

MEASURES TO DEVELOP MARKET FOR DAIRY INDUSTRY

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The dairy industry in Vietnam in spite of its recent developments could only meet demand of the local market and its export is still limited. Dairy products have just become familiar to local consumers for some ten years when the economy started to develop and personal income rose. Per capita consumption rose from 1 kg a year in 1990 to some 5.5 kg in 2000. The target planned for the industry is to raise the figure to 10 kg by 2010. If the Vietnamese population is over 85 million by 2010 (with annual increase of 1.2% a year), the industry will have to produce some 850 million kg of dairy products a year. This is a promising future for the industry.

Some 75% of the population live in rural areas on meager income, so the industry must bring its products within reach of rural residents when many famous dairy companies start to invest in Vietnam. Local dairy companies haven't exported their products for years until 1997 when the Vinamilk sold its products to Iraq. The Vinamilk export earnings rose over years, which shows that:

- Because of the UN embargo against Iraq, all food and drug sold to this country are under the UN supervision, therefore Iraq's chances to choose suppliers are very limited.

- Iraq prefers to buy goods from Vietnam because of its good and long-lasting relationship with Vietnam. Besides dairy products, it also buys Vietnamese rice, medicine and cooking oil. The Vinamilk sold US\$100 million worth of dairy products to Iraq in 2000 and US\$142 million in 2001.

- Besides Iraq, Vietnam only sells dairy products in small quantities to regional countries and the U.S.

1. Favorable and unfavorable conditions of the dairy industry

a. Favorable conditions:

- Local consumers accept dairy products made in Vietnam, by both local companies and foreign-invested ones. Local companies control a mar-

ket share of some 80% and have ability to face foreign competition.

- Local consumers are aware of importance of dairy products to their health and ready to provide their children with dairy products.

- According to the AFTA regulations, the dairy industry could enjoy more preferential treatment than other industries could. Tariff on these products stays 20% up to 2003 and then reduces to 15% by 2004;

10% by 2005 and comes to 5% by 2006.

- The AFTA Agreement and the U.S. - Vietnam Trade Agreement could help the industry enter the ASEAN and the American markets.

b. Unfavorable conditions:

- In recent years, many foreign dairy companies (Nestlé, Foremost, Dannon, etc.) have introduced their products to Vietnam and gained their market shares. Fortunately, their



products are only familiar to, and within the reach of, the middle class in big cities.

- Local companies in the industry have just operated under the market mechanism for only 15 years, so they lack experience of marketing their products to new markets. State-owned companies still rely too much on government support and protection instead of trying to improve their competitiveness.

- Although the Government has adopted the policy to develop a mixed economy, its intention to have the public sector play the leading role has led to discrimination against other sectors with the result that privately-run companies met with difficulties in developing their business

while industrial authorities fail to work out a long-term strategy for the dairy industry.

2. Measures

- The Government should give equal support to all companies regardless of the sectors they belong to. Up to now, private-owned companies hardly get supported by the Treasury although they paid the same taxes as state-owned ones. Governmental agencies (tax, customs, banking, public services, etc.) tend to discriminate against non-public sectors while the central government has tried to provide a level playing field and mobilize all possible resources.

- The Government must start programs to supply dairy products to re-

goods and fail to improve managerial methods. This situation will prevent local companies from competing successfully in foreign markets. The authorities must realize that investing in modern managerial technologies is a long-term and capital investment. In the dairy industry, the investment in training its workforce must be improved immediately. This could be done by sending workers to make studies abroad or in local universities.

- The production cost could be reduced by improving labor productivity and cutting overheads.

- The development strategy for the dairy industry must include not only state-owned companies but also private ones in order to tap all exist-



and improving their competitiveness. This mind-set will be an obstacle to efforts to integrate into the world market.

- Local companies couldn't produce high-quality products because of their obsolete machinery and equipment. Most of them fail to prepare themselves for the AFTA and know almost nothing about such problems as public relation, trademark and patent, etc.

- The industry still relies on foreign supply of raw materials and equipment. Cow husbandry business has just developed in recent years and couldn't get access to modern techniques with the result that its fresh milk is usually 10-20% dearer than imported one.

- Dairy companies usually pay no attention to the task of training their workforce, especially technicians,

while industrial authorities fail to work out a long-term strategy for the dairy industry.

- Necessary policies must be adopted to support the cow husbandry business with a view to reducing the production cost and enhancing the competitiveness of the industry.

- The dairy industry must make plan to increase investment in technology and machinery with a view to producing a wider range of goods of higher quality. When investing in capital goods, full attention must be paid to future technical developments and effects on the environment. For example, package that couldn't be recycled or biodegradable mustn't be used.

- Like other industries, the dairy industrial authorities have just paid attention to replacement of capital

resources. Division of labor between companies and provinces must be done more reasonably and effectively.

For the time being, the dairy industry should work out a detailed strategy to compete against foreign dairy companies on the local market. This strategy should include: paying full attention to rural areas; encouraging investment from all sectors; studying the AFTA Agreement in order to prepare for competition from Southeast Asian products, etc.

The next step is to expand its export market by making the best use of the above-mentioned favorable conditions; expanding the Iraq and Middle East markets; and trying to enter Southeast Asian and American markets. The AFTA and U.S.-Vietnam Trade Agreement force us to act quicker and we have no time to lose. ■