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BUSINESS

# Why the TPP Trade Deal Isn't All Good for Vietnam's Factories

***Vietnam is poised to be the biggest beneficiary of the 12-nation pact, but for the country's manufacturers, there are downsides.***

By **KATHY CHU**

Updated Oct. 21, 2015 12:14 a.m. ET

The landmark 12-country Trans-Pacific Partnership trade deal could bring more business to Vietnamese manufacturers, but there is a potential downside: higher labor costs and strained production at the country's factories.

Over the past decade, manufacturing labor costs in Vietnam have more than tripled to $1.96 an hour, including benefits, although costs are still much less than China's $3.27 an hour and the U.S.'s $37.96 an hour, according to the Economist Intelligence Unit.

Stanley Szeto, the chief executive of Lever Style, a Hong Kong-based firm that manufactures shirts and pants for brands from Hugo Boss to J. Crew, says he's "not very excited" about the trade pact because any surge of investment could make it more expensive to manufacture in Vietnam.

"Costs will go up and it'll be harder for everybody to get capacity" at factories, says Mr. Szeto, a former investment banker who took over the family business from his father in 2000. "Labor (procurement) is going to be more competitive."

In the past five years, Lever Style has moved a quarter of its production from China to Vietnam, paring its China workforce nearly 50% to 3,000 employees in the process. The manufacturer says it hasn't been able to move to Vietnam faster because factories in the country still lack the know-how to manufacture a sophisticated jacket or shirt.

Although the TPP is expected to eliminate tariffs between members on items such as clothing, contract manufacturers in Vietnam are likely to see little of those savings if the pact goes through, says Mr. Szeto.

That is because generally, global brands—not manufacturers—pay the cost of import duties under an arrangement where responsibility for the goods passes to the buyer once the products are shipped. So the elimination of tariffs reduces costs for brands rather than manufacturers.

Manufacturers can negotiate with global brands a higher price for production once the trade deal goes through to share in the cost savings, according to Roger Lee, chief executive of TAL Group, which makes 1 of every 6 dress shirts sold in the U.S. for brands from Banana Republic to Brooks Brothers.

But global brands would only consider this if they have a large amount of production concentrated with one manufacturer, according to Mr. Lee. Manufacturers that don't keep prices as low as possible also risk losing business to others that do, he said.

Still, manufacturers in Vietnam would benefit from the TPP because global brands will likely choose to source more from the country, boosting volume for factory operations there, says Adam Sitkoff, executive director of the American Chamber of Commerce in Hanoi, a membership group for U.S. companies.

"The idea that saving 10 cents because of lower tariffs means the 10 cents just goes into pockets of the global brands is not really how it works," says Mr. Sitkoff, noting that manufacturers benefit from increased production in the country.

Avery Dennison, a Glendale, Calif.-based producer of labels and packaging materials that opened a 300,000 square-foot facility in southern Vietnam this year, says it doesn't see the trade pact as a way to cut its costs in the country.
"It has always been about the growth opportunity it creates and ensuring that we are in a competitive position to capitalize on the opportunity," says Frank Smigelski, a vice president in Avery Dennison's retail branding business.

**Write to** Kathy Chu at kathy.chu@wsj.com

# Why You May Soon See More Goods Labeled 'Made in Vietnam'

**Vietnam's production of goods like clothing and footwear are likely to grow if the U.S. and other countries ratify the TPP**

By **KATHY CHU**

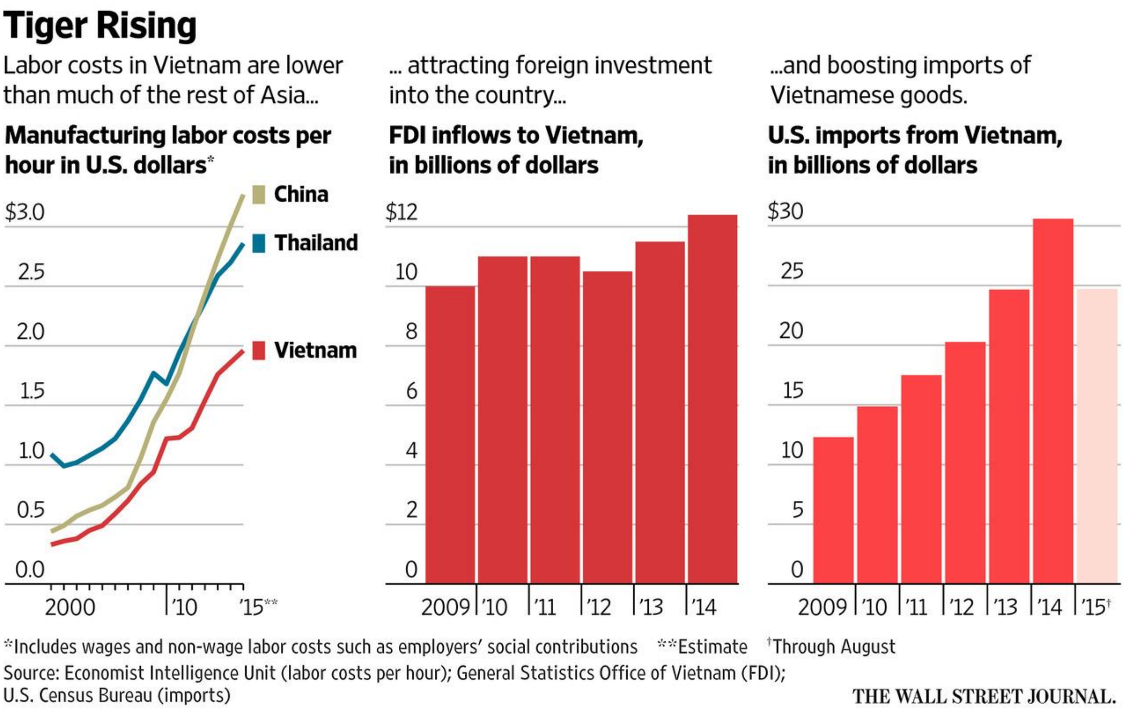
Updated Oct. 18, 2015 7:49 p.m. ET

LONG AN, Vietnam—This rural expanse of pineapple fields and mango trees south of Ho Chi Minh City is a good place to see how the winds of global trade are shifting.

