Capital Mobilization for Development of Vietnam's Plastics Industry in Period of 2005-2010

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Abstract: Vietnam's plastics industry has recorded high growth rates in recent years, thus it is considered as a promising industry of the country. The industry is required to mobilize huge funds to achieve its goals and high growth in the next years. As a result, the determination of its capital demand, utilization and distribution is a must.

Vietnam's plastics industry increased 10 times in the period of 1992-2002 and 18% annualy from 2001 to 2005. It is estimated that Vietnam's per capital plastic output reaches 20 kg.

Vietnam's plastics industry shows promising signs, therefore, the Ministry of Industry sets the annual growth of 15% for the period of 2006-2010 and the total plastic output of 4,200,000 tonnes/year by 2010 and per capita output of 40 kg.

Besides goals of total output, the plastics industry also plans to restructure its production in terms of added value, or it has to increase plastic products for construction to 21.3% and hi-tech industrial plastics to 19.5% of the total output by 2010. To reach its goals of doubling plastic output and tripling local supply of plastics by 2010 as compared to 2005, the industry has to require a huge amount of capital. According to the Ministry of Industry's forecast, the financial demand for the plastics industry's development is estimated as follows:

As such, an additional sum of VND14 million is needed to produce more 1,000 kg of plastics in the period

Table 1: Vietnam's plastic output in the period of 1992-2002

Year	Output (Tonne)	Growth(%)	Per capita output(Kg)
1992	110,000	47%	18.08
1993	120,000	9%	20.95
1994	197,000	64%	33.57
1995	280,000	42%	46.72
1996	420,000	50%	69.19
1997	500,000	19%	78.96
1998	600,000	20%	7.69
1999	750,000	25%	9.43
2000	950,000	27%	12.34
2001	1,100,000	16%	13.98
2002	1,250,000	14%	15.82
Average	570,636	30%	29.70

Source: A report of the Vietnam Plastics Corporation

Table 4 : Foreign investment in Vietnam's plastics industry in the period of 2005 –2010

Year	Foreign investment (US$)	Annual growth (%)
1989	29,784,000	
1990	12,756,790	-57.17
1991	25,693,049	101.41
1992	109,108,358	324.66
1993	63,202,747	-42.07
1994	217,469,369	244.08
1995	334,363,128	53.75
1996	352,139,175	5.32
1997	437,992,560	24.38
1998	107,806,433	-75.38
1999	32,060,000	-70.26
2000	71,236,250	122.2
2001	95,734,316	134.38

Source :Ministry of Industry and the Vietnam Plastics Corporation

Table 2 : Goals of Vietnam's plastics industry in the period of 2005 –2010 (tonne/year)

Product	2005	%	2010	%
- Plastic packaging	800,000	38.09	1,600,000	38.09
- Building materials	400,000	19.05	900,000	21.43
- Civil plastics	550,000	26.19	900,000	21.43
- Hi-tech industrial plastics	350,000	16.67	800,000	19.05
Total	2,100,000	100	4,200,000	100

Source :Ministry of Industry and the Vietnam Plastics Corporation

Table 3: Financial demand of Vietnam's plastics industry in the period of 2005 –2010 (VND bil.)

Indicator	2005	%	2010	(%)
- Add-on materials	3,007	14.38	16,337	31.95
- Molding equipment	1,472	7.04	4,448	8.70
- Plastic products	16,430	78.58	30,349	59.35
Total	20,909	100%	51,134	100

Source :Ministry of Industry and the Vietnam Plastics Corporation

of 2005-2010. Until 2010, the industry has to attract more VND51.134 billion, in which the ratio of investment in raw materials production must rise to 31,95% to meet the industry's production. The industry is required to devise appropriate policies to meet this huge demand within five years. At present, it can make access to two sources of local and foreign investment.

With respect to foreign investment including ODA and FDI, the industry must set detailed targets and plans to mobilize this source. It should use ODA capital in long-term huge projects for its development, for example, recycling materials, protecting environment or building R&D centers, at the same time call for FDI in new projects manufacturing materials for plastic production, especially hi-tech industrial products which are mainly imported. When planning its FDI appealing lists, the industry should make a feasible study for each project and analyze business conditions and incentive policies of the industry, then get in touch with investors, or organize workshops to invite investors. Therefore, investors may find benefits in projects for their decision making. Local companies should avoid general capital mobilization as before because it is not attractive to investors. The analysis of foreign investment in the plastics industry from 1989 to 2001 reveals it is hard to attract foreign flows of more than US$100 million annually if there are no appropriate policies because they were totally under this figure in recent years.

