WOOD MARKETS ASIA

Trends, Issues and Market Opportunities 2005 - 2010

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VIETNAM: OPEN POLICIES ON FOREIGN INVESTMENT & EXPORTS /
IMPORTS DRIVING RECORD EXPORT EARNINGS IN WOODEN
FURNITURE

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Overview
One of the developing world success stories has been the furniture sector development in Vietnam over the past 5 years. This socialist country has used China as a role model and one of the sectors open for business has been RTA-style (ready-to-assemble) furniture, in particular garden furniture. Imports and exports were opened in the late 1990’s and investments in industrial development followed.

By 2003, wood products exports, principally furniture hit US $ 560. million and for 2004 the exports achieved US $ 1.05 billion with a goal to double by 2010. This recent rapid growth has been fuelled by a bi-lateral trade agreement signed with the U.S. in 2001 dropping tariffs from 40 – 65% to 3 %. In addition, Vietnam is working through the last phases of accession into the WTO.

The Vietnam furniture development has not been easy. Raw material is limited, as over 80 % of the wood processed is imported. Some logs and lumber are being imported from as far as South America. Low labour costs (US$ 50 – 60/month) have been the principal driving factor for industry expansion, with other costs at acceptable levels for exports. Some secondary supplies are higher cost but expected to decline with increased furniture production. Required infrastructure is also developing. The government continues to support growth for the furniture sector.

By and large, the country lacks external connections for wood supply and for international marketing alliances / joint ventures. This is a recurring theme in talking with industry owners and general managers. It is also provides a increasing opportunities for New Zealand / Australasian pine / hardwood export products, both sawn timber and related value-added products.

Background
Late last year, the authors prepared two articles on Vietnam for the NZ Forest Industries Journal. (Donnelly & Ogle, “New Vistas in Vietnam”, pages 12-14, November, 2004 and “Vietnam Pushes for Export Growth, pages 12 – 15, December 2004.) These articles, based upon the authors’ experiences, provide a background for the presentation today and develop the theme of resource dependency on imports and furniture industry development.

One of the truisms about the Vietnam wooden furniture industry is that changes occur rapidly. A shift to importing higher grade pine sawn timber is underway. It is extremely dynamic. Old objectives are superseded and new goals erected. Vietnam is a planned
socialist economy that is open for business in selected sectors with dramatic results. Most importantly, Vietnam is and will be short of forest resources for the next 15 - 20 years or longer. There are still business limitations for overseas suppliers, but the longer term indications are key considerations for the New Zealand wood products exporters. The questions today involve positioning for the future.

Background on Vietnam – the country
Geographically, Vietnam is an elongated S-shaped territory stretching 1600 km along the eastern coast of the Indochinese Peninsula with the following statistics:
Land area: 329,560 sq km (slightly larger than Italy)
Coastline: 3,444. km
Arable land: 19.7 
Main cultivated area: Red River(15,000sqkm)&Mekong Delta(60,000sqkm)
Natural Resources: phosphate, coal, manganese, bauxite, chromate, offshore oil & gas, forests and hydropower.

-- the Vietnamese people and culture
Population: 83.5 million (June 2005) and growth rate 1.04%.
Median age: 25.5 years
Labour force: 43.0 million
Culture: national unity, excellence, hard-work, good education / literacy systems, and fast improving English language skills (especially in the South)

-- the Vietnamese economy
Vietnam remains a poor country but has opened its doors to international investors and to exports/imports. It is a success story second to China as the economic indicators outline in Table 1 for the past 6-years:

<table>
<thead>
<tr>
<th>Vietnam Economic Indicators – 2000 – 2005(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP ( US$ bill)</strong></td>
</tr>
<tr>
<td><strong>GDP /Capita -$</strong></td>
</tr>
<tr>
<td><strong>Real GDP Growth</strong></td>
</tr>
<tr>
<td><strong>Current Accnt Bal.(US $ mill)</strong></td>
</tr>
<tr>
<td><strong>Current Accnt Bal. (%GDP)</strong></td>
</tr>
<tr>
<td><strong>Goods&amp; Service Export (%GDP)</strong></td>
</tr>
<tr>
<td><strong>Inflation %</strong></td>
</tr>
<tr>
<td><strong>Unemployment Rate %</strong></td>
</tr>
</tbody>
</table>

e = estimated
Source: IMF Data
While Vietnam's economy has grown by an average of 7% over the past decade, the progress has been very uneven. The south has adopted the government's economic reforms much more readily than the north. Ho Chi Minh City accounts for 17% of national output, 30% of foreign investment and 40% of exports. This stands in contrast to a 9% share of the total population. Local income per capita is roughly four times the national average. Adding in the four adjacent provinces, increases the regional share of national output to 40% and exports to 70% (The Economist, April 2005). It has also become the major regional centre for the furniture industry, and in particular overseas investors.

