed Country, Laos is granted duty-free and quota-free access to certain Developed Countries under the Generalised System of Preferences (GSP). However, most clothing factories are unable to take full advantage of this preferential market access because of strict rules of origin related to local content requirements.^{vi} The garment industry is highly dependent on imported fiber, yarn, and fabric for assembling finished

garments which are then re-exported. In order to fulfill the GSP requirements of the EU, a factory has to have local content worth more than 50% of the total production costs.

Effects of the 2008-2009 Global Financial Crisis

The industry is almost entirely dependent on exports and foreign investment plays a dominant role in production, so the global economic crisis was bound to hurt the sector's progress. Garment exports dipped to \$79 million for the first six months of 2009, and only reached \$78 million for the same period of 2010.^{vii}

The drop in the US dollar's purchasing power led to a dip in Laos apparel exports to the US, and the EU had reduced demand because of its own economic worries.^{viii}

Chinese labor costs rising up to 30% has also shifted more production to countries with cheaper wages like Laos, said Onesy Boutsivongsakd, president of the Lao Garment Industry Association.^{ix}

"Although there has not been any new investment in the Lao garment industry this year we are beginning to receive more orders as a result of the rising labor costs in neighboring countries," said one Association official, adding that orders had risen by 15% in the third quarter of 2010.

China dealt with the crisis better than other major economies and continued to grow, leading to wage increases. Meanwhile, the Lao garment industry will struggle to cope with this sharp rise in business because of a labor shortage. "We will need about 6,000 additional workers to increase output," said the Association official, pointing out that many people do not actually want to work in the factories due to rising inflation.^x He said Lao garment firms would not be able to increase pay for workers as this would in turn push up product prices and put the Lao garment industry at a disadvantage on the international stage.

"Despite the growing value of the kip against the US dollar and Thai baht, the price of rice and other foods has risen steeply," he said.

Strategy for the Future

Because the garment and textile sector brings so much export revenue and provides needed employment to the country, the Lao government selected textiles as one of eight priority industries in the development of the economy, as well as one of 11 priority sectors to be integrated into ASEAN.^{xi}

Although the market is dominated by foreign investment, small Lao-owned companies are important because of the more than 4,000 jobs they create and their markedly higher productivity than joint venture enterprises.^{xii} The annual worker productivity for Lao

companies is 3,967 pieces per worker compared with 1,296 pieces per worker for joint ventures. Even accounting for total production capacity divided by the number of machines used, the national companies beat the joint ventures, 3,161 to 1,565.^{xiii} However, some Lao girls are forced to start earning at an early age – even as early as eight years old, as soon as their feet touch the foot pedals of a weaving machine – because of economic circumstances.^{xiv}

The majority of Lao-owned companies (64%) plan on paying more for skilled, diligent and productive workers and diversifying products to increase their competitiveness, but a more useful option may be to increase the skills of current workers as more productive workers are not easily available.^{xv}

Some joint ventures are starting to make a difference in the lives of the (mostly female) weavers who work there. Ock Pop Tok, for example, is a textile center in Luang Prabang that has 48 employees and is looking to expand. The national annual per capita income is US\$850, but weavers at this center make between \$300 and \$600 every month.^{xvi}

Around 80% of the textiles produced by Ock Pop Tok are sold in Laos, but the company has plans to target the international market as well.

Mr Noulack Phounmalay, Director of Administration of the Association of the Lao Garment Industry (ALGI), noted the Association is cooperating with Cambodia and China to indirectly increase its exports to EU countries.^{xvii} Both countries monopolize a major chunk of the garment and textile market in Europe.

The EU has also made an announcement that gives Laos trade priorities in order to help its economic development.^{xviii} And import quotas ended with the resolution of the Doha Round of negotiations for the World Trade Organization in 2005, meaning Laos needs to foster market access in new regions.^{xix}

Intra-ASEAN Integration

Intra-ASEAN trade in textiles and garments has been weak for Laos, as shown in Tables 2 and 3. The main Lao export to ASEAN countries was jute and other textile fibers at \$239,000 in 2008, though its levels have varied widely since 2001, indicating that industry has not achieved sustainable growth. Exports of cotton, not carded or combed, to the region have grown from 2001 to 2008, but still remain relatively minor at \$182,000 in 2008, as shown in Table 2.

By far Laos' main import from ASEAN is woven cotton fabrics with over 85% percent cotton, registering \$19.95 million in 2008. Some 97% of those imports are from Thailand, with

Vietnam supplying most of the rest. The next largest import is woven synthetic staple fibers mixed with cotton, listed at \$5.07 million, as shown in Table 3.

Clearly an opportunity exists for Laos to integrate more fully within ASEAN, perhaps in tandem with the Source ASEAN Full Service Alliance (SAFSA), which encourages the development of virtual vertical factories by combining downstream material suppliers with intermediate and upstream suppliers to provide buyers full service and speed to market.

Thailand's similarity in language and geographic location offer investors in Laos' garment industry a comparative advantage.^{xx}

Strengths, Weaknesses, Opportunities and Threats

The undoubted main strength of the Lao market is its low labor costs. This is the main reason for the industry's growth as primarily Thai, Chinese and Taiwanese investment has looked to take advantage of this cheap labor. But given this is Laos' main strength, others also cite it as a weakness as investors will look elsewhere if and when labor costs increase.^{xxi}

Laos recently raised the official monthly minimum wage to \$50, though in the garment industry the average is closer to \$60-70. Despite a claim by the Lao Garment Industry Association that wages for Lao workers are high compared to Vietnam, Cambodia and Bangladesh, no data was found to support that statement and Laos is widely regarded as having some of the cheapest labor in all of Asia.^{xxii}

As a Least Developed Country, Laos also benefits from preferential tariffs in many Western markets.

