

Cooperation for Development of the Wood Processing Industry

by MEcon. DUƠNG ĐÌNH TẠ

1. An overview

The wood processing industry in Vietnam has made good progress in recent years. When Vietnam adopted the export-oriented policy, contributions from this industry are of great meaning. To ensure sustainable development for the industry, however, we need comprehensive measures to improve the competitiveness of the industry. One of them is to establish cooperative relations between companies in the industry and related authorities.

In 1991, Vietnam started to export processed wood and earned some US\$1 million. Twelve years later, in 2003, its export earnings rose to US\$560 million making it one of leading foreign exchange earners in Vietnam (after oil, clothing, aquatic products, footwear, rice, electronic components and computer). In the first three quarters of 2004, its export earnings reached US\$741 million increasing by 86.2% compared with the same period last year. It's estimated that its export earnings would reach some US\$1 billion for the year.

Under current conditions, this development is important. For Vietnam, the best way to industrialize its economy is to make the best use of its comparative advantage that is its cheap and industrious labor force to develop export-oriented industries. In the wood processing industry, its growth rate in recent years has reached some 30% a year, much higher than rates obtained by other manufactured industries, such as clothing, footwear and electronics. In 2003, it surpassed rubber and coffee and took position as the 7th staple exports from Vietnam. If this rate is maintained in the coming years, the industry will play a meaningful role in earning foreign exchange and creating new jobs.

At present, many opportunities are open to the industry. Its products have been exported to some 120 countries, including EU members, Japan, Taiwan and the U.S. Earnings from the American market has increased by some 50% a year. In 2003, earnings from this market were US\$167 million increasing by 128% compared with 2002 while

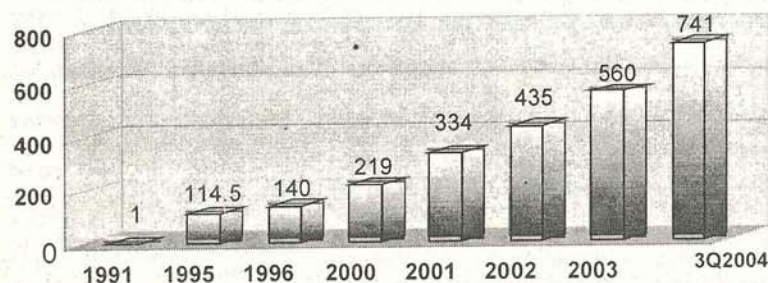
Vietnam accounted for only a 0.73% market share. Until recently, the U.S. Department of Trade has decided to impose anti-dumping taxes on bedroom furniture from China, thus opening more opportunities to Vietnamese wood processing companies.

Challenges for the industry, however, are still great. Most of some 1,200 companies in the industry are of small and medium sizes. Some 300 of them have ability to make and export directly their products, and they concentrate in some big centers, such as HCMC, Đồng Nai, Bình Dương, Western Highlands, Bình Định and some northern provinces. Only a few can supply some 100 containers a month. In addition, there is no cooperation between companies in producing and marketing their exports. The Association of Forest Product Processing Companies plays no role in supplying business information, marketing, training and policy making.

2. A model for cooperation in the wood processing industry

Models of cooperation between small and medium enterprises with a view to improving their competitiveness and integrating them into the world market have been studied by many researchers and organizations. In Vietnam, the phrase 'cooperative chain' has been mentioned when discussing the development of the clothing industry. In fact, the 'cooperative chain' is only limited to a narrow sphere and refers to the cooperation between big and small companies that aim at specializing each party in certain stage of production in an effort to fill on time orders placed by foreign buyers. Generally, the integration of companies aims at establishing internal connection in order to improve their comparative advantages by mobilizing more capital and services from one another. The integration could take various forms, such as: (1) horizontal integration includes companies carrying out the same stage of production or producing the same products and forms industrial clusters; or (2) vertical integration combines companies along

Figure 1: Export of processed wood from Vietnam in 1991-2004 (US\$ million)