**Wood Products Industry is a Furniture Industry**

The wood processing industry is widely distributed. In 2002, there were an estimated 1200 enterprises nationwide, with a total processing capacity of 2 million m$^3$/year and the estimated operating rate was 60%. The principal products are furniture. It is estimated that the total processing capacity has doubled over the past 3 years, largely through additional foreign-ownership.

From an ownership perspective, the industry is comprised of state-owned enterprises, local private sector companies, foreign-owned companies and joint-venture companies. The 2002 capacity distribution by ownership was as follows:

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Capacity Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned (41%)</td>
<td>0.82 million m$^3$/yr</td>
</tr>
<tr>
<td>Non-state owned (56%)</td>
<td>1.12</td>
</tr>
<tr>
<td>Foreign-owned (3%)</td>
<td>0.06</td>
</tr>
<tr>
<td>Total</td>
<td>2.00 million m$^3$/yr</td>
</tr>
</tbody>
</table>

Source: MARD (Ministry of Agriculture & Rural Development) estimates, 2003

The government’s open policy on foreign investment has created opportunities for overseas companies especially from Asia (Taiwan, Singapore, Malaysia and now China) as well as Denmark, Norway, Sweden and France. These foreign owned companies and joint ventures have helped to increase the rapid rise in wood products exports. It is understood that more of the state-owned enterprises will be privatised as joint-stock companies within the next 5 years. Both of these trends serve to make the industry more efficient and viable in export markets (USDA Foreign Agricultural Service GAIN Report 2003 VM3026)

The larger and growing furniture export industry is concentrated in 4 areas with indicated Ministry of Trade capacity estimates in brackets: in the South around Ho Chi Minh City (30%), South/Central Coast (13%), Hanoi / Red River Delta (15%) and North Central (15%). With the latest capacity increases, these percentages will shift to the south.

**Wooden furniture and forest products exports from Vietnam**

The export of forest products has received government encouragement. Since 1996, timber exports have demonstrated excellent growth. The rate of growth and official projections for 2004 – 2010 are most impressive (Table 3)
Table 3
Vietnam Forest Products Industry Exports, 1998- 2010 (e)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wood Products Exports</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>US$ 135 mill.</td>
<td>---%</td>
</tr>
<tr>
<td>2000</td>
<td>219</td>
<td>62</td>
</tr>
<tr>
<td>2001</td>
<td>337</td>
<td>54</td>
</tr>
<tr>
<td>2002</td>
<td>430</td>
<td>28</td>
</tr>
<tr>
<td>2003</td>
<td>560</td>
<td>30</td>
</tr>
<tr>
<td>2004</td>
<td>800e</td>
<td>43e</td>
</tr>
<tr>
<td>2005</td>
<td>1,000e</td>
<td>20e</td>
</tr>
<tr>
<td>2010</td>
<td>2,000e</td>
<td>100(CAGR15)e</td>
</tr>
</tbody>
</table>


For 2002-2004, the main exported wood products were manufactured garden furniture (90%), of low-to-medium quality, which are in high demand and are competitive in price. For 2002, the major markets were the EU at 29% of the sales volume, and Japan with 20% followed by the U.S. at 17%. Other exports included over 100 countries. It is anticipated that U.S. shipments in 2004 will be equivalent to the EU and Japan, with further future growth in the U.S. (Vietnam Economic Times, April 2004). Moreover, the industry is beginning to diversify into indoor furniture, and the Chinese have started relocating some bedroom-furniture capacity to Vietnam to evade a US tariff enacted in 2004. The winning Vietnam industry value proposition to date has been product quality, service, and good prices compared to equivalent products from other Asian countries, including China.

Wooden furniture exports continue to soar dramatically in early 2005
In another surprise, Vietnam's furniture exports in the first four months of 2005 were US $ 511.1, a 57.2% increase over the same period in 2004, according to the Vietnam Ministry of Trade. April 2005 was an exceptional export month with a US $150. in wood product exports, with a growth rate of 74.4%, to meet seasonal furniture demands in the Northern Hemisphere.

