

# **Lao Textile and Garment Industry 2012**

## **Garment Skills Development Centre**

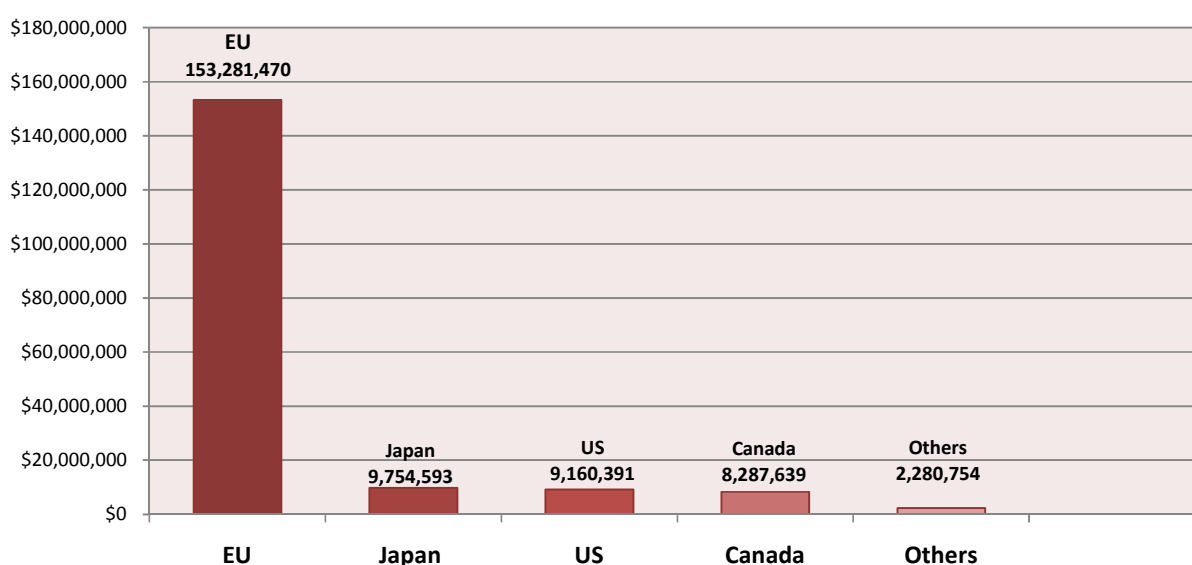
### **The Service Centre of the Association of the Lao Garment Industry**

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#### **Economic**

In history the textile industry including the garment sector has been always the first industry to start developing an economy. Why? Workers need minor training to start e.g. as sewing operators and generate income for themselves and their family, often the first time in their life. Next step is to qualify the workers to improving knowledge and skills, learn about quality, production and productivity, leadership, management. When the textile industry reach a certain momentum qualified people move on to other more sophisticated industries.

The Lao Textile industry is the biggest non-source industry in Lao P.D.R. with ca. 30,000 workers in 2012, targeted by ALGI Association of the Lao Garment Industry to increase to 60,000 by 2015. Export FOB 183 Million USD in 2012. Target is set to 500 million USD by 2015. In the five years Macro-economic plan, the garment manufacturing is among the 11 priorities of Lao development sectors to reach these goals.



Globalization forces to look for the cheapest production. Currently the Lao garment industry competes with China, Cambodia, Vietnam, Bangladesh and Indonesia, but has to deal with a permanent lack of labor force. As it is an important determinant of trade distributional impacts the TDF Trade Development Facility (14 Mio USD) Multi Donor Trust Fund has been supported almost 20 trade related projects, including the start-up and establishment of GSC Garment Skills Development Centre to improve the quality and productivity of workers and strengthening the Lao garment export industry. International brands appreciate the good quality of Lao made garments. Focus on delivery in time is mandatory.

#### **Social**

An important goal currently has been to reach the millennium goals, create jobs, develop skills and knowledge, and strengthen the Lao industry allowing work and income. 86% of the labours are female with low education level. Thus, this sector is very important to empower women and develop their skills and knowledge. Gender is a key determinant of men and women's access to economic resources. Low paid jobs address low or even unskilled people; with a minimum of training people can start work in the garment industry.

