

# The Central Highlands' Agro-Forestry Processing Industry Before Challenges In the WTO Era

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International economic integration is participation in the global labor division, in which comparative advantages and competitiveness are prerequisites for successful integration. The Central Highlands are much favorable for development of the agro-forestry processing industry; however, this region is facing not a few challenges in integration. To solve the problem of regional economic development requires a wise leader along with efforts and investments of regional provinces.

## I. FACTS OF THE REGION'S STRENGTHS

The Central Highlands consist of five provinces: Kon Tum, Gia Lai, Đắk Lắk, Đắk Nông and Lâm Đồng. It has a natural area of 54,460 km<sup>2</sup>, population of 4.75 million in 2005 – accounting for 5.72% of Vietnam's figure. It has a lot of potentialities for processing coffee, rubber, cashew nut, cotton, tea, sugarcane, mulberry, corn, cassava, wood and forestry products due to its advantages of basalt soil and climate. According to the 2005 statistics, the region's rubber area occupies 111,350 ha, and dry latex output reaches 69,000 tonnes, an average year-on-year increase of 20.2%. The coffee area remains around 336,000 ha after contraction for sustainable development and coffee bean production posts 709,000 tonnes. The area of growing pepper is 17,980 ha with a yield of 26,330 tonnes; cashew 51,500 ha with 21,400 tonnes; tea 26,800 ha with 165,300 tonnes, up 7.5% per year; cotton 12,350 ha with 15,800 tonnes; sugarcane 22,600 ha with 1 million tonnes; mulberry 6,780 ha (in Lâm Đồng alone), with 3,000 tonnes of cocoons.

- Regarding forestry products, the Central Highlands still have more than 3 million ha of forest land; including nearly 2 million of natural forests, representing 19.45% of the national forest land. The region's total lumber volume reaches over 148 million m<sup>3</sup>, or 34% of the national stock, including 1.5 billion bamboo trees and other forest trees.

- In addition, the Central Highlands are also one of the country's major regions producing corn, soybean, peanut, cassava, etc. ...

In recent years, the Central Highlands' agro-forestry processing industry is determined as a key sector to tap the regional advantages, so local Governments and businesses eagerly invest their efforts and funds in its expansion. The regional processing establishments have increased fast in both terms of number and size. Their production boomed in the 2001-2005 period: rubber 10,000 tonnes, coffee 50,000 tonnes, cashew nut 2,000 tonnes, tea 12,000 tonnes, cotton 15,000 tonnes, silk 144 tonnes, cassava 95,000 tonnes, timber 126,000 m<sup>3</sup>, MDF board 54,000 m<sup>3</sup>, animal feed 27,500 tonnes ... Local companies are trying to churn out refined and semi-finished products for export.

## II. WEAKNESSES OF THE REGION'S AGRO-FORESTRY PROCESSING INDUSTRY

However, the region's agro-forestry processing industry has not yet developed as expected, not fully tapped its potentialities and advantages and not satisfied urgent requirements of the national and local industrialization and modernization as well as international integration. The industry remains a lot of limitations, which badly affects its competitiveness and sustainable development. This can be seen as follows:

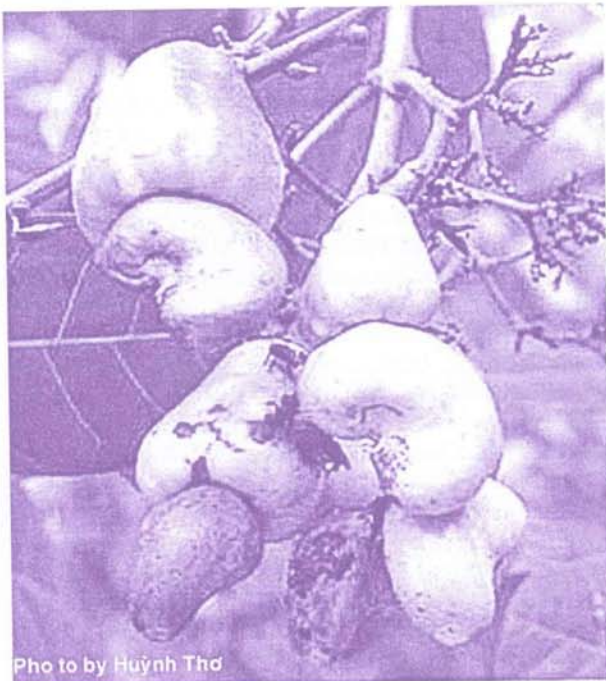
First, the industry has not yet met requirements for enhancing product values and supporting the agricultural and forestry development. It is mainly in the form of processing semi-finished products such as husking and grinding coffee bean and farm produce, processing animal feed and non-refined sugar, and cutting wood for construction, etc. The value added in processing accounts for less than 5% of the region's agro-forestry output value.