Major regional export markets for this 4-month period were unchanged but significant growth was reported:

- EU remained the largest – US$ 142.6 million (up 50.1%)
- The US was second with US$ 104. million (up 133%)
- Japan was third at US $ 55. million (up 39.2%)
To supply these export levels wood imports during the first 4-months increased to US$ 159. million, a gain of 34.78%. Principal imports were from Malaysia, Cambodia, Thailand and New Zealand. (*Vietnam Times*, 20 May 2005)

Reportedly, the American government is now studying anti-dumping duties, but a major portion of the Vietnamese furniture in the U.S. is garden-type furniture which is not produced in the U.S. As for the bedroom furniture, it is a lesser portion of the exports and if re-exporting “re-labeled” Chinese furniture is an issue, the Vietnamese will work to control the situation. They are not keen to risk confrontation in advance of joining the WTO.

**Log and sawn timber imports by Vietnam**

Imports in 2002 of wood materials were reported as US $ 250 million, largely log and sawn timber. Reliable import statistics are not published by the Vietnamese. The major imports were from Asian countries, Laos, Cambodia, Myanmar, Malaysia and Indonesia. Other log and lumber import sources included: the U.S., New Zealand, Thailand, and Taiwan and the Solomon Islands. New sources in 2004 include Sweden, Brazil, Uruguay, South Africa and PNG (uncertified).

The species mix has been largely hardwoods from sustainable sources, with a preference for FSC certification to satisfy EU and US market requirements. Species reported for garden furniture included eucalyptus, teak, yellow balau, keruing, acacia (domestic), and other similar tropical species. For indoor furniture, the species utilized were pine (domestic/ imported), rubberwood (domestic/ import) and native hardwoods plus some high-valued imported hardwoods for indoor furniture.

For New Zealand, log / timber imports over the past 3 years have increased rapidly and Vietnam ranked 5th in terms of sawn timber exports in 2004. It was 7th in 2003. Table 4 indicates New Zealand log and sawn timber exports:

**Table 4**

<table>
<thead>
<tr>
<th>Year</th>
<th>Logs &amp; Poles (000)</th>
<th>Sawn Timber (000)</th>
<th>Total Value (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>cubic metres</td>
<td>NzS</td>
<td>cubic metres</td>
</tr>
<tr>
<td>2000</td>
<td>12,419</td>
<td>1,746</td>
<td>13,027</td>
</tr>
<tr>
<td>2001</td>
<td>44,228</td>
<td>2,730</td>
<td>15,971</td>
</tr>
<tr>
<td>2002</td>
<td>34</td>
<td>52,829</td>
<td>12,871</td>
</tr>
<tr>
<td>2003</td>
<td>10,317</td>
<td>639</td>
<td>69,246</td>
</tr>
<tr>
<td>2004p</td>
<td>5,508</td>
<td>639</td>
<td>95,165</td>
</tr>
</tbody>
</table>


The New Zealand export trend is to increased sawn timber and a higher level of industrial grades. The log volumes have been variable and tended to be lower quality material.
There is market potential to develop more sales as the Vietnam export industry doubled in 2003 and likely will double again 2004 with strong growth projections (Table 3). More importantly, the product mix is changing with more indoor furniture production underway. There is more capacity projected for pine industrial grades, including higher grades, and logs, too. Also, there is a hardwood market that supports plantation hardwoods as well as sustainable indigenous species. Some Vietnam growth companies, unacquainted with New Zealand, are looking for new log and sawn timber suppliers. In most instances, these companies would like to deal directly with the suppliers.

Recent forest product supply-demand modeling for the Vietnam government indicates substantial sawlog import growth from 2005 to 2015 and a reduction in 2020 as more self-sufficiency is achieved from domestic forests. During this same period, sawn timber imports are expected to increase five fold (Table 5):

| Table 5 | Preliminary Forecast of Vietnamese Log & Sawn Timber Imports  
For Furniture / SPWP Exports Under WTO Scenario  
( in millions of cubic metres) |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Sawlog imports</td>
<td>0.50</td>
</tr>
<tr>
<td>Sawn timber imports</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Source: Vietnam National Forest Strategy Model Utilising Authors’ Assumptions, June 2005

Based upon these assumptions, Vietnam presents a sizeable but not overwhelming marketing opportunity for New Zealand. Clearly, a percentage of these requirements will be higher quality furniture grade pine. One might suggest Vietnam is not as overwhelming as China.

**Gaining market accessibility for New Zealand suppliers**

Typically, developing markets in countries, like Vietnam, are serviced by agents who have language and local business skills. Today, the Vietnamese industry talk about their “Taiwanese agents” who both buy and sell wood products. There are some criticisms leveled against the current sales agency “services”. The observation is that the industry would like to deal directly with its wood products suppliers. The largest companies do deal directly including South American suppliers. New Zealand has a positive image and direct contacts are to be encouraged, particularly in developing value-added product markets.

