

FASHION IN VIETNAM MARKET

BRIEF NOTE



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Ministero degli Affari Esteri
e della Cooperazione Internazionale

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BRIEF NOTE

1. OVERVIEW ABOUT LOCAL MARKET

According to the General Statistics Office of Vietnam, the GDP growth rate of the country maintained over 6% since 2015 and even exceeded 7% in 2018 and 2019. In 2020, accompanied by China and Myanmar, Vietnam is one of three countries in Asia which had positive growth rate, at the same time the economy scale reached over 278 billion EUR, passed Singapore (273 billion EUR) and Malaysia (272 billion EUR). GDP in 2021 increased by 2.58% compared to the previous year because the Covid-19 epidemic has seriously affected all sectors of the economy, especially in the third quarter of 2021, many key economic localities have to implement social distancing measures to prevent the spread of the epidemic. The total population was over 98 million people last year, in which the emerging middle class is expected to reach 56 million people by 2030, according to a study by World Data Lab (UK).

As Vietnam reduced its reliance on agriculture, the manufacturing sector has become an important pillar in its modern economy. The Vietnam fashion sector is probably known by the world by its world-class manufacturing capability. Vietnam becomes the second largest garment exporter in the world, just after China. Next to apparel export, the domestic consumer spending on clothing and footwear has been growing fast, thanks to the improving living standards of Vietnamese.

Vietnam Industry Research and Consulting Joint Stock Company (VIRAC) in a recent report said that domestic fashion enterprises have long lost their competitive advantage with international brands. The reason is due to poor design and small scale. Although there have been many improvements over the years, the activities of Vietnamese fashion enterprises are still mainly on processing. Exported textile products are still heavily processed and exported under the names of foreign brands. International brands focus on mid-range and high-end segment and expand their supply networks in two big cities, Ho Chi Minh City and Hanoi, where wealthy consumers have an upper-class lifestyle, and consider following fashion trends extremely important.

Italy, one of the leading countries in the high-end fashion, is famous for its elegant and sophisticated style, the use of breakthrough materials, especially leather and silk, with simple but skillful tailoring, bringing the highest level of quality and application, especially 100% *Made in Italy* fashion items. Therefore, potential Italian exporters can take advantage of their strengths to approach prospective Vietnam fashion market.

After the EU-Vietnam Free Trade Agreement (EVFTA) came into effect since 2020, new rates of tariff have been applied, enhancing the competitiveness of European products when entering the local market.

Below we are going to give brief analysis on fashion – a prospective market in Vietnam for exporters.

2. FASHION MARKET

2.1 BRIEF ANALYSIS

According to the Vietnam Retailers Association, there are currently more than 200 foreign fashion brands present in Vietnam, accounting for more than 60% of the market share, from affordable to high-end goods. There is still 40% market share for domestic apparel. More and more international fashion retail brands are entering the Vietnamese market and becoming increasingly dominant such as Adidas, H&M, Zara, Uniqlo, etc. In 2021, Uniqlo opened its fourth shop in HCM City, while Decathlon opened its second store at the Thao Dien Mega Mall in Thu Duc city. The appearance of these brands shows that major fashion brands in the world are very interested in Vietnam - a market with an average growth rate of 15-20%.

Even before pandemic, domestic e-commerce giants such as Tiki, Lazada, Shopee, Sendo have increased their business activities in Vietnam along with the world trend of switching to online shopping. Vietnamese consumers endured nearly 6 months of prolonged lockdown in 2021, Vietnamese had little choice but to turn to online shopping. Meanwhile, big brands are also enjoying this change of pace. E-commerce channels have enabled manufacturers to sell products directly to consumers (also known as D2C) through platforms like ShopeeMall and LazMall. These official stores offer greater credibility than resellers, attracting much more customers as a result.

Besides websites, influencer marketing recently become a common media method promoted by fashion brands. Facebook, Youtube, Instagram, TikTok... are popular channels for KOLs to introduce new brands and designs. Brands often choose influencers with a set of followers that match their target customers. Some famous fashion KOLs in Vietnam nowadays: Chau Bui, Decao, Son Tung MTP, etc. Additionally, livestream is also showing its usefulness in boosting sales for fashion brands. Many large-scale shopping events are being held on livestream, and this is becoming increasingly common.