When the calling for foreign investment is stricken with troubles, domestic capital has to play a decisive role in meeting the capital demand from 2005 to 2010. To overcome these troubles, the plastics industry has to soon establish the list of businesses to go public and speed up this process so that they are able to join the stock trading floor to attract capital for production. In the other hand, each business in the industry must recognize this is a proper stage for investment in intense production with a view to increasing competitiveness before the AFTA is completely effective. As a result, based on its current production scale and competitive strength, each business should use its own profits or loans from banks and hedge funds for reinvestment in materials production, technological innovation and modernization, production and market expansion...The industry should build investment assistance funds and give credit incentives to businesses.

In addition to businesses' investment, the industry should pay full attention to domestic projects producing plastic materials and products by establishing the list of projects calling for local investors, especially petrochemical companies. Another important source of local capital comes from the state budget. Nevertheless, this source must be reserved for key projects, especially for environmental protection, materials recycling, establishment of human resource training and R&D centers, production of major materials for the industry and enhancement of the industry's competitiveness.

After specifying investment flows, the industry has to make proper capital distribution to secure its long-term development. First, money will be poured in production of materials to meet the industry production because this is the Achilles' heel of the industry in recent years. According to statistics, the industry has to import US$600 million worth of raw materials annually, until 2002, 90% of its materials had to be bought from foreign companies. This has increased its input costs because the foreign exchange rate and prices of plastic materials tend to vary often. As a result, the investment in materials production must be aimed at achieving the Ministry of Industry's target of meeting 30% of materials demand or 560,000 tonnes by 2005 and 50% or 1,560,000 tonnes by 2010 as indicated in the following table.

Another weak point of the plastics industry is to manufacture molds, treat wastes and recycle materials for production. With respect to molding, funds must be used for manufacturing 60,000 units/year by 2005 and 132,000 units by 2010. The industry should also carry out projects treating plastic wastes. So far, Vietnam has not yet built large factories to recycle plastic rubbish, causing both large losses and environmental pollution. As a result, the industry should build projects treating plastic wastes with total capacity of 50,000 tonnes/year by 2005 and 200,000 tonnes/year by 2010 as planned by the Ministry of Industry.

Along with investment for establishing local materials sources, the industry should also expand production, inovate technologies, promote management skills, and develop products and markets with a view to enhancing its businesses' competiveness. This is implemented in the two trends: one is new projects realized by foreign and local companies, another is projects expanded by existing companies in the industry. These both forms of investment are aimed at doubling the industry's output as compared to 2005.

As mentioned above, the industry's key tasks in the 2005-2010 period is to mobilize huge capital to projects producing materials and molds, and treating plastic wastes. The investment will overcome the industry's weakest point of strong dependence on imported materials and secure the industry's long-term development. The investment capital comes from local and foreign investors, mainly from large state corporations and state budget.

In the meantime, plastics businesses are required to make deep investments in technological innovation, improvement of managerial skill, and production and market expansion.■

Table 5: The plastics industry's goals of materials production in the period of 2005 –2010 (Tonne/year)

Materials	2005	2010
PVC	300,000	500,000
PP	150,000	450,000
BOPP	20,000	40,000
DOP	30,000	60,000
PS	60,000	60,000
Total	560,000	1,560,0000

Source: Ministry of Industry and the Vietnam Plastics Corporation

Table 6: Investment projects of plastic production in the period of 2005 –2010

Investment Projects	Capacity (tonne)	Capital (US$ mil.)
1. New projects	1,480	1,632
- Plastic packaging	560	672
- Building materials	350	280
- Civil plastics	250	200
- Hi-tech industrial plastics	320	480
2. Expanded projects	620	326
- Plastic packaging	240	134
- Building materials	150	56
- Civil plastics	100	40
- Hi-tech industrial plastics	130	96
Total	2,100	1,958