

FORESTRY INVESTMENT IN VIETNAM: Experiences and lessons

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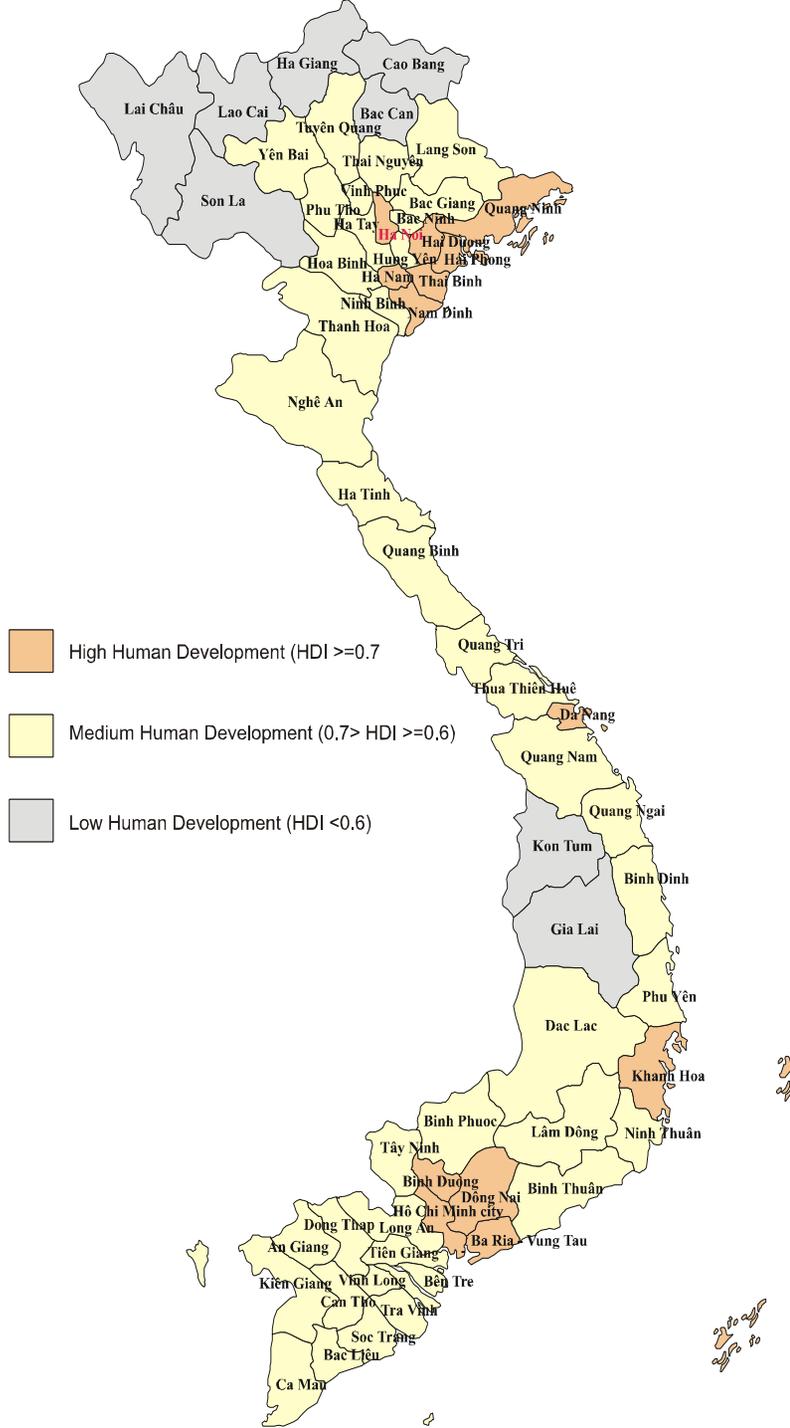
Vietnam – A Country Profile

- Land resources
- Population and ethnicity
- Forest resources

Land resources

Total area \approx 33.000.000 ha,
of which:

Agricultural land	9,345,346 ha	(28.3%)
Forest land	12,616,700 ha	(38.2%)
Special-use land	1,532,843 ha	(4.6%)
Residential land	443,178 ha	(1.3%)
Unused land	10,027,265 ha	(30.4%)



Total population:	84 mil. (exp. 100 mil. in 2020)
Ethnic groups:	54
Kinh majority group:	>70%
Forest land per capita:	0.15 ha



Timber volume

- Total volume: 813.3 mil. m³ of timber and 8.5 mil. bamboo trees:
 - Natural forest: 94%
 - Plantations: 6%
- Average timber volume per ha:
 - Natural forest: 76.5 m³/ha
 - Plantations: 40.6 m³/ha
- Average timber volume per capita:
 - Natural forest: 9.1 m³/capita
 - Plantations: 0.6 m³/capita

