

Measures to Promote Production of Wooden Exports

by Dr. NGUYỄN QUANG THU



In recent years, the wood processing industry has developed fast and become one of 10 leading exporters in Vietnam. Wooden articles from Vietnam are exported to some 120 countries. Export value made by this industry rose from US\$135 million in 1998 to 1.6 billion in 2005 and topped the 1.2-billion mark in the first eight months of the year. With an average growth rate of 40% in the past five years, the wood processing industry turned Vietnam into one of the four leading exporters of wooden goods in Southeast Asia.

At present, major importers are trying to buy goods from different sellers instead of depending on traditional suppliers, which brings about both opportunities and challenges for Vietnamese exporters. They have chances to enter new markets but they have to face the shortage of certain kinds of raw materials. In addition, they are facing competition from other Asian exporters, such as China, Indonesia, Malaysia, and the Philippines. Wooden articles from Vietnam, moreover, are

not diverse and well-made enough; and they depend too much on foreign designs. To deal with these problems, exporters should apply new technologies and increase investment in machines, equipment and human resource.

The supply of raw materials increases much slower than the processing industry with the result that 80% of raw materials are imports, and local forests can only ensure 20% (some 500,000 cubic meters from natural forests and 1.2 to 1.6 million cubic meters from planted forests every year). At present, there are over 1,200 companies in this industry, including foreign-invested ones. They process some two million cubic meters of wood a year. When exploitation of natural forests is limited, processing companies have to rely on planted forests and as a result, they couldn't ensure a stable supply of raw materials.

Increasing prices of raw materials from foreign market make the situation worse because all countries tend to

reduce the exploitation of forests in order to protect their environment. Some neighboring countries, such as Cambodia and Indonesia, have decided to reduce the export of round timber. Recently, Malaysia and Indonesia – two important suppliers of raw materials to Vietnam – have stopped exporting sawn timber and caused a lot of difficulties for Vietnamese processing companies. Facing such a situation, they have to buy from remoter countries and pay more for transport. They are meeting with more difficulties when the raw materials rises by 10% - 30% and prices of processed wooden goods remain the same.

In the first quarter of 2006, import of wood, as raw materials or semi-finished goods, increased by 33.34% as compared with the same period last year and amounted to US\$141,342,997.

Table 1: Import of wood in the first quarter of 2006

Country	1st quarter	Country	1st quarter
Austria	877,643	Malaysia	28,799,037
Poland	1,714,757	Myanmar	5,223,032
Belgium	252,899	U.S.A.	10,119,448
Brazil	4,703,336	South Africa	3,690,378
Cambodia	12,309,345	New Zealand	5,723,656
Canada	337,186	Russia	463,813
Taiwan	4,654,156	Japan	1,659,040
Germany	1,355,883	Australia	1,851,549
Estonia	241,489	Finland	2,826,826
Netherlands	244,701	France	502,168
South Korea	791,631	Singapore	1,228,082
Hong Kong	215,834	Thailand	7,984,887
Indonesia	3,093,133	Sweden	1,015,487
Italy	327,289	China	11,999,999
Laos	15,147,679	Total	141,342,997

Source: Vinanet, May 11, 2006

The Table 1 shows that Vietnam bought wood from many countries but its main suppliers in the first quarter of 2006 were Malaysia (20.4%), Laos (10.6%), Cambodia (8.7%), China (8.5%)

and USA (7.15%). When some neighboring countries, such as Malaysia, Indonesia and Cambodia reduced their export of sawn wood, Vietnam has to buy wood from others, such as Russia, Italy, Sweden, USA and Canada. At present, there are some 300 companies processing wood of relatively large scale in Vietnam. They concentrate in Southern provinces and some traditional guilds in the North and produce two main lines of products: indoor ones from HCMC and the Eastern South; and outdoor ones from Quy Nhon.

