

## Eastern progress

The Far East is usually seen as a cheap place to source, but competition in the region means the likes of Taiwan and Vietnam are learning to offer more advantages than just price. David Hayes reports

**For businesses looking to source in the Far East, one of the major draws is cheap suppliers. But as the region's trading links with the rest of the world develop, countries in the area are trying to attract foreign trade by moving into different markets and adapting their strategies. So buyers should beware seeing the region in uniformly "low-cost" terms.**

Take Taiwan, South Korea, Singapore and Hong Kong. They used to compete with China on low-cost production, but now have switched to producing high-tech equipment. Stepping into the territory they have vacated are countries such as Vietnam, Thailand and the Philippines, which are swiftly improving quality and skills to make their mark in a global market.

Indeed, Vietnam is already tipped to become the next Asian "tiger economy".

"The government is trying to move the economy forward. It is working towards World Trade Organisation (WTO) accession - originally for this year, probably next," according to one British diplomat in Hanoi.

"Vietnamese officials are trying to make it easier for foreigners. The people setting up factories here are Taiwanese, South Koreans, Japanese and Singaporeans who come for flexibility of labour, which is reasonably cheap, in a whole range of industrial sectors."

One of Vietnam's biggest industries, textiles and garments, is already popular among foreign buyers. According to government statistics, its exports were worth \$4.4 billion in 2004, a 33 per cent increase on the previous year.

Vietnam originally established garment exporting as a low-priced labour-intensive industry focusing on basic items such as T-shirts and sports jackets. But now it concentrates on low to medium-end clothing that involves some decorative stitching and finishing.

Rapid development of footwear manufacturing has boosted annual exports to over \$2.2 billion during the past decade. Vietnam is now the world's fourth largest footwear supplier after China, Hong Kong and Italy.

### Global opportunities

Accession to the WTO will give Vietnamese exporters even greater access to foreign markets, particularly the European Union and the US, which have often restricted imports from non-WTO members.

Clothing and textile buyers in Britain and the EU, for example, no longer face restrictions on garment imports from Vietnam after the EU lifted quota restrictions earlier this year in the run-up to Vietnam's expected WTO accession.

Another benefit for companies purchasing goods and services in Vietnam - once it joins the WTO - is that national trade rules will have to come into line with international standards. The application commits Vietnam to modernising and improving its legal and financial laws, as well as protecting intellectual property rights and tackling other issues to create a market economy.

Meanwhile, quality can be a procurement issue as Vietnam expands its export base. Buyers in the EU must be aware that some quality issues are handled by Brussels rather

than individual member governments when the whole union is affected.

A recent example is prawn imports. The EU is one of three major markets for Vietnamese prawns, which total around 300,000 tonnes annually. But the EU complained when some of them were found to contain antibiotic residues from the feed provided by farmers.

As these traces are banned in prawns in the EU, Brussels issued a formal complaint to the Vietnamese government, which has since banned the offending food. It also now requires seafood exporters to test prawns for antibiotics before processing them for export - proof perhaps of the country's willingness to change practices to meet the demands of international buyers.

### The Taiwan dimension

Quality is no longer an issue for purchasers looking towards suppliers in Taiwan. In fact, its manufacturing sector is exploring new export opportunities. Faced with cheaper competitors in Asia - especially China - labour-intensive industries have fallen into decline. These days, Taiwan is associated with high-tech electronics and machinery manufacturing rather than cheap consumer goods. According to a report this year from the World Bank, Taiwan produces most of the world's computer terminals and peripherals.

Purchasers may find rich pickings in the country's industrial sector, which is characterised by small and medium-sized family-run businesses, rather than giant companies. For one thing, this has helped Taiwan's economic development, because the owners of these small

businesses are flexible, can accept small orders and supply niche markets. In addition, fearing their costs for producing simple equipment are too high to compete with cheaper countries, these companies are keen to introduce more advanced machinery.

For example, the Ming Wei Paperware Machinery company, which previously made basic manual control machinery, has attracted European companies by developing more advanced automatic and semi-automatic machinery.

Ming Wei has entered a partnership with Birmingham's Deritend Engineering, which produces machinery that prints on corrugated board. Under the deal, Deritend sells Ming Wei's paperboard machinery in the UK and through its international sales channels, while Ming Wei sells Deritend's printers in China and the Far East.

"We started to make parts for Deritend a year ago, so it can reduce its costs. Our prices are lower as factory operating costs are cheaper in Taiwan," says Liu Ming Chung, chairman of Ming Wei.

Textile machinery suppliers have also had to produce more advanced machines to make a profit, because the low-tech products are now made in China.

"As prices are low for manually controlled knitting machines, suppliers have had to move production to China to cut costs," explains C C Wang, vice-president of the Taiwan Machinery Industry Association.

"High-quality, computer-controlled machines are being made here now, with most of the value-added features in Taiwan being the computer controls."

The growth of electronics and high-tech equipment manufacturing has encouraged the development of support industries that supply machine tools and equipment. These are sold not only to local companies, but also to Chinese, European and American component manufacturers.

Hongia Industry, which produces electroplated diamond-saw blades used to slice silicon ingots for semiconductors, exports its products to Europe and the US. These include wafer-dicing saw blades made under the foreign customer's brand name, explains M S Chen, the firm's president.

"Our technology is good enough for them. I think more European and US companies will come as they try to get costs down."

As Taiwan develops economic ties with its Asian neighbours, US and European equipment manufacturers are expected to switch production of goods for markets in the region to Taiwanese factories that can make the goods more cheaply.

It's another sign that manufacturing, whether for low or high-cost goods, will continue to grow in the Far East. The Asian tigers are moving into new territory.

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