

# BUSINESS CLIMATE OF THE CERAMIC INDUSTRY

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**H**andicrafts in general, and ceramics in particular, are among staple exports from Vietnam. Export of ceramics rose by 16% a year in 1996-2001. The volume of export, however, is still small in comparison with potentials of the industry because of many reasons. In 2000, earnings from export of ceramics reached US\$54 million while its total output was worth over VND800 billion.

destroyed every year). As a result, the price of wood rose steadily, from VND60,000 per cubic meter in 1996 to 150,000 in 2001. At present, there are over 2,500 ceramic factories all over the country, they consume some 2.4 million cubic meters of wood every year. This volume of wood takes the present area of forest 20 years to produce. Forest destruction and its disastrous consequences seem inevitable.

## Export value of ceramics in recent years (US\$1,000)

Year	Export value	Compared with the previous year
1998	11,600	
1999	36,100	311.21%
2000	54,150	150.0%

The problem with the ceramic industry is sources of raw materials that include kaolin, clay, red earth and muddy earth. With the current rate of urbanization, we are afraid that the industry may run short of raw materials and will have to import earth from neighboring countries or recycle substandard products. Price of clay rose from VND45,000 per cubic meter in 1996 to VND85,000 in 2000 in Bình Dương, and from VND52,000 to VND95,000 in Bát Tràng. It's very hard to predict the price of raw materials in the next five or 10 years if no measure is taken to control and exploit sources of raw materials scientifically.

Each ceramic factory consumes some 400 cubic meters of earth every month, that is, they consume some 12 million cubic meters a year. In the near future, a lot of artificial ponds and lakes will come into being in many districts and provinces producing great effects on the environment.

The next problem is fuel. The main fuel used by most ceramic factory is wood. This is one of causes that lead to forest destruction (some 90,000 hectares of forest are de-

Most work in ceramic factories is done by hand and labor represents some 40% of the product value. That is why the industry can provide jobs for some 100,000 laborers all over the country. Most of them, however, aren't trained and the labor cost has tended to increase in recent years although the average wage is still low in comparison with neighboring countries.

Prices of many services and goods (telecommunications, transport, fuel, public services, etc.) are high in comparison with neighboring countries.

The above-mentioned factors make the production cost rise by some 5% a year on average, and as a result, the comparative advantage of the industry tends to reduce. Meanwhile, selling prices fall by some 8% a year making the profitability lower and lower (it fell by 13% in the period between 1996 and 2000).

A rough estimate of these factors also reveals a dim future for the Vietnam's ceramic industry, especially when China has become a WTO member and Vietnam has to meet requirements posed by the AFTA and US-Vietnam Trade Agreement.

The following are some measures to deal with the said problems and develop the industry more stably in the near future.

- Forming industrial estate specializing in ceramics thereby achieving economies of scale and facilitating investment in infrastructure and human resource.

- Zoning areas for producing raw materials in short and medium terms suitable to local geographical conditions with a view to preventing over-exploitation of earth and forest.

- Zoning areas for growing tree used as fuel and encouraging the use of gas ovens as replacement for traditional ones.

- Introducing preferential treatment for investment in this industry (tax, land use fee, reduction in duties on imported capital goods, better and cheaper public services, etc.)

- Establishing a Vietnam Ceramics Association undertaking tasks of working out medium- and long-term development strategies for the industry, stabilizing selling prices and ensuring fair competition between factories.

- Forming trade promotion agencies in provinces and foreign countries to market Vietnam's ceramics and reduce expenses on participation in trade fairs or exhibitions.

- Cutting fees of transport and telecommunication services and finding footholds in new markets.

The US- Vietnam Trade Agreement leads to reduction in US tariff on Vietnamese ceramics, from 45% to 4% rates. Tariff barriers to trade between ASEAN countries are to be cut by 2003 when the AFTA Agreement comes into effect. These are encouraging signs to the export of Vietnam's ceramics. However, these opportunities also mean keener competition from regional countries, especially from China, a new member of the WTO. A well-devised development strategy for the ceramic industry is much needed now. ■