For New Zealand, establishing direct contacts in Vietnam is a wider issue and likely an industry opportunity. Several options come to mind: (1)[Visiting New Zealand delegations to develop Vietnam market and customer profiles](#). We believe several small groups of 4-5 individuals representing industry associations, as the Pine Manufacturers Association, could provide regional overviews. Assistance can be provided by NZ T&E who has offices in Ho Chi Minh City and is taking an active role in market development in the South. In addition, there are at least two Vietnamese trade
associations that can help. One is HAWA or the Ho Chi Minh City Handicraft and Wood Industry Association and the other national association is the Vietnam Timber & Forest Products Association. In addition, MARD (Ministry of Agricultural & Rural Development) is involved directly in the management of some 40% of the existing industry and interested in helping with industry development. All of these groups could help organize visitations and review market access alternatives, including distribution requirements. Successful visits could be followed by specific/selected Vietnamese visitations.

(2) Participating in trade promotions. There is an annual Furniture Expo Exhibition in Ho Chi Minh City in October. NZ T&E has a stand there representing interested timber suppliers. This show is widely attended and provides a good opportunity to meet the Vietnamese industry.

(3) Tracking back through the furniture supply chain. New Zealand pine carries a positive image in Vietnam and internationally. As new furniture factories develop and relocate, wood supply is a big concern. Also, there are a significant number of furniture producers who are currently in the domestic market who are venturing into exports each year. Many of these new entrants are Government-owned and struggle with establishing supply contacts. The furniture suppliers/distributors could provide the initial market contacts for timber. NZ T&E Ho Chi Minh City has an information-base on these developments.

Once market profiles are developed, one can identify preferred customers and industry segments. There are a very large number of furniture firms (1,200 is the standard of reference) but most likely only 150 or so are major exporters. These are still relatively small units by international standards, although a number of rapidly expanding larger producers are beginning to emerge.

Most furniture factories have simple sawmills utilizing the French-style CD horizontal band mill which works well with tropical species but is not a grade recovery option for high grade pine. In addition, there are small dry kilns which at the basic level are equivalent to “pizza ovens”. Within the smaller firms, there is still greater variation in capability and performance. In simplistic terms, there are 3 furniture firm size-classifications in Vietnam:

(a) Small (US$ 1.5 – 3. million in annual sales) – typically the production process is conducted on the floor (an extension of tending rice crops) with very manual equipment.

(b) Medium (US$ 3. – 8.+ million in annual sales) – process improvements with more equipment, work benches, and automation

(c) Large (US$ 18 – 22 + million in annual sales) -- these firms have semi-automated processes with production / quality controls (ISO 9000). Normally they utilize Taiwanese equipment generally with attention to quality and production organization. These latter firms are quite impressive both in terms of quality control and progressive management.

The obvious decisions are selecting long term survivors and those committed to in adding value to the end product. Granted there is continuing investment and upgrading. Vietnam should be viewed as a smaller and easier market to enter than China.
Value Propositions for NZ Pine and Value-Adding

Market entry can be pitched to highlight the benefits. NZ pine has achieved some market recognition and support based upon performance to date, according to the industry experts and NZ T&E. The positive attributes enumerated were the following:

- **Sustainable plantation resource** – As principal furniture markets are the EU and USA, sustainability is marketing requirement. The leading Vietnamese companies have FSC Chain of Custody certification, but accept other indications of sustainability, such as plantation resource management.

- **Basic NZ pine wood qualities** – The positive furniture aspects include even grain, uniform colour, excellent machining and finishing properties. Consistently kiln dried product delivered to market.

- **Sustainable supplies available** – NZ has an adequate supply base to supply both current and future Vietnam requirements.

- **NZ intangibles** – Most Vietnamese who have heard of New Zealand are very interested in the country, its people, and culture. There have been various TV documentaries on New Zealand that have aroused local interest in this sparsely-populated, environmentally friendly country.

Looking ahead there are value adding aspects to consider for developing higher-value furniture-related products. This would include high-grade cut-stock, matching sliced veneer, and specialty products, such as quarter-sawn products and laminating stock. Some regions, as Southland and the West Coast, have special pine properties suitable for special higher-grade furniture. These regional supplies are open to differentiation as specialty furniture grades. The extent to which Vietnam will require such value added products remains to be determined. Also, there are down-stream integration possibilities for furniture combining Vietnam and New Zealand in joint ventures. This envisions the transfer of high-labour content products, as chairs, to Vietnam and maintaining high-resource content products, as tables and cabinets, in New Zealand. This type of cross-product integration will be driven by costs and markets. It is unlikely attractive to many domestic furniture producers.