According to the data from Euromonitor, in Vietnamese fashion market, no business holds more than 2% of the market share. With the largest market share, Adidas Group holds 1.5% market share. In which, the top 3 enterprises in Vietnamese fashion companies are all foreign brands which are very popular with Vietnamese consumers.

According to the Vietnam Textile and Garment Group, the domestic textile and garment growth rate is quite high, about 20%/year. The domestic market is about 4.5 billion USD/year, equivalent to 40 million sets of clothes. On average, every year Vietnamese people spend about 4 billion USD on clothes. Some domestic brands that are considered to have a foothold in the market such as Viet Tien, Nha Be, An Phuoc, and Garment 10 mainly focus on the office

product segment. Along with that, products are still heavily processed and exported under the names of foreign brands, making the Vietnamese fashion market unfamiliar on the world fashion map, even in the region. Although Vietnamese fashion possesses many impressive talented design faces that are highly appreciated such as Cong Tri, Vo Viet Chung, Chung Thanh Phong, etc., it is still not widely known. According to VIRAC, Vietnamese enterprises receive processing orders from many major fashion brands in the world, so the quality of products manufactured by Vietnamese enterprises should not be too different from those of many foreign brands. The reason for the above problem largely lies in the fact that Vietnam currently does not have a professional environment and school on operating fashion brands to develop the domestic fashion industry effectively and efficiently.

However, products from local small brands, hand-carried goods are still very popular in Vietnam due to their wide distribution and cheaper prices. These items are found at various distribution channels such as traditional markets, street vendors, and local shops or even e-commerce platforms. Unbranded products are imported from China and sometimes domestically made and branded as “VNXX” (standing for Made-in-Vietnam for export, including brand-copied products). With its price-sensitive characteristics, customers in this segment are more likely to prioritize price over brand reputation. This makes the fashion market even more competitive for foreign exporters.

VIRAC forecasts that sustainable fashion – the supply, production and consumption of fashion products designed in a way that ensures environmental, social and economic sustainability – will be an inevitable trend in the context of increasing income, young people’s sense of responsibility for fashion products and the environment is increasing. In the coming time, the fashion industry will focus more on sustainability, including materials produced from environmentally friendly sources, recycled materials and less use of chemicals, production processes that ensure the energy saving factor and labor welfare.

According to statistics in Table 1, it can be figured out from the chart that the total export value of fashion items to Vietnam decreased significantly in 2019 with a negative growth rate of 32%. However, it attempted to recover and gain an increase of 9% in the following year, equivalent to over 3.5 billion USD. In 2021, the export volume decreased slightly to 3.4 billion USD, which can be attributed to the long lockdown. As it can be seen clearly, 4 biggest export countries to Vietnam are all from Asia. In 2021, **78.72% of the market share was dominated by Chinese producers** with an export value of over 2.6 billion USD. This can be explained by the huge demand for cheap and stylish products of many Vietnamese buyers and China is the processing factory of the world. **South Korea came in 2nd place** with a market share of 11.42%, equivalent to over 388 million USD. **Hongkong ranked 3rd** in the list for a proportion of 2.15% (over 73 million USD) while **Singapore made it the 4th** biggest fashion export country to Vietnam when making up 1.78% of the market with an export value of 60 million USD.

