

Vietnamese Plastics Industry Opportunities And Challenges

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1. The plastics industry's role in the national economy

Plastics is a growth industry in Vietnam. The annual growth rate of the plastics industry has been around 30 percent in recent years. The industry has become one of Vietnam's major export earners. After coal and rice, plastics was the third fastest export growing sector in Vietnam in 2005 despite the recent climb in oil prices and growing demand for inputs that caused the cost of plastic resins to increase.

Vietnam's plastics industry produces most of what the domestic market consumes. Production, however, is currently oriented toward domestic items and packaging. Demand for plastics is rising around the world, and Vietnam's internal market is beginning to demand more hi-tech plastics products, particularly manufacturing machinery and raw materials. Investment opportunities exist in the plastics machinery production, plastics resin production and waste plastics reprocessing sub-sectors.

Understanding the role of plastic products in economic development, following the trend of the plastics industry in the world and trying to meet requirements in domestic production and consumption, Vietnamese plastics industry has developed fast and made significant contributions to the economy and improvement of the people's living standard.

The plastics industry increasingly demonstrates its important role in the country's economic development during the renovation period as follows:

- Plastic products with their superior advantages have replaced traditional ones such as PP packings for jute packings, plastic pipes for steel pipes, plastic boxes for wooden boxes, plastic bottles for glass bottles, plastic bowls for ceramic bowls, plastic foam for rubber mattress.

- Local-made plastic utensils have substituted imports completely.

- Plastic articles have been used for production of exports or directly exported. They also take positive part in the localization program such as plastic components of autos and motorcycles, refrigeration equipment, electronic items...

- The plastics industry has attracted important flows of local and foreign investment for the past 15 years. They were capitalized at around US\$3 billion, 75% of which came from foreign investors.

- The industry's indicators of total output, total sales and labor also saw a rapid growth from 1990 to 2004.

2. Status quo of the Vietnam's plastics industry in recent years

After 1975, total plastics production reached 50,000 tonnes/year, the figure rose 32 times to 1,600,000 tonnes/year in 2004, and HCMC-based plastics companies account for 75% of total output.

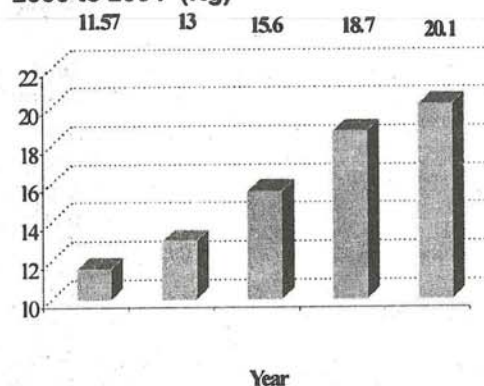
The statistics reveal the Vietnam's per capita plastics production increased fast over the past years from 0.91 kg/person in 1990 to 11.57 kg/person in 2000 and 20.1 kg/person in 2004, or up 22 times. Its growth rate is steadily keep at 10%/year. One of the reasons is plastics businesses have carried out proper plans of investment and production in line with the market demand. It is indicated by their market investigation, product specialization and target production. However, the growth rate was low in 2004 because the world's price boom of crude oil boosted up their input prices and affected the production plan. Even less-competitive businesses had to contract their production.

The capacity by geographical area depends on the number of enterprises in each area. For example, 90.3% of total packing production companies cluster in HCMC, accounting for 80.7% of total out-

Table 1: Growth of the plastics industry from 2000 to 2004

Year	Total output (tonnes)	Plastics/person (kg)	Growth (%)
2000	937,000	11.57	-
2001	1,050,000	13.00	12.4
2002	1,260,000	15.60	20.0
2003	1,450,000	18.70	19.8

Figure 1: Per capita plastics production from 2000 to 2004 (Kg)



put and the remaining 9.7% operate in other cities, churning out 19.3% total products.