In January 2012 the minimum wage raise from 348,000 kip to 626,000 kip (ca. 77,00 USD) per month,

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factories pay additional bonuses and over time. A garment worker can make 100-250USD per month, food, accommodation, etc. included. Other sectors such as construction and mining may pay better, but workers have to expose to heavier work and to take more risk.

Independent of the kind of industry the social consequences of migration are a serious topic, esp. as Vientiane is so close to the Thai border, and rural people with no or low connection to information are jeopardized by trafficking.

### **Main Objectives of the Garment Sector**

The garment sector in Lao P.D.R. contributes significantly to GDP growth by improving the education and skills of the labour employed in the industry. By consequence, this will enhance the quality and the quantity produced in Laos and respond to the growing demand of the international market. Globalisation forces to look for the cheapest production of garments. To compete successfully on the global market it has become essential to face the lack of labour force by qualifying people to improve productivity and efficiency with the same number of people.

There are more than 100 garment factories; out of that 54 are export factories and members of the Association of Lao Garment Industry - 32 FDI Foreign Direct Investment factories / 13 Joint Venture factories / 9 Lao owned factories.\*) The best Lao garment factories are the FDI and JV, who received investments, improved and modernized, and train their workers for higher productivity. Usually Lao owned factories do not have investment capacities, only when foreign investors come in. Lao factories who did/could not invest lost orders, some closed. Even Laos is a landlocked country textile and garment is an interesting sector to invest. German investors have excellent opportunities to e.g. establish PPPs through GIZ.

Currently the main international demand is on CMT Cut-Make-Trim garment production to benefit from the cheap labor force. There are also excellent FOB factories, production chain in factory from design, pattern making, fabrics, threads, production, etc.. More information can be provided by the Association of the Lao Garment Industry.

Over the last years global buyer's demand has changed. Higher quality is expected, more sophisticated design, and additional services. Currently training and skills development is a Must in Lao P.D.R. to improve productivity and quality. This shall be reached by qualification training.

GSC Garment Skills Development Centre, the training Centre of the Association of the Lao Garment Industry address this issue with consulting, training and coaching for the Lao garment factories delivering state of the art services for all levels top down from management to simple workers, including the option for ASEAN certification. The GSC Management advisor's position has been funded until 2014 by CIM Centre of International Migration and Development, business cooperation between BA and GIZ.

### **Environment**

All Lao industry sectors have a lack of labor force and lack of qualified people. Except one all garment factories are currently located at Vientiane. Workers are recruited from rural villages, or workers live in the neighborhood and come to work by motor bike. Many factories provide accommodation close to factory, or factories organize bussing, pick up in the morning and bring home after work. Low paid jobs address low or even unskilled people; with a minimum of training people can work and generate income.

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\*) Lao foreign owned exporting garment factories: 11 by Thailand, 11 by Taiwan, nine (9) by Japan, six (6) by France, three (3) by Vietnam, three (3) by Pakistan, two (2) by Hongkong, one by Italy, one by Malaysia, one by China, and a further nine factories are joint ventures.

Champasack province (among other) has been identified as a potential province where infrastructure exists with good access to seaport in Thailand.

It seems that the industry does not hampered environment issues such as water pollution. Most of the exports go to Europe and the European customers demand environmental friendly production, controls also exist within Lao P.D.R. by Ministry of Environment. Private sector is well aware of climate change and sustainable environment.

### **Government Implication**

The Chamber of Commerce (LNCCI) is the main partner involved in the textile and garment industry with the Association of the Lao Garment Industry (ALGI). Currently the Association of the Lao Garment Industry, located in Vientiane, has 54 members and is established since 1995.

The GSC Garment Skills Development Centre (TDF Trade Development Facility funded project) has been administered by the World Bank and implemented by the Ministry of Industry and Commerce and its Departments TPPD Trade Product and Promotion Development, and NIU National Implementation Unit. The garment manufacturing is among the 11 priorities of Lao development sectors in the five years Macro-economic plan. And the Ministry of Labour and Social Welfare and the Ministry of Education and Sports, are involved in the development of the Garment sector.

Vientiane, March 13<sup>th</sup>, 2013

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