1. The plan for the industry up to 2015

a. Wood processing:

- Exploiting forest resources effectively and limiting the use of wood from natural forests
- Encouraging companies to process wood from planted forests
- Investing in techniques and facilities for producing wooden items for export

b. Export promotion:

- Liberating trade and investment in the wood processing industry
- Carrying out trade promotion, expanding export markets and improving competitiveness of local exporters on foreign markets

c. The program to develop the wood processing industry by the Ministry of Agriculture and Rural Development

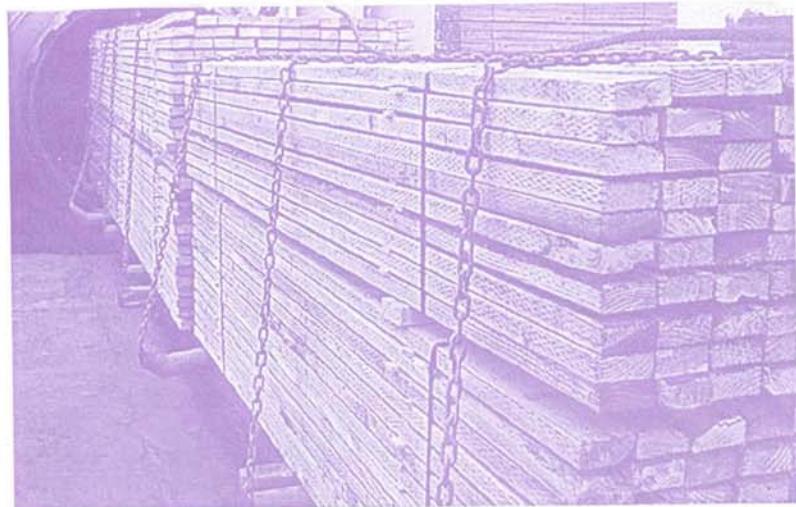
This program suggests to companies a series of measures to ensure the supply of raw materials and expand their market shares.

(1) Supply of raw materials:

- Wood from natural forest should be used primarily for making wooden works of art and well-processed items.
- Wood from planted forest is used mainly for making pulp. Zoning areas for afforestation must be done before building of processing factories.

- Companies are encouraged to make the best use of imported wood.

The industry had better enter



contracts with foreign owners of forests in order to ensure a stable and long-term supply of raw materials. This is an idea suggested by the HCMC Association of Wood Processing Concerns when facing the fact that the shortage of raw materials may prolong for the next 15 or 20 years. To achieve this aim, they need support from governmental bodies when negotiating and entering contracts with foreign suppliers. In addition, companies should think of investing in the afforestation and processing factories after securing long-term supply contracts from foreign partners. Some companies have made progress in this direction: Sadaco, an exporter of wooden items for example has entered US\$250,000-million contracts with two major suppliers of wood in Canada – Interwood and Canfor – for the supply of 150,000 cubic meters per year in 2006-2010.

As for the local sources of raw materials, the Government could help establish three wood exchanges in the North, the South and Central Vietnam, and give incentives in terms of land leasing and credit supply to wood processing companies.

(2) Production of wooden goods

- Wooden works of art could be produced on both large and small scales because they depend a lot on manual skills.

- Technical assistance and infor-

mation must be available for traditional guilds in order to help them develop their production.

(3) Marketing

At present, wooden goods from Vietnam have had footholds in many markets but full attention must be paid to the following ones:

- The U.S.: This is a demanding market while the wood exports from Vietnam are less competitive. Exporters should beef up their trade promotion and marketing campaigns based on their comparative advantages.

- The EU: This is also a demanding market where suppliers have started buying furniture from Asian countries recently. So it is a potential market for Vietnam.

- Japan: This is an emerging market for wooden items. Local exporters should pay full attention to hygienic standards, designs and package for their goods.

Up to now, they are main markets for the industry. Of US\$1.2 billion worth of wooden exports earned in the first eight months of 2006; some 466 million came from the U.S.; and 170 million from Japan. So we can expect an export value of some US\$2 billion for the year. Of course, local processing companies and exporters still have a long way to go to achieve this aim and ensure a sustainable development for their industry ■