A major weakness for the industry is its reliance on imports. It would be difficult for Laos to add much value to its products even if it had the ability. This weakness would be mitigated if Laos were to become more integrated in ASEAN and more specialized.

Other weaknesses include a small domestic market, limited production capacity of intermediate goods in any industry, low levels of basic education, a scattered population and a small workforce, and the high cost of transportation because the country is landlocked.^{xxiii} Most goods have to travel to ports in Bangkok or Da Nang, Vietnam, putting garment suppliers at a disadvantage because of the added cost.

Though Lao garment workers make less in hourly wages than its competitor countries such as Cambodia, China, Bangladesh or India, their productivity is also much lower. ALGI reports the average Lao garment worker produces 2,303 pieces per year compared to the average Chinese worker at 7,500.^{xxiv}

The industry’s excessive lead time is also damaging its competitiveness, as it takes 70 days in Laos from the time an order is placed to the delivery of a finished product while the industry standard is 30-45 days. This is due to its distance from major markets, a lack of supporting industries, and inefficient inland facilities.^{xxv}

The main opportunity lies in Laos joining with other ASEAN countries to offer quality products quickly as the region works to become a united economic entity by 2015. SAFSA hopes manufacturers in the region will be able to form virtual vertical factories, and this has particular relevance for a landlocked country with high transportation costs such as Laos. But this would require major infrastructure investments and an ASEAN single-window agreement to ensure an efficient flow of materials and goods into and out of Laos.

As Phongsak Assakul, chairman emeritus of the ASEAN Federation of Textile Industries put it: “Speed to market is the most important thing in the global fashion industry at the moment as fashion changes quickly with new designs coming out every one to two weeks. Price is not the first priority anymore.”^{xxvi}

A potential threat is that both the Lao government and foreign investors have been lax in upgrading the machines and skills of the workers, leaving the industry less competitive if trade preferences were ever terminated.

The labor turnover rate for both temporary and permanent staff is 40-60% a year in Laos’ garment industry, another drain on productivity and additional cost to the producer.^{xxvii}

Table 1: Lao garment exports, main partners, 2004-2008

	2004	2005	2006	2007	2008
Exports (millions of pieces)	31.9	33.5	35.6	42.1	61.1
Exports (US\$m)	131.7	144.9	151.2	152.8	189.7
EU	120.6	131.9	142.1	122.2	149.7
US	2	2	4	22.9	27.6
Others	9.1	11	5.1	7.7	12.4

Source: ALGI

Table 2: Lao exports to Asean countries excluding Burma 2001-2008 (US\$'000)

Product label	Lao exports to ASEAN							
	2001	2002	2003	2004	2005	2006	2007	2008
Jute & other textile bast fibers (not flax, true hemp, ramie), raw, pr	142	41	163	290	359	413	86	239
Cotton, not carded or combed	10	18	42	32	26	22	168	182
Fabrics, knitted or crocheted, of a width of > 30 cm (excl. warp knit fabrics ""incl. thos	-	-	-	9	19	8	25	143
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	92	181	6	16	26	7	15	94
Silk yarn (other than yarn spun from silk waste)	11	51	158	67	77	34	149	62
Carpets and other textile floor covering tufted	-	-	-	-	-	-	-	55

Source: UN Comtrade statistics

Table 3: Lao imports from Asean countries excluding Burma 2001-2008 (US\$'000)

Product label	Lao imports from ASEAN							
	2001	2002	2003	2004	2005	2006	2007	2008
Woven cotton fabrics, 85% or more cotton, weight less than 200 g/m2 (hd5208)	8,169	9,060	10,300	11,797	12,567	13,092	13,796	19,952
Woven fab of syn stapl fib (> 85% of such fiber), mixed with cotton	879	461	159	358	1,105	1,763	6,149	5,074
Woven fabrics of synth. filam yarn	3,288	4,551	6,340	6,503	4,952	5,525	4,033	4,480
Silk yarn (other than yarn spun from silk waste)	17,681	11,258	5,266	8,479	9,677	6,487	6,154	3,665
Woven fab of syn stapl fib (< 85% of such fiber), mixed with cotton (wt	477	1,026	1,886	1,204	1,411	1,557	1,848	3,028
Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2 (hd5209)	6,289	4,654	6,099	6,455	5,121	4,940	4,816	2,962
Knotttd nettg of twine, cordage/rope made up fishg nets	220	187	199	497	1,220	2,184	2,802	2,276
Synthetic filam yarn, not put up	9	60	251	1,048	935	1,356	1,563	1,907

Source: UN Comtrade statistics

SWOT Analysis

<p>Strengths:</p> <ul style="list-style-type: none"> +Low labor costs +LDC tariff benefits in many Western markets 	<p>Weaknesses:</p> <ul style="list-style-type: none"> -Low worker productivity, excessive lead time -Dependent on fabric imports, foreign investment and export demand -Limited production capacity, small and scattered population, lack of education, small domestic market -High transportation costs in a landlocked country
<p>Opportunities:</p> <ul style="list-style-type: none"> +ASEAN integration would allow Laos and other countries to cooperate and produce competitively priced garments quickly +Chinese growth and production costs ensure it will look for cheaper locations 	<p>Threats:</p> <ul style="list-style-type: none"> -Reliance on exports and foreign investment make it vulnerable to financial crises -Fierce competition from Vietnam, Bangladesh, Cambodia and India -Failure to upgrade machinery and worker skills

Source: South East Asia Textile Business Review 2009 (1st edition)

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