Recent forestry investment-related policies

- **Policies on natural resources:**
 - **Land Law (2003).**
 - **Forest Protection and Development Law:**
 - Decree 23/2006/ND-CP
 - Decision 186: regulations on forest management
 - Decision 147: incentives and supports to developing production forests.
 - **Forestry Development Strategy 2006-2020**
 - Decision 40/2005/QD-BNN: regulations on harvesting timber and other forest products.
- **Policies on promoting entrepreneurs:**
 - **Law on Enterprise (2005)**
 - Decree No. 88/2006/ND-CP.
- **Policies on investment:**
 - **Law on Investment (2005), Decree 108/2006/ND-CP.**
 - **Laws on entrepreneur income tax.**

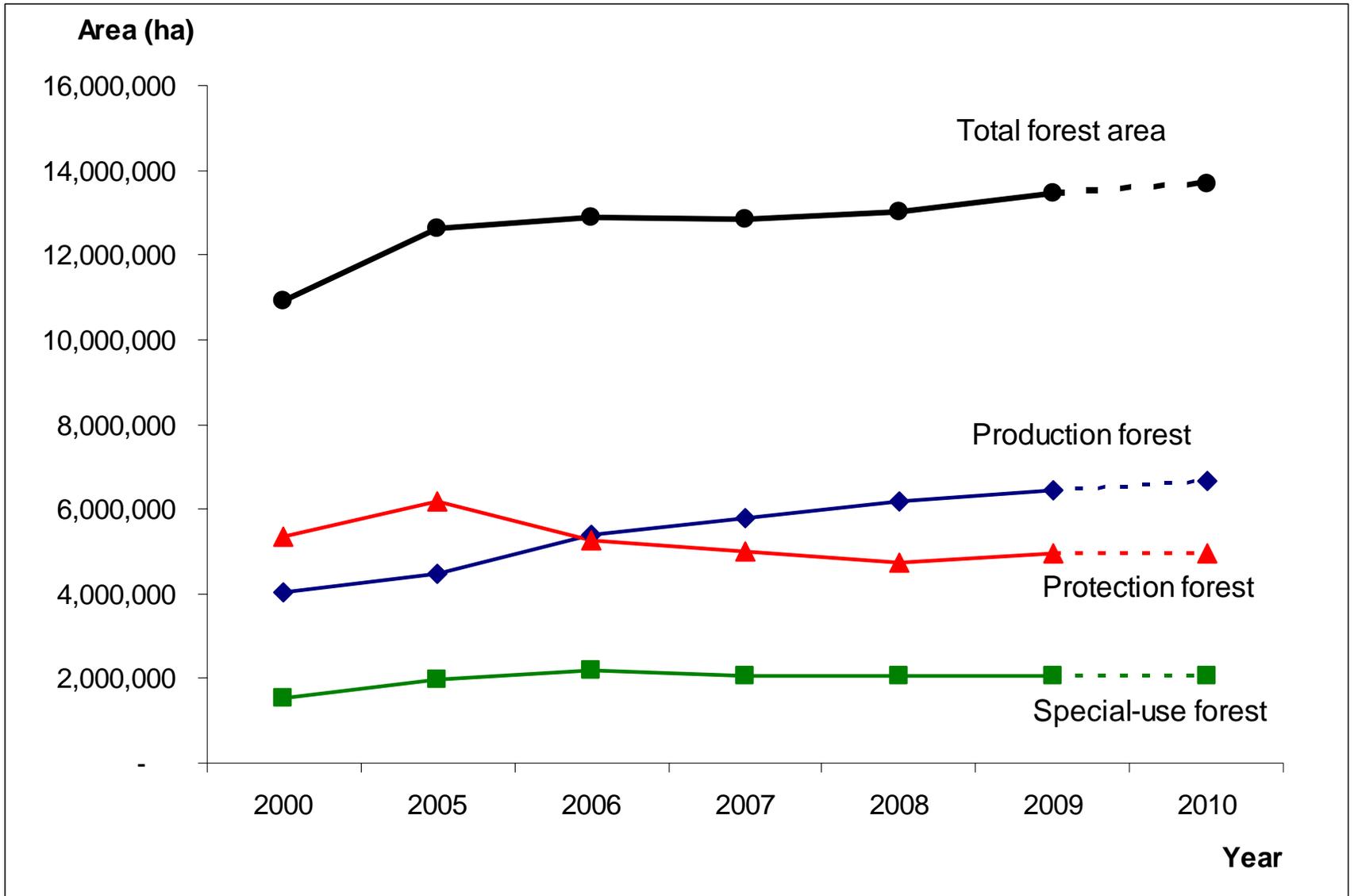
Forestry development in 1996-2005

- Major achievements in 1996-2005
- Change in forest resources (area and coverage)
- Forest investment in 2001 – 2005
- Shortcomings of the forest sector in 1996 - 2005

