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Vietnam's wood industry and its potential to Finland

Vietnam has been one of the fastest growing economies in the world in the last ten years. On wood and forest products, Vietnam has become a leading export country. At the international scale, Vietnam has become the 5th biggest wooden furniture exporter in the world ranking, the 2nd in Asia and the 1st in Southeast Asia.

The development of wood industry is one of the Vietnamese government priorities and has been very successful in expanding export in term of value and markets. However, the wood industry is largely based on low costs and labour intensive manufacturing. Vietnam is aware of this problem in the long run and the country has recently focused on new technologies and innovation. Its goal is to increase efficiency and productivities. The corona pandemic has highlighted the need to modernize the production system.

Vietnam has been one of the fastest growing economies in the world over the last ten years. In early 1990s, Vietnam implemented macroeconomic reforms so called *Doi Moi* policy. During the recent years, Vietnam has made a remarkable development progress from one of the poorest countries in the world to a lower middle-income country within a short period of time. From 2002 to 2020, GDP per capita increased 3.6 times, reaching nearly 3,700 USD. The poverty rate (according to the standard of 1.9 USD/day) dropped sharply from more than 32% in 2011 to less than 2%.

Vietnam has been very successful in its fight against the COVID-19 pandemic. Despite the effects of the pandemic, Vietnam maintained its position as one of the fastest growing economies in Southeast Asia and around the world. The country's economy grew by 2.58% in 2021 due to the arrival of the Delta variant but it is expected to recover to 6.0 – 6.5% in 2022 and GDP per capita reaches 3,900 USD as the country's socio-economic development target. Regarding the economic structure in 2021, the agriculture – forestry - fishery accounted for 12.36%, industry and construction accounted for 37.86%, service sector accounted for 40.95%, and product tax minus product subsidies accounted for 8.83%.

The country's population of around 100 million (98.51 million as of 2021) is typically young in developing countries, with 51.3% of them working age. The population forecasts to grow by 1% annually. The middle class in the country is growing and urbanization is advancing at a rapid pace.

In wood and forest products processing industry, the sector is considered as an industry of long traditions. Earlier, it was manually processes industry and mainly exporting raw materials to other Asian countries. Despite a low starting point where most of products were mainly for domestic consumption, and export products were limited to only some raw materials to some Asian countries, the wood and forest products processing industry has currently gained a remarkable increase in turnover from exporting wood and forest products. It is due to the recent years, Vietnamese enterprises have invested in



equipment and production resulting in a semi-automatic processing industry in the beginning of the last decade.

Year 2008 was the marking year of Vietnam when the total number of enterprises increased almost double compared to the previous years (with a total of 4,500 enterprises, of which 3,900 domestic enterprises and 600 foreign direct investment ones). A majority (about 95%) of wood and forest products processing enterprises are private ones but about 93% of them are small and super small scale enterprises. Vietnam currently has 5,580 enterprises producing, processing and trading wood and forest products, in which there are 2,600 direct exporting enterprises. In 2021, there were 203 newly registered enterprises, of which 46 FDI companies, mainly from China (78%). One company from Finland registered its investment in Vietnam in 2021.

Export wood processing enterprises are not evenly distributed across the country but only focus on a few provinces in the South Central region (Binh Dinh and Phu Yen provinces) and the Southeast (Ho Chi Minh City, Dong Nai, Binh Duong, Long An, Binh Phuoc, etc.) with the number of enterprises counting for over 80% of the total number of wood processing and export enterprises in Vietnam.

For the last years, wood and forest products processing industry have had a remarkable increase of nearly 7 times, that is, from USD 2.3 billion in 2007 to USD 15.96 billion in 2021. Wood and forest products processing industry has become the backbone among the fishery-agro-forestry products contributing significantly to the socio-economic development of Vietnam. The tremendous growth in both volume and scale of production. Along with that, most enterprises have changed technological production lines and from using imported plantation materials to domestically planted forest materials, especially in artificial board production. The end products in Vietnam are mainly furniture (out-door, in-door, home, office, etc.) and construction products (exterior decoration products, doors, etc.). They are made from solid wood, board wood (plywood, MDF, etc.), recycled wood, etc. So far, Vietnam has become a leading export country on wood and forest products. At the international scale, Vietnam has become the 5th biggest timber exporter in the world ranking the 2nd in Asia and the 1st in Southeast Asia.

In 2021, the Government changed its strategy from the "zero covid" to the "active living with the covid-19 pandemic" helped over 80% of the industry's employees returning to manufacture. The export turnover of timber and wood products in the first 4 months of 2022 reached USD 5.59 billion, up 6.7% over the same period in 2021. The total export turnover was USD 15.96 billion in 2021, up 20.7% compared to 2020.

Since 2018, the Government e.g. the Prime Minister has been chairing the wood and forest products processing and export conference, which has been organized consecutively on an annual basis. This conference has facilitated the stronger development of the wood and forest products industry in recent years. The Government has also set up some concrete targets for the wood industry. For instance, as the Government's Directive No. 08/CT-TTg dated 28 March 2019, Vietnam targets to become a legal, high quality and sustainable wood industry hub for the world. In term of export turnover, Vietnam expects to increase its market share in the world from the current 6% to about 10% by 2025 and reach USD 20 billion in export value in 2025 and USD 25 billion



in 2030. The Government's Directive also indicates the development of the wood industry in Vietnam focusing on the use of legal wood materials, the application of advanced technologies and modern equipment, and ensuring environmental standards.

