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Overview

Vietnam has around 14.4 million hectares of forested land constituting 41.2 per cent of its total land area. Vietnam’s location also facilitates good integration and trade across Southeast Asia, Asia Pacific and the wider world. The economy’s remarkable development continues to grow and saw a ten year high of 7.1 per cent in 2018, and is forecast to grow at a similar rate throughout 2019 and 2020. Opportunities are further enhanced with new trade deals such as the EU Vietnam Free Trade Agreement (“EVFTA”) and The Comprehensive and Progressive Trans Pacific Partnership (“CPTPP”).

Vietnam is now one of the world’s largest exporting countries for wood and wood products with around 4,500 timber processing enterprises across the country. In 2018 alone Vietnam earned a record US$9.3 billion from forestry exports. The industry continues to grow as demonstrated in the first six months of 2019, where the export turnover of wood and wooden products reached US$4.8 billion. A current year on year increase of 19 per cent, according to the General Department of Customs, which shows no sign of slowing down. Additionally, the Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA) states that Vietnamese wooden products have now surpassed the fishery sector to become the top foreign currency earner in the agriculture sector, accounting for over 23 per cent of its total export turnover in 2018, with that figure expected to rise even further.

Figure 1: Location of major wood suppliers head offices and factories

Source: Hinrich Foundation (2018)

1 (Timber Trade Portal, 2018)
2 (The World Bank, 2019)
3 (Timber Trade Portal, 2018)
4 (Vietnam Plus, 2019)
5 (Vietnam News, 2019)
According to Nguyen Ton Quyen - Head of the Vietnam Timber and Forest Product Association, 2018 was regarded as a major turning point in the forestry sector, with Prime Minister Nguyen Xuan Phuc leading a discussion on measures to vastly expand timber and forestry processing and rapidly increase exports. Furthermore, Vietnam also increased their efforts to curb illegal logging by signing the Forest Law Enforcement Governance and Trade (FLEGT) agreement with the European Union\(^6\).

A number of Vietnam’s wood enterprises have signed direct contracts with some of the world’s leading furniture companies due to the growing global recognition of the quality of high-end Vietnamese wood products. As a result, wood products made in Vietnam are now present in impressive worldwide projects, including luxury hotels, who are looking for Vietnamese companies to design and carry out their projects. As stated by Nguyen Chien Thang, chairman of Scansia Pacific Co “the international market is increasingly receptive to high end furniture made by Vietnamese enterprises because not only are they eye catching and have superior quality but they are sophisticated and reasonably priced”\(^7\).

Figure 2: Key Vietnamese export products

Source: Viet Capital Securities (2018)

Sustainable development

Vietnam’s wood processing has maintained an increasingly high growth rate over the last few years resulting in the industry generating the seventh greatest export value in Vietnam. Vietnamese wood products are mostly consumed in developed countries who have strict regulations regarding the legitimate origin of the imports in order to protect the environment. As a result, by the end of 2017, 730 Vietnamese enterprises had obtained the Chain of Custody

\(^6\) (Vietnam Economic News, 2019)
\(^7\) (AmCham Vietnam, 2018)
(CoC) certification from the Forest Stewardship Council (FSC)\(^8\), giving customers assurance that their products are responsibly sourced and made, making Vietnam the number one in South East Asia in this aspect. Vietnam is now deemed to have become more environmentally aware in this industry, and the Chain of Custody certification is becoming an essential credential, enabling the continuation of sustainable development in the wood industry.

Furthermore, 49 enterprises have also been awarded the Forest Management (FM) certification by the FSC with a total area of 226,500 hectares\(^9\). Forest management is being controlled in a way that preserves the natural ecosystem and benefits the lives of the local population and workers.\(^10\) According to HAWA the rapid increase in wood processing for furniture has stimulated afforestation in order to create a legitimate source of wood for operational purposes. Due to this programme, there has been an increase in the use of timber in Vietnam which originates from the country, rising from 36 per cent in 2005 to 52 per cent in 2017, and further expecting to reach 55 per cent in 2020.

Vietnam demonstrated joint commitment with the EU towards maintaining sustainable development in the sector with the implementation of the Trade and Sustainable Development Chapter, which ensured the continuation of sustainable forest management and trade in forest products. The EU and Vietnam also ratified the Voluntary Partnership Agreement on Forest and Law Enforcement, Governance and Trade (VPA/FLEGT) in which Vietnam had to make efforts to ensure its exports of wooden products came from legitimate sources\(^11\). This meant that any illegally harvested or traded timber by any business would result in them being removed from the supply chain. These steps are forecast to help Vietnam further enhance its competitiveness and boost wood exports even further.

To sustainably develop the growth and value of Vietnamese wood products local analysts have suggested creating a national brand of wood products. By having a national brand, the Vietnamese products would gain further access to the international market while increasing the value of the products. One example of this is AA Corporation, which is one of the the largest domestic furniture manufacturers in Vietnam. The corporation is a leading brand in Vietnam and has secured numerous projects with five and six-star hotels globally.