The capacity based on business form: Although the number of state-owned makes up a small share of total plastics companies, they still play a leading role. State companies producing plastic packing account for only 5.4% of total 442 enterprises in the industry but their production represents 13.4%. In contrast, private companies occupy 86.2% in quantity but 69.6% in capacity; the respective figures are 7.9% and 17% for the foreign-invested sector.

The Vietnam's plastics industry develops in the condition that the country has not yet built its own petrochemical industry which is the major material supplier for the plastics industry. At present, local materials suppliers meet only 10% of the plastics industry.

As compared to regional countries including China and Thailand, the plastics industry produces a large portion of plastic utensils (over 40%). Although in recent years plastic articles are widely used in construction, farming, production of equipment and machinery, transport, their percentage remains low. This is a shortcoming of the Vietnam's plastics industry on the whole and HCMC in particular because it has not fully tapped its advantages and actively penetrated in major areas of the economy to boost up other industries' growth.

On the other hand, the geographical distribution of plastics companies is not appropriate, thus causing higher costs. Currently, about 80% of production capacity concentrates on the South (mainly HCMC), 15% on the North (mainly Hà Nội and Hải Phòng) and 5% on the central provinces (mainly Đà Nẵng City).

Furthermore, the per capita plastic consumption of Vietnam is still much lower than that of regional countries and the world, for example in 2004, Vietnam 20 kg; Thailand 28.3 kg; Malaysia 45.1 kg; South Korea 81.1 kg; Japan 89 kg; Singapore 122 kg; and the US 180.1 kg/person. These indicators show huge untapped potentials of the Vietnam's plastics industry.

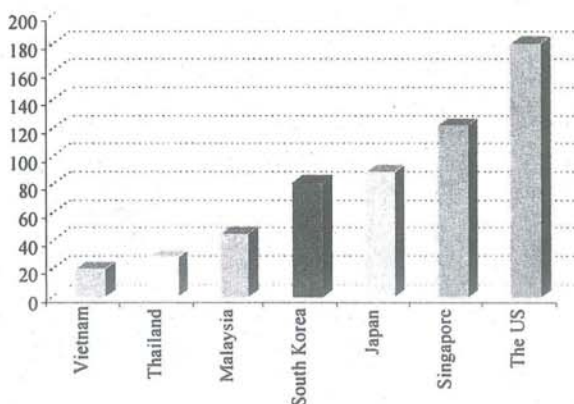
3. Forecast of plastics production in the coming years

Based on rapid increase of relevant industries, the plastics industry's growth rate is estimated by the year 2015 as indicated in the following table:

Table 2: Plastics production plan for the 2005 – 2015 period (1,000 tonnes/year)

Products	2005		2010		2015	
	Output	%	Output	%	Output	%
Packings	800	38	1,600	38	3,192	38
Building materials	400	18	900	21.5	1,848	22
Plastic utensils	550	32	900	21.5	1,512	18
Others	300	12	800	19	1,848	22
Total output	2,100	100	4,200	100	8,400	100

Figure 2: Plastic consumption of selected countries (kg/person)



4. Expansion of consumer markets

The Vietnam's plastics industry is a potential fresh industry, so it requires optimal measures to overcome limitations, improve advantages and promote the competitiveness for higher contribution to the country's economic development. Market policies and solutions are mainly concentrated on expansion of consumer markets.

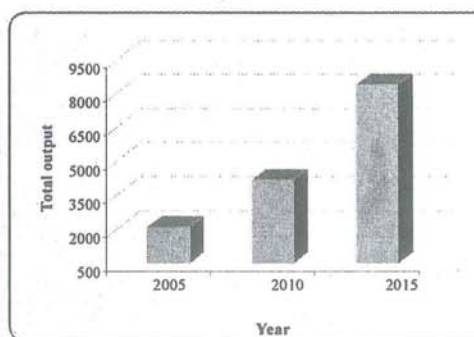
4.1. Regarding domestic markets

This is a determinant to the success or failure of the HCMC-based plastics industry as well as the national plastics industry. If businesses do not understand the market demand, they not only hardly expand their market abroad but also encounter harsh competition of foreign plastics companies even on the home market when the tax barriers are removed.