Table 1. Export of Apparel and Clothing Accessories (Knitted and not Knitted) to Vietnam from 2018 to 2021

(HS code 61/62, value in USD)

Countries	2018	2019	2020	2021	Var. 2020/21	Market share		
						2019	2020	2021
1 China	3,987,525,060	2,528,115,790	2,935,059,722	2,677,324,770	-9%	77.26%	81.93%	78.72%
2 South Korea	492,331,667	428,928,859	334,721,495	388,507,050	16%	13.11%	9.34%	11.42%
3 Hong Kong	60,931,227	67,964,834	62,534,324	73,151,668	17%	2.08%	1.75%	2.15%
4 Singapore	17,689,622	33,673,165	53,565,781	60,631,160	13%	1.03%	1.50%	1.78%
5 Others	230,470,180	213,483,401	196,306,745	201,281,126	3%	6.52%	5.48%	5.92%
Total Value	4,788,947,756	3,272,166,049	3,582,188,067	3,400,895,774	-5%	100%	100%	100%
Var.by Year	39%	-32%	9%	-5%				

Source: ICE processing of Trade Data Monitor LLC

Italy, well-known for its high-end fashion, was **the 10th biggest supplier** for Vietnam fashion market in 2021 with a market share of 0.39%, equivalent to an export value of over 13 million USD. Although the export value experienced a negative growth rate of 30.34% in 2020 due to the Covid-19 pandemic, it grew by 9.55% last year. (illustrated in Table 2)

Table 2. Export of Apparel and Clothing Accessories (Knitted and not Knitted) 2017-2021

(HS code 61/62, value in USD)

	2018	2019	2020	2021
Export value from Italy	12,989,236	17,397,351	12,119,047	13,276,031
Growth rate	1.09%	33.94%	-30.34%	9.55%
Market share	0.27%	0.53%	0.34%	0.39%
Var.by Year	-27.35%	96.02%	-36.37%	15.39%

Source: ICE processing of Trade Data Monitor LLC

2.2 LUXURY FASHION

As international brands expand their strategies to Southeast Asia, Singapore and Thailand are often the top priorities, followed by Malaysia and Indonesia. While some brands undervalue Vietnam, others have started investing in multiple stores where customers are still underserved.

One of the country's largest distributors of luxury goods, Duy Anh Fashion and Cosmetics Joint Stock Company (DAFC) welcomed Tiffany & Co. and Montblanc, and the return of Christian Louboutin in 2020 to the list of massive luxury brands that this company holds. However, according to the 2021 wealth report of real estate agency Knight Frank, Vietnam already has more wealthy people who can afford to buy luxury goods than Malaysia. On the other hand, the population size of Indonesia is nearly three times larger than that of Vietnam, but the number of millionaires in Indonesia is only slightly higher than that of Vietnam. According to Statista, Vietnam's luxury goods market may be smaller than that of China or Japan, but Vietnam's individual luxury goods market has reached 976 million USD in 2021 and is expected to grow by 6.67% annually. Over the next 5 years, this market is expected to grow by 3.3% per year and will surpass the \$1 billion mark by 2025. By 2026, the country will have 25,812 high-net-worth individuals with liquid assets of at least \$1 million. The number of ultra-high net worth individuals in Vietnam with a value of at least \$30 million is also forecast to grow by 26%, to more than 1,500 by 2026. Such growth is comparable to growth in Hong Kong and Taiwan (China). Similar to China, the rich in Vietnam are constantly looking for opportunities not only to invest their money but also to spend it.

Meanwhile, Vietnam has a relatively young population, with an average age of 32.5 years old. According to Worldometer, 37.7% of the population is city dweller. The young, educated and urban population is the backbone of consumption. In addition, a report conducted by the World Bank projects that Vietnam will reach an upper-middle income level by 2035 with a per capita income of more than \$7,000.

Last year, the luxury retail market in Vietnam is still quite stable with domestic demand recorded not to decline too much, although the number of international tourists dropped sharply in 2021. Luxury retailers still maintain high demand for premium properties in prime locations. Despite the influence of the pandemic, a major factor in keeping strong demand for luxury goods was the restriction on travel, which prevented people from shopping internationally, because many fashion lovers tended to travel abroad to buy latest items from their favorite designer brands.

