ASIA-INVEST BUSINESS PRIMING FUND
MARKET-PLACE MONITORING SCHEME

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EXECUTIVE SUMMARY

VIETNAM

Economic overview

1998 was the most challenging year for the Vietnamese economy since the renovation policy started, as Vietnam had to face simultaneously natural disasters and the deep impacts of the regional economic crisis.
GDP had a growth rate of 6%, the socio- economic stability was maintained, and these were judged as considerable achievements compared to several other economies in the region, with some of them experiencing a negative growth rate.

Agriculture had a growth rate of 3%, while industry increased of 11.5%, reflecting the big efforts of this sector in a more difficult situation of competition and consumption. Production of quite a number of products decreased due to their slow consumption and harsh competition with exported goods.
Products of State-owned businesses increased of 8.7%, private businesses 6.2% and foreign-invested businesses 22%. These figures prove that if these businesses operate effectively and have good competitiveness they can find markets for their products even in the difficult situation caused by the regional economic crisis.

The impact of the regional crisis on the Vietnamese economy is mostly reflected in the decline in exports and in foreign direct investments. In 1998 exports increased roughly 0.3% compared to 22% in the previous year, and production of many goods, excluding rice and crude oil, declined sharply.
Foreign direct investments declined markedly. Disbursement of foreign investments was estimated at USD 1,735 million, a decrease of 40% over the previous year. With investment of some big projects licensed in December 1998, the total investment capital would have reached USD 4 billion. Of worry was the increasing number of postponed projects, which affects the foreign investment in coming years.

The regional economic crisis can be gradually overcome, but the growth in the region is still slow.
The macro economic reform must focus on reforming the banks, managing the foreign currency, paying the foreign and accumulated debts, creating a source of rapid circulating capital in the economy and providing the necessary capital for business activities. But the economic reforms as well as the economic policies can only bring results if they are implemented along with the administrative reforms.

Forestry Resources

The total area of Vietnam covered by forests is approx. ¾ of the country. In that area approx.m^3 525 million of various species of woods are present, with an average of m^3 58 per hectare. In particular in the forests of the country there are about 4 billion slanders and bamboo and a wide range of rare woods, such as: ebony, ironwood, petohore and other 1500 different species of woods. The forestry area of Vietnam yearly decreases of about 100.000 hectares.

In the last two decades, the area of forests of Vietnam deeply declined in consideration of the fires, the industrial utilisation of the resources, the consumption of woods by of the nomad population, the deforestation process for the creation of new cultivation areas and the growth of the urban areas.

The average annual demand of Vietnam of woods is m^3 4 million, of which $m^3$1,3/1,7 is satisfied by the internal production and $m^3$2,2/2,5 million is satisfied by imports from the neighbouring countries (Cambodia, Myanmar, Indonesia, etc.).
The Vietnamese companies face the problem of the limitations taxes from the Ministry of the Forests for the dimensions of the wood products. The restriction has the objective to discourage the use of parts in wood of great dimensions, since they involve waste of raw material.
Due to the restrictive policy of the local Government about the utilisation of the Vietnam forestry resources, the companies of the sector direct their production only on the internal market. The sector is substantially labour intensive, in consideration of the one of the cheapest workforce of Asia and of the lack of infrastructures.

Furniture

The Vietnamese furniture industry has not a particular tradition in the production of wooden furniture and components. The majority of the national production is directed to the internal market and is characterized by low quality standards and low prices.

The Government measure of 1987, that stopped the export of Vietnamese woods, determined a growth of the domestic production and the start up of investments in the sector. In particular, machinery and technology were imported from Japan, Korea and Taiwan, even if the average standards of the local furniture companies is still low.

The main products of the Vietnam furniture companies are office and house furniture and traditionally styled handicraft furniture.
The local furniture industry is influenced by the Government measures that impose the dimension of the products. It is particularly lacking in the finishing processes. For this reason, the international importers are more interested in Vietnam products not completely finished and requiring further completion operations.

On the whole the quality standard of the local production is low and the technology used is obsolete, and there is a substantial lack of machinery for a wide range of productions.

Woodworking machinery

The fleet of wood working machinery of the country is composed by products imported mainly from France, USA, China and Russia. In the last decades machinery with low quality standards and with cheap prices was imported in Vietnam. In particular, in the ‘80s used machines from Taiwan were imported in consideration of the cheap costs.

The technology level of the imported machines grew in the first ‘90s, as a consequence of the need of producing better furniture for the international markets. For this reason the percentage of used machines decreased, and the more important exporter countries became Japan, Korea, Germany and Italy.

The European products are considered of high quality and are very appreciated by the Vietnamese operators, even if those machines are commercialised in the local markets by traders from Hong Kong and Singapore.

Conclusion and recommendations

At the moment, the Vietnamese market of wood and timber does not offer opportunities for the companies importers of wood and timber, and relevant changes are not predictable in the coming years.
Imports of furniture in Vietnam are low, mainly in consideration of the influences of the Asian financial crisis and the lack of financial resources that characterised the Vietnamese economy.
At the moment, the majority of the imported furniture is represented by low quality products from Asian Countries.

Vietnamese companies highly appreciated the quality of the furniture in wood from Italy and Spain. Most of the furniture available in Vietnam come from Malaysia, Hong Kong, Indonesia and other Asean countries. Just few brand from Europe and USA are available in Vietnam because supplied via Hong Kong and Singapore. The reason why is because of the price of European furniture, that cannot, for the time being, meet the requirement of Vietnamese market. Moreover, the high import tariff disincentivates the Vietnamese trading companies to make any marketing effort, but in 1999 import duties were reduced.

Now is growing a new class of Vietnamese spenders interested in this kind of furniture and available to pay for a good quality/price ratio. Of course, Vietnamese new consumers and new traders have to be educated towards this furniture design and supported for the commercial and financial aspects.

The Vietnamese companies producing semifinished and finished products are quite interested and motivated to export their products but they need financial, marketing and commercial support. Most of the exports refer to medium and low quality goods destinate mainly to Asean countries. They need to upgrade their production system but they are lack of capital.

Vietnamese companies strongly welcome Italian and Spanish suppliers of woodworking machinery. This represents an imperative need in order to grow and match the European standard requirements. Several Vietnamese companies wish strongly to follow up the contacts with the Western suppliers and are quite interested in evaluate to buy such new technology. However they need financial support for their buying intention as they are lacking in capital. This means for the suppliers to evaluate delay payment via export credit, international soft loan, cooperation in terms of joint venture or business cooperation contract.

On the whole, there is a dire need to improve the level of technology of the local wood based industry. However, the Vietnamese imports of wood working machinery decreased from USD 5.9 in 1997 to USD 3,1 million in 1999 (approx. -48%), as a consequence of the Asian financial crisis. In consideration of the needs of the local industry of updated technology and of the recovery in 1999 of the main Asian economies, including Vietnam, it is forecast a growth of the demand of wood working machinery for year 2000 and beyond, even if the import volume remains still lower compared to that of the other Asean Countries.