Major achievements in 1996-2005

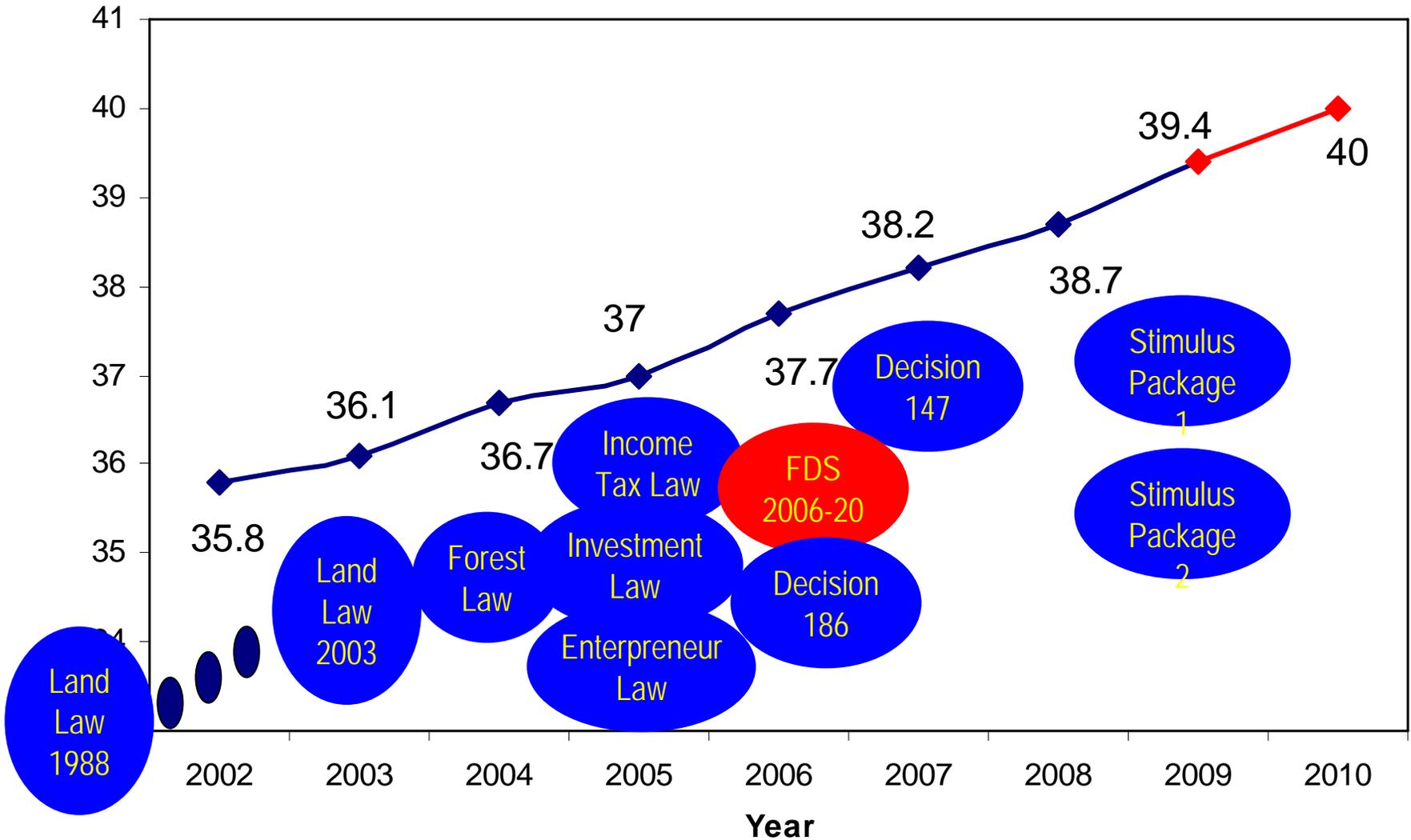
- The forest area has been increased from 9.3 mil. ha in 1995 to 11.3 mil. ha in 2000 and up to 12.6 mil. ha in 2005 (the average increase of 0.3 mil. ha annually).
- Dramatic increase in production forest area.
- Fast growth of timber and forest product processing industry and exports (the export turnover increased from 61 mil. USD in 1996 to 1.5 mil USD in 2005)
- Creation of more jobs and income generation opportunities while major domestic demand for firewood met.

Change in forest area



Change in forest coverage

Coverage (%)



Forest sector