**Opportunities**

The CPTPP came into effect in Vietnam on 14th January 2019. The CPTPP brought commitments, high standards and balances which will help strengthen and develop mutually beneficial links amongst other member economies. This is expected to be an opportunity for Vietnam to increase

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8 (AmCham Vietnam, 2018)
9 (AmCham Vietnam, 2018)
10 (Forest International, 2019)
11 (Voice of Vietnam, 2019)
exports across the board particularly for wood and furniture to the 10 CPTPP countries, which together account for almost 13.5 per cent of the global GDP\textsuperscript{12}.

In 2018 the total export turnover of Vietnamese wood and timber products to CPTPP markets exceeded US$1.6 billion, accounting for 18.3 per cent of the country’s total wood product value. In particular Vietnam exported wood with a record value of US$1.1 billion to Japan, a year on year increase of 12 per cent. Exports to Malaysia and Mexico saw the greatest surge, increasing by 86 per cent and 61 per cent respectively year on year, showing the opportunities available in these new markets for the Vietnamese wood industry\textsuperscript{13}.

The US-China trade war has also created further opportunities for Vietnam’s wood production and exporting. Despite the current trade war truce between the US and China, the already implemented tariffs will continue to benefit the Vietnamese wood industry. For instance, the US has implemented 10 per cent tax rates on all Chinese wood products. While causing issues for China, this will certainly increase demand and thus benefit the Vietnamese timber industry\textsuperscript{14}. Currently the US is the largest importer of Vietnamese wood products accounting for more than 30 per cent of nation’s total timber export turnover, and according to the United States International Trade Commission, China and Vietnam are the two largest suppliers of wood and wooden products for the US. However, as a result of the increasing trade tensions between the US and China, Vietnam is projected to surpass China to become America’s largest supplier of wood\textsuperscript{15}.

![Image: Diagram showing US imports from Vietnam surge as imports from China decrease](Source: Financial Times (2019))

Figure 3: US imports from Vietnam surge as imports from China decrease

\textit{Source: Financial Times (2019)}

\textsuperscript{12} (VIR, 2019)
\textsuperscript{13} (TGVN, 2019)
\textsuperscript{14} (VIR, 2019)
\textsuperscript{15} (VIR, 2019)
On the 30th June this year the EU-Vietnam Free Trade Agreement (EVFTA) was signed and upon ratification tariffs will be cut on almost all goods, creating improved market opportunities for Vietnam’s exports such as the wood industry. The EU is behind the US but remains one of Vietnam’s top five buyers of its wood and timber products with a record value of US$900 million in 2018, which should increase year-on-year following the EVFTA. For example, duties on plywood and particle boards from Vietnam will be cut from 7 per cent to zero per cent after five years, while the tariffs on wooden kitchenware will be reduced from the current 2 per cent once the agreement is implemented. Furthermore, the EU’s current demand for wood and wooden products is around US$80-85 billion a year, which is much greater than Vietnam’s current wood export turnover to the EU, proving that there are further opportunities in the long term for Vietnam to increase exports for its wood industry.

**Challenges**

Despite the rapid growth of Vietnam’s economy and its wood processing exports to the US, Vietnam’s trade may also be at risk as a result of the US-China trade tensions. According to the Foreign Investment Agency under the Ministry of Planning and Investment, in the first five months of 2019 foreign investors received licenses for 49 new projects in Vietnam’s wood sector, accounting for 73 per cent of the total number of projects in 2018, with 43 per cent of these projects having Chinese involvement. Due to the high tariffs imposed by the US on Chinese wood exports and increasing labour costs in China Chinese companies have created small scale projects in Vietnam with investment of around US$2 million each, as well as hiring numerous Vietnamese firms to process their products. This demonstrates that Chinese firms have invested, in countries such as Vietnam, to avoid the US tariffs imposed on their goods, and potentially puts the Vietnamese wood sector under threat from tariffs being imposed by the US.

If this trend continues and Vietnam also avoids tariffs being placed on them by the US, then Vietnam is forecasted to become the seventh largest supplier of wood and wooden products to

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16 (Customs News, 2019)
17 (Dung V, 2019)
18 (Dung V, 2019)
America, rising from the 12th position which it currently holds\textsuperscript{19}.

Vietnam’s wood export industry also faces threats from wooden products, which have been imported from Malaysia and Thailand and ‘dumped’ in the Vietnamese market at a margin between 18.6 per cent to 50.6 per cent, particularly damaging the Vietnamese medium density fibreboard sector\textsuperscript{20}. However, as the wooden products sector has now become a key exporter of the Vietnamese economy, the Ministry of Industry and Trade (MoIT) is launching its first anti-dumping investigation into imported wood products. The MoIT will question the related parties to assess the alleged dumping and the damage it may cause to the industry and if necessary the MoIT will apply anti-dumping measures to prevent any significant damage to one of Vietnam’s fastest growing industries. The investigation will therefore warn businesses to abide by international regulations if they want to trade in Vietnam and further reflects the Vietnamese government’s desire to ensure transparency in international trade.

\textbf{Future outlook}

Vietnam’s wood businesses have recently made strong and effective changes in technologies and governance to ensure they are competitive within global market trends. The continuous development of technology, combined with new trade deals and taking advantage of the US-China trade war proves that it is a good time to be involved in the rapidly growing Vietnamese wood and furniture industry.

\textsuperscript{19} (Dung V, 2019)
\textsuperscript{20} (Vietnam Economic News, 2019)
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