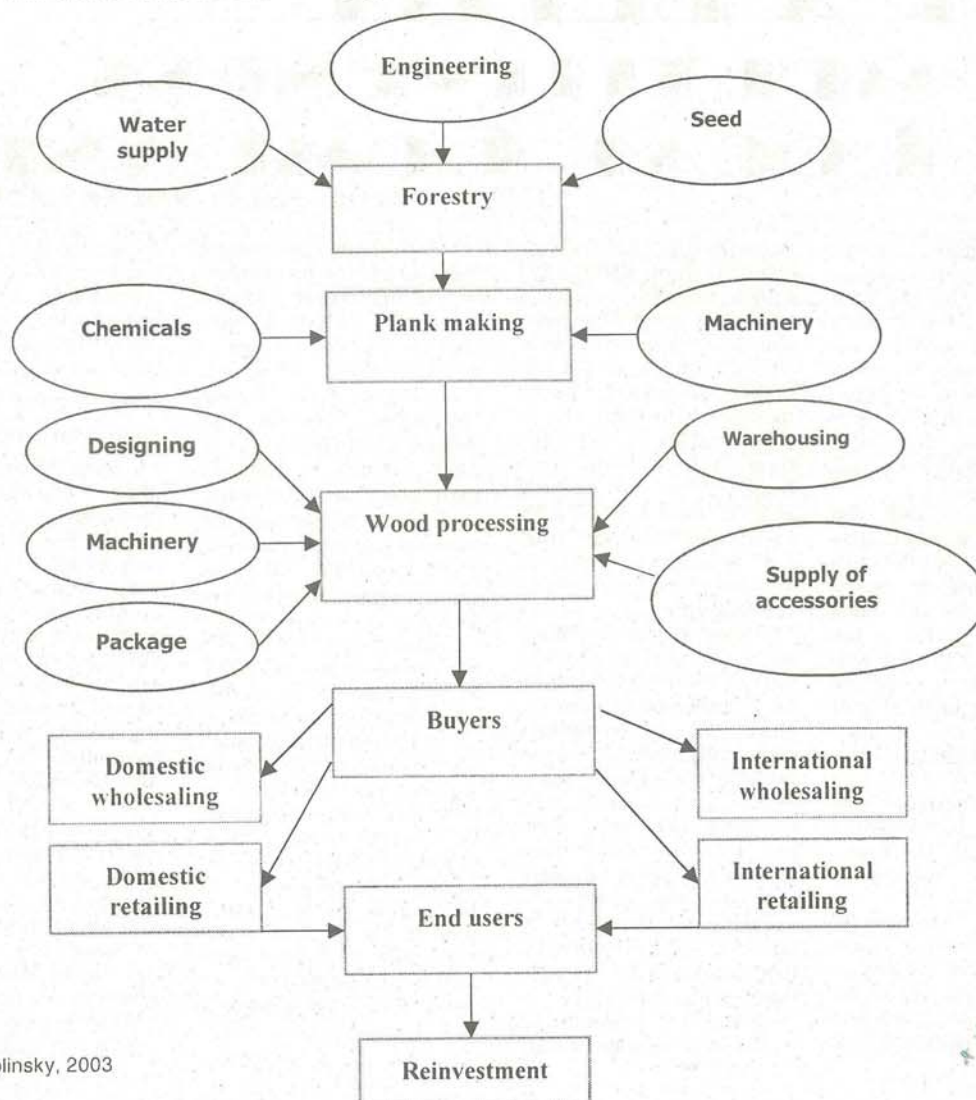


Source: Compiled from statistics carried on *Người Lao Động*, *Thời Báo Kinh Tế Việt Nam* and *Thời Báo Kinh Tế Saigon*

Table 1: Export of leading manufactured goods from Vietnam in 1999-2003 (US\$ million)

Industry	1999	2000	2001	2002	2003	1999-2003
Clothing	1,734	1,892	1,975	2,770	3,630	20%
Footwear	1,392	1,975	1,560	1,870	2,225	13%
Electronics	585	782	700	493	686	4%
Wood processing	169	219	334	435	563	35%

Figure 2: Value chain of the wood processing industry



Source: Kaplinsky, 2003

the value chain including all stages of the production process.

Realities in Vietnam show that both forms of integration must be combined in order to reach potential of wood processing companies. Companies in the same region or province could combine together to improve their resources. Companies of small size with no ability to fill large orders could act as satellites or subcontractors for bigger ones. Cooperation could help them solve many problems (supply of raw materials, distribution, marketing campaigns, etc.)

Expanding their cooperation beyond the geographical limits is also a way for integrating into the world market. Developing the wood processing industry into a larger scale re-

quires more cooperation with both local and foreign distributors. The following figure depicts the value chain of the industry that could help working out cooperative chains.

Water supply Chemicals Designing Machine Package Domestic wholesaling Domestic retailing Engineering Forestry Plank making Wood processing Buyers End users Reinvestment Seed Machinery Warehousing Supply of accessories International wholesaling International retailing

Apparently, the development of the industry involves many businesses along the value chain. However, some relevant parties, such as the trade associations, government agencies, importers of raw materials, marketing research firms, etc., are not included in the model.

Considering models of combination and their meanings to the future development of the industry is important to policy makers, potential investors and companies in the industry in their effort to develop and integrate into the world market. ■

Reference:

- Nadvi, Khalid, *Industrial Cluster and Poverty Reduction*, UNIDO, 2004
- Kaplinsky, Raphael, *The Global Wood Furniture Value Chain: What Prospect for Upgrading by Developing Countries*, UNIDO, 2003
- Humphrey, John, *Opportunities for SMEs in Developing Countries to Upgrade in a Global Economy*, ILO, 2003