Although Vietnam has become a leading export country on wood and forest products, however, Vietnam's wooden furniture export turnover currently only accounts for over 6% of the global market share. Therefore, enterprises have an opportunity to expand and develop market share. Vietnamese enterprises have taken this opportunity and focused their investment on modern equipment with an automatic production line system, saving materials and being environmentally friendly to produce and process a variety of products to meet the needs of both domestic and international customers, from popular products, to mid-range and high-end products that require high art and quality. Since December 2020, the Government instructed its agencies and local authorities (Document No. 3597/VPCP-QHQT and No. 54/BKHDT-KTNN) to only issue wood industry foreign investment licenses after thoroughly reviewing its technologies and only select advanced, new and high technologies. Therefore, the advanced and high technologies have been emphasized in wood industry. Although the intension is to accept only advanced and high technologies, Vietnamese enterprises are price sensitive customers for Finnish technologies. Most of them tend to select cheap technologies and machineries despite of O&M problems and cost inefficiency in a long run. It is a big investment for Vietnamese companies in purchasing Finnish technologies and machineries. Additionally, Vietnam is still a cheap labour market so reducing labour intensive via automatic production is not a selling point for Finnish technologies. The targeted group should be medium and big enterprises who are in favour of EU standard technologies mostly from Germany.

In 2020, trained and skilled workers in wood industry accounted for about 20-30% and only about 1-2% designing job. Along with investment on modern equipment, Vietnamese enterprises need skilled workers with sufficient knowledge and skills to work on such automatic production line system as well as its O&M requirements. Moreover, Vietnamese enterprises are starting to shift from Original Equipment Manufacturer (OEM) to Original Design Manufacturer (ODM) and capture world design trends. Competent human resource to cope with this trend will require more comprehensive training in this industry. Additionally, Vietnam is lacking a source of human resources in management aspect, who can orient and map out the development roadmap in each enterprise, are creative designers, capable of creating unique and valuable products, to create a separate brand for the business, before proceeding to create a brand for the Vietnamese wood industry.

The domestic plantation timber has served for about 75% of raw materials for wood processing industry. Nevertheless, domestic wood from plantation forests is mainly wood with small diameter, the volume of wood is large but the quantity used to process furniture is very small. The main domestic plantation timbers are from fast-growing species, such as acacia, eucalyptus trees (59%), rubber trees (27%) and small percentage is from fast-growing native species (fat, linden, slices, ovals, etc.). The imported timber (25% of raw material demand), such as pipe, white oak, red oak, ask, teak, etc. is mainly for interior design or furniture production, which will be later on exported to other countries e.g. US, Japan, Korea, EU, etc. The wood and wood product import turnover into Vietnam was



about USD 3 billion in 2021 and in the first 4 months of 2022 reached USD 952 million down 4.2% over the same period last year, of which 2.4 million USD was from Finland.

The Government has concrete plans to develop the wood processing industry in the 2021 – 2030 period. These include: i) updating the current VIFA-EXPO fair in Ho Chi Minh City to be an international fair for wood processing industry in Vietnam. Along with that is the construction of the Center for Exhibition and Design of Wood Products in Ho Chi Minh City with a scale of over 6 ha and become a center of regional and world-class furniture trade. ii) Developing 4 hi-tech forestry zones (wood processing industrial zones) associated with areas of plantation forests, logistics, etc. (North, Central, South and Central Highlands). In March 2021, the Prime Minister issued a decision (No. 509/ QĐ-TTg) to establish hi-tech forestry zone in Central region located in Nghe An province. It has a total area of 618 ha and consists of 3 functional subdivisions. They are seedlings production (48 ha), wood and forest products processing subdivision with high technologies (530 ha), and trade promotion and exhibition subdivision (40 ha). Infrastructure e.g. internal roads, water and electricity systems, waste water treatment, etc. of Nghe An hi-tech forestry zone is planned to complete in 3 years. It is expected to attract investment from Vietnamese and foreign investors in wood and forest products industry.

Finland started a cooperation in the forestry sector in Vietnam in 1996. The first bilateral project was on forestry extension in Bac Kan province, implemented from 1996 to 1999 and it was continued with the second phase until 2003. The cooperation then was shifted to sectoral support via forest partnership coordination and the trust fund for forests, which were managed by the Ministry of Agriculture and Rural Development of Vietnam (MARD) from 2002 to 2015. In 2009, Finland joined a co-funding with the trust fund for forests to support a project on development of information management system for the forestry sector (FORMIS project). The second phase of the project is a bilateral one and implemented until 2018. Along with the FORMIS project, Finland funded an international non-government organization to implement a project on people participation in improvement of forest governance and poverty alleviation in Vietnam by using the FORMIS system and its database. Beside these supports, Finland also provided a technical assistance to European Union – Forest Law Enforcement, Governance and Trade (EU-FLEGT) facility in Viet Nam. This support was started from 2011 to 2016 mainly to provide a FLEGT Facilitator who support the Voluntary Partnership Agreement negotiations between Vietnam and EU. The Agreement aims to ensure legal timber is used for wooden products, which is exported to EU market in later stage.

During the implementation of the FORMIS project, some Finnish companies in IT forestry field participated in the project as service providers. They then continued their connections with stakeholders in Vietnam. Using IT-based applications in managing and planning plantation forests is not yet in Vietnam. Forest owners are still managed forests manually and a concern on big investment in applying digital format is remained. Nevertheless, a combination of IT applications and remote monitoring for carbon market in diversifying benefits of the plantation forests are the areas for Finnish companies' consideration.