Through market surveys, businesses know how to improve their products, satisfy the customers' taste and grasp the market trends to win in competition. The HCMC plastics businesses should make a plan on market surveys and earmark a budget for this task.

- First, the industry has to attach importance to the local market with 80 million people and different ages and areas. In addition, it plans investment

Figure 3: Plastics production plan for the 2005 – 2015 period (1,000 tonnes/year)



to provide plastic products for other industries of transport, water supply, agriculture, fishery, food production, cosmetics, and businesses in industrial parks and export processing zones. Especially, they should enhance product quality with abundant designs and restrict at most the import of specialized products.

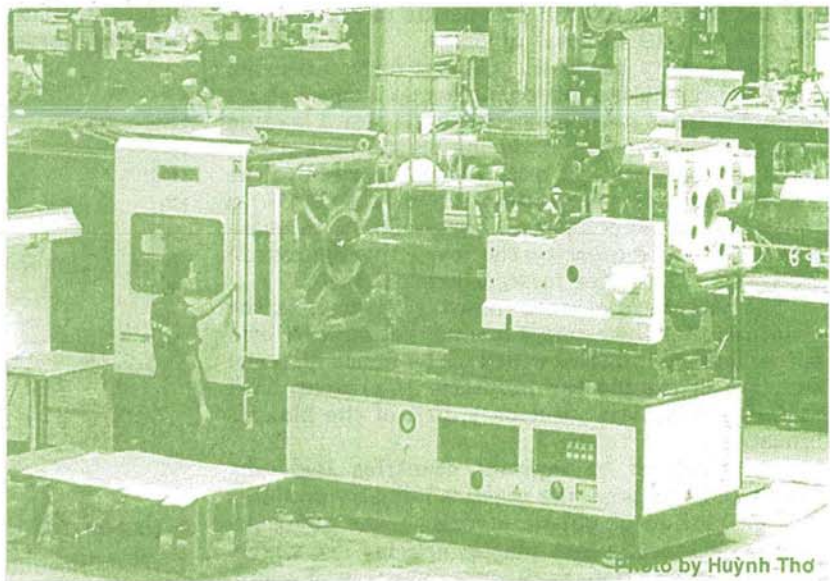
- Second, the industry is required to organize the business linkage program in market intensification and development. This program is implemented in accordance with vertical and horizontal links with the aim to build the optimal system of supply and production, enhance the corporate competitiveness and secure effective use of inputs resources.

- Third, the Vietnam's plastics industry should carry out programs of designing and advertising the brand names for businesses and their products on local and foreign markets by displaying goods in overseas exhibitions and fairs (Vietnamese Houses).

- Fourth, businesses should establish their master plan including development stages which specify major market shares (inside and outside Vietnam) and competitive goods compatible with each market (these items will decide the enterprise and the whole industry's business efficiency).

4.2. Regarding export markets

- First, businesses should maintain and expand traditional markets, at the same time increasingly seek new markets to speed up export. Moreover,



they have to enhance their marketing, gather information and get access to customers with a view to reducing intermediaries.

- Second, companies should improve their distribution channels in foreign target markets. These channels must be built and developed by local businesses and their foreign partners to strengthen flexibility and competitiveness of businesses and provide abundant commodities satisfying customers' taste. In fact, this system is really effective when Vietnam becomes an official member of WTO.

- Third, HCMC plastics businesses must take the best use of the Government's trading promotion programs, for example, participate in market survey tours and fairs and exhibitions, and establish websites to expand export markets.

Businesses should enhance advantages of their potential products in foreign markets, including supermarket bags, raincoats, sprayers, plastic footwear, plastic utensils...In addition, they need to investigate demand and taste of foreign markets to churn out suitable products.

At the same time, businesses have to plan steps of access, penetration and domination for each market with competitive solutions (prices, quality, payment method, and product category). Also, they should boost up their marketing capability, after-sale services and establish appropriate links with production conglomerates in the world. ■