Already, massive factories have sprung up here to make goods for Western companies such as sportswear maker Nike Inc., taking advantage of Vietnam's young workforce and wages that are roughly half those in China.
This largely agricultural province, located near Vietnam's most populous city, now has more than a dozen industrial parks, and is playing host to an increasing amount of manufacturing. By May, it had attracted pledges of $3.67 billion for foreign investment, about 40% of it for the garment and textile industry.

Economists say this growth could accelerate if the U.S. and 11 other Pacific Rim nationsratify the Trans-Pacific Partnership agreement, a landmark trade deal concluded earlier this month. The deal would eliminate certain tariffs between members, mostly benefiting developing nations such as Vietnam and Malaysia, whose growth depends heavily on exports.

The trade agreement would be "fantastic if it happened," says Frank Smigelski, a vice president at Avery Dennison Corp., one of the world's biggest makers of clothing labels and tags. In July, the company, which is based in Glendale, Calif., opened a 300,000-square-foot facility in Long An. Inside, sewing-machine-like contraptions print tags for Japanese clothing brand Uniqlo, while workers pour red ink into giant machines that print the labels sewn into North Face outdoor-sports clothes.




The TPP "would encourage more garment manufacturers to push volume here," says Mr. Smigelski. "The more they come, the more we'd benefit."

Skyrocketing wages and a growing labor shortage in China are heightening Vietnam's appeal. The country's growth has waxed and waned since the 1980s, when its leaders ushered in an era of market-oriented reforms.

Last year, foreign direct investment into Vietnam totaled $12.4 billion, up nearly a quarter from 2009. One of the biggest investors is South Korea's Samsung Electronics Co., which plans to nearly double its current $4.5 billion investment in manufacturing electronics in the country.

If the trade deal goes through, Vietnam's economy would be the single largest beneficiary, because it would gain much greater access to large consumer markets, according to the Peterson Institute for International Economics, a Washington-based think tank.

The pact "gives those inside privileged access to the U.S. and Japan," said Chris Clague, a senior consultant at the Economist Intelligence Unit.

The Vietnamese government estimates that TPP could boost Vietnam's economy by $33.5 billion during the next decade, roughly a fifth of the country's current gross domestic product. Exports from its key garment and footwear industry, one of the biggest TPP beneficiaries, could jump 46% to $165 billion by 2025 as tariffs gradually fall to zero, the Peterson Institute says.

Money pouring into the Southeast Asian economy could make Vietnam one of the world's two fastest-growing large economies between now and 2050, along with Nigeria, if overall trade restrictions continue to lift, according to consulting firm PricewaterhouseCoopers.
In Long An province, Avery Dennison's gleaming three-story factory, located in an industrial park dominated by Japanese and Korean investors, is preparing for a surge in orders for garment-care tags, labels and price tags.

Down the street, dozens of concrete homes for factory workers are sprouting among the tall weeds that still cover parts of the area, a sign that other manufacturers are coming here too.

The Long An facility should give Avery Dennison room to grow through 2020, but the company will consider expanding if apparel production surges because of the trade deal, Mr. Smigelski says.

How much Avery Dennison and others in Vietnam's apparel industry benefit from the trade deal will depend on the final details.

Many analysts expect the deal to require that everything from yarn to the final garment itself come from member countries in order to qualify for the elimination of tariffs, a stipulation favored by U.S. yarn and textile producers.

Such a rule could leave manufacturers scrambling to comply since Vietnam imports most yarn and fabrics from China and other countries that aren't part of the pact. In the long term though, a strict local-content rule could push even more apparel-making business to Vietnam if yarn and fabric weavers are forced to set up in the country, Mr. Smigelski says.

Avery Dennison has begun to do more sophisticated manufacturing in Vietnam, using giant looms to produce Nike's lightweight shoe uppers. A machine with yellow and green harnesses holding spools of yarn makes a deafening click-clack sound as it rapidly imprints a silhouette of a leaping Michael Jordan on the high-end shoes, which retail for about $200 a pair.

The skills of Vietnamese workers are increasing exponentially every year, and the country is able to accommodate ever more complex production, according to Avery Dennison.

"What took 30 years in China is taking 10 years in Vietnam to happen," said Mr. Smigelski. That is why "more and more companies are making bets on Vietnam."—*Vu Trong Khanh in Hanoi contributed to this article.*

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**QUESTIONS FOR DISCUSSION:**

1. What is the benefit of the Trans-Pacific Partnership to foreign firms that locate manufacturing facilities on Vietnam? What is the benefit of the Trans-Pacific Partnership to foreign firms that continue to manufacture in China?

2. What is the benefit to Vietnamese workers of the TPP? What is the potential downside of the TPP to manufacturers currently producing in Vietnam?

3. What is the effect of the TPP on China?