Most of the region's farm products are sold as semi-finished items or raw materials. For example, the region's volume of coffee exports are very large,

Table 1: The Central Highlands' area and yield of industrial plants

	Rubber	Coffee	Pepper	Cashew	Tea	Cotton	Sugarcane
1. Area (1,000 ha)							
- The Central Highlands	111.35	336	17.98	51.5	26.8	12.35	22.6
- As compared to the whole country (%)	23.18	68.38	36.62	15.7	22.64	54.65	8.48
2. Yield (1,000 tonnes):							
- The Central Highlands	69	709	26.33	21.4	165.3	15.8	1000
- As compared to the whole country (%)	14.72	92.35	34.19	9.22	30.94	54.67	6.78





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but processed coffee makes up only 30% and includes mainly ground coffee bean. Similarly in forestry processing, the volume of legally-exploited wood accounts less than 40% annually and 80-85% of which is raw materials (sawed wood). In the meantime, the price of raw materials is much lower than that of timber. This causes a big loss of money and jobs to regional provinces.

Second, the processing businesses' equipment and technology are mostly obsolete and slowly innovated, which reduces much of product quality and competitiveness. According to a local survey, as many as 65% of coffee processing businesses and 71% of wood processing enterprises are using backward machinery and their mechanization rate reaches 25-30% only. Especially they have not yet made effective plans for processing coffee in the situation that most of coffee growers and harvesters are families. Harvesting even green coffee bean and processing semi-finished items have lowered product quality and competitiveness, so coffee beans are usually classed and priced under their real value.

In addition, the application of information technology on production and business is not given full attention. Internet is not seen as an important tool to exploit information and advertise and sell products, especially for export.

Third, the planning of processing establishments and material areas remains a lot of inadequacies. The dispute for material areas between processing enterprises and for contract fulfillment and the traders' underestimating of products are common, which is hottest in the processing of sug-

arcane, cashew nut, cassava, tea, etc. The Prime Minister's Decision 80/2002/QĐ-TTg, dated June 24, 2002 on the encouragement of buying products through contracts has been ineffectively implemented.

Over the past years, the loss of processing businesses is mainly attributed to the shortage of materials, low-quality materials, and operation at partial capacity. Most of them operate only at 55% of their capacity, even from 25% to 30%. The quality of raw materials is poor due to reasons from seed selection and cultivation technique to harvesting and post-harvest preservation.

Fourth, the environment pollution tends to increase. This problem is not controlled and given appropriate concerns, even becomes alarming, especially in establishments producing coffee, sugar, cassava, rubber latex, etc located in residential areas. According survey statistics, coffee processing enterprises annually dispose of some 300,000 m<sup>3</sup> of waste water, over 35,000 tonnes of fresh coffee grounds and over 250,000 tonnes of dry husk and dust. The pollution is due to shortcomings in planning, construction investment, and sense of responsibility of processing enterprises and management of Governmental agencies.

Fifth, not a few businesses do not pay full attention to or feel confused in establishment and implementation of the roadmap of international economic integration, including facility construction, technology innovation, human resource development and business planning. In the integration process, the agro-forestry processing industry belongs to sensitive areas, so it is easily exposed to competition pressure and price effects of the world market. Furthermore, the region's industry development is now depending on natural advantages (short-term advantages). This will reduce businesses' competitiveness.

Sixth, the agro-forestry processing industry development lacks strategic coordination and region-level planning. Each province has its own plan, but there is no master plan for the whole region. Such separate expansion will lead to obstacles to full utilization of the regional advantages, disperse resources and cause unnecessary competition.

The following solutions should be implemented in order to make a breakthrough in the regional development of agro-forestry processing industry in the near future, tap existing strengths, promote product competitiveness, speed up economic restructuring, and intensify the regional agriculture and rural areas towards industrialization and modernization.

### III. MAJOR VIEWS OF AND SOLUTIONS TO DEVELOPMENT

## 1. Views

- Make the best use of the regional advantages; help the agro-forestry processing industry produce highly competitive products in domestic and foreign markets; and create the momentum for the region's economic development.

- Determine the agro-forestry processing industry as a key sector in the region's socio-economic development; and accordingly realize multi-purpose investments in the industry: seeking outlets for agro-forestry production; improving rural living conditions; combining economic expansion with environmental protection and sustainable development.

- Mobilize all resources and economic sectors for the industry development; diversify scale, level and forms of production; attach the construction of processing enterprises in major material areas with the expansion of handicraft and family business, exploitation with reforestation and forest protection.

## 2. Solutions

### 2.1. Planning:

The Central Highlands provinces' plans should be reviewed and modified. It must:

- Be in accordance with the national master plan and combine processing with expanding material areas, domestic consumption with export; and give priority to competitive categories and products. The region's master plan should be detailed and applied to each province.

- Meet requirements for the region's fast growth and economic restructuring, industrialization and modernization and sustainable development of the processing industry.