There are three prevalent retailers of high-end luxury fashion brands in Vietnam, which distribute most of international luxury brands present in the local market:

IMEX PAN PACIFIC GROUP (IPP GROUP) is known as one of the retail system of luxury fashion brands in Vietnam. This IPP business is mainly carried out through two member companies named Duy Anh Fashion and Cosmetic Company (DAFC) and European Cosmetics and Fashion Company (ACFC). In particular, DAFC specializes in high-end brands such as Christian Louboutin, Elie Saab, Balmain, Elisabetta Franchi, Armani Exchange, Bally, Emporio Armani, Missoni, Santoni, Roberto Cavalli, Monique Lhuillier, Marchesa, Oscar de la Renta, Jimmy Choo, Montblanc, Salvatore Ferragamo, Burberry, Cartier, Tiffany & Co., Stella McCartney, Versace, D&G, Zuhair Murad, Rolex... Meanwhile, ACFC is a distributor in mid-end segment such as Swarovski, Mango, Old Navy, Tommy Hilfiger, GAP, Levi's, Diesel, Calvin Klein, OVS, Parfois, Owndays, Banana Republic, etc.

Another famous distributor is **TAM SON JOINT STOCK COMPANY**, a member of Open Asia Group. This is the exclusive distributor of luxury brands like Hermès, Vacheron Constantin, Piaget, Chopard, Patek Philippe, Bottega Veneta, Saint Laurent, Marc Jacobs, Rimowa, Kenzo, Hugo, Boss, Lancel, Sandro, Maje, etc. Born in 2007, Tam Son is managing 20 stores in major hotels and shopping centers in Hanoi and Ho Chi Minh City.

MAI SON COMPANY are one of the pioneers bringing international fashion to Vietnam. The company distributes and sells internationally branded products through a network of 60 stores, ranging from international fashion brands such as Dsquare2, Coach, Skechers, Ceci, Max&Co., Charles & Keith, Pedro, MLB, Puma, Havaianas, Weekend Maxmara, etc. One of the biggest succeed of Mai Son on the fashion market is the cooperation with Hamleys brand to open the first store in Vietnam.

2.3 IMPORT DUTY

The rates in the Tab. 3 below are applied for fashion products imported from EU countries based on EVFTA.

Tab. 3. Vietnam Import Duty for Apparel and Clothing Accessories Imported from EU countries

(based on the EVFTA - European Union Vietnam Free Trade Agreement)

HS code	Description	Import duty 2022 (%)
KNITTED OR CROCHETED		
61031000	Suits	0
61044300	Dresses of synthetic fibres	5
61045300	Skirts and divided skirts of synthetic fibres	10
61051000	Men's or boys' shirts, knitted or crocheted of cotton	10
6117	Other made up clothing accessories, knitted or crocheted; knitted or crocheted parts of garments or of clothing accessories.	0
NOT KNITTED OR CROCHETED		
62031200	Suits of synthetic fibres	12.5
62044300	Dresses of synthetic fibres	12.5
6213	Handkerchiefs	0
621410	Shawls, scarves, mufflers, mantillas, veils and the like of silk or silk waste	10
621420	Shawls, scarves, mufflers, mantillas, veils and the like of wool or fine animal hair	0
621510	Ties, bow ties and cravats of silk or silk waste	5
621520	Ties, bow ties and cravats of man-made fibres	0

3. CONCLUSIONS AND RECOMMENDATIONS

Vietnam is expected to open up promising business opportunities for future exporters as they can benefit from the following favorable conditions:

- Large market of over 98 million inhabitants with a growing taste for high quality and exquisite fashion products, along with an increasing middle class.
- Diversified distribution channels have flourished, ranging from stores, shopping outlets in malls to e-commerce platforms, company websites, or social media such as Facebook, Instagram, etc.
- With the entry into force of the EVFTA, the import duties for fashion products will be eliminated immediately or reduced gradually to 0 after 4-8 years, depending on the types of products.

Nevertheless, this prospective market is also extremely challenging for new exporters due to stiff competition from both local manufacturers and other Asian producers such as China, South Korea, Singapore, etc. who have a competitive advantage upon price and variety. For foreign companies, Vietnam is known as a country with a more complex business culture than other countries in the region. Potential exporters should research on the demand of the local market carefully, find the target audience, define which type of expanding business such as opening branch, partnering with local distributor or just using online channels, so that the exporters can formulate a suitable marketing and selling strategy.

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