- Specify comprehensive solutions and policies in order to fully utilize comparative advantages, overcome limitations and challenges and take full advantage of development opportunities.

### 2.2. Investment:

Investment capital is a prerequisite and essential factor in the development process. To solve the money problem for its expansion, the region's processing industry must fully utilize internal sources and attract external ones, implement proper policies to attract investment and transfer investment focus to the private sector.

- State-owned investment capital should be used for building the investment climate and supporting production expansion, including: infrastructure construction, especially for interprovincial networks, industrial parks and clusters; expansion of material areas; irrigation; agro-forestry stimulation, development of vocational schools; and implementation of support policies on research, technological advance application, market expansion...State invest-

ments should be combined with other forms such as BOT (Build-Operate-Transfer), BT, and BTO.

- Based on the central Government's policies, the region's provinces should reexamine and modify their investment attraction plans with a view to reaching a consensus on views and ways of cooperation in investment attraction and avoiding harmful competition. The provinces must allure investment in a long term not for a short attraction. To do this, local Governments must improve its investment climate including "hard" factors such as infrastructures, planning, land, materials, labor supply and cost, other incentives; and "soft" factors such as human resources, administrative reform, anti-corruption policies, Government agencies' friendly and assistance services.

### 2.3. Material supply:

- The sector must review the agro-forestry material areas and build high-yield areas which provide high-quality materials at lower prices for processing enterprises. Priority is given to the region's staples including rubber, coffee, wood, tea, pepper, cashew, cotton, corn, vegetable...

- Animal and plant species must be restructured in accordance with the local socio-economic master plan and the regional ecology and climate. The authorities should make investments in irrigation, mechanization, modernization, research and development projects of hi-tech farm production, bio-tech application and clean production.

- Farmers, entrepreneurs, scientists and the Government should be combined to boost up the region's agro-forestry processing industry and implement the Prime Minister's Decision 80/2002/QĐ-TTg dated June 24, 2002 on product sales through contracts.

### 2.4. Expansion of agro-forestry processing enterprises:

- The expansion of agro-forestry processing enterprises must be attached with the planning of material areas. The existing enterprises should be reorganized or equitized to enhance their capacity and performance. Small and medium-sized enterprises' development need be encouraged. The Government is required to support the operation of collective and private sectors with the aim to speed up rural economic restructuring.

- The sector should build industrial parks and concentrated handicraft clusters for finishing and semi-finishing agro-forestry products in accordance with local potentialities and the region's uniting conditions and urbanization.

- The industry development must be combined with environmental protection, job creation, hunger eradication and poverty alleviation for rural areas and sustainable development.



### *2.5. Market expansion and competitiveness enhancement:*

- Based on its market surveys and international commitments, the sector must identify its product structure according to its competitiveness, including product groups with high, conditional and low competitiveness for proper policies. The expansion of preferential products and groups will create a dynamic for production of others.

- Products will be value-added and diversified due to research and development of technological advances in combination with import of high technologies, and innovation of equipment and production lines. However, these investments should meet the requirements for job generation and businesses' conditions.

- Trade promotion activities should be enhanced. Businesses must study to expand foreign markets, advertise their products and get access to their customers by many forms: showrooms, rep offices, fair and exhibitions, trading floors, media, Internet, emails, electronic trading floors. In addition, they should maintain good relationships with traditional markets and develop new markets with stable partners.

### *2.6. Implementation of policies to stimulate expansion of the region's agro-forestry processing industry:*

- Policy on land: The Government well executes new regulations in the Land Law; settle residence and production land for ethnic minorities. It must also encourage people to protect and develop forests under leasing contracts. Businesses should be given

favorable conditions for leasing land as well as exemption and reduction of land rent when building processing establishments.

- Policy on capital: Processing enterprises, service providers and families producing materials should be provided with preferential credit in accordance with the roadmap of implementing international commitments. The Government must help with the expansion of small and medium size enterprises.

- Policy on labor: Agro-forestry processing enterprises should be given financial supports for training and retraining their managers and workers. Local Governments need to invest more funds in building vocational training schools for the agro-forestry industry. The sector is required to grant incentives to skilled workers and technicians in order to attract them to work in remote and distant areas.

- Policy on markets and prices: The Government should devise a special market development strategy for the Central Highlands' agro-forestry processing industry. Processing enterprises are facilitated to build concentrated material areas and freely buy materials according to the plan. They are also assisted in seeking and expanding export markets as well as performing their trade promotion activities.

The Government should also make policies on price stabilization for the Central Highlands' agro-forestry products, offer tax relief for the import of materials, equipment, technologies which cannot be manufactured in Vietnam. In addition, newly-founded agro-forestry processing plants and enterprises should enjoy exemption and reduction of corporate income tax and value-added tax in a specific term. The Government should apply tax policy based on terms to encourage businesses to expand production and innovate their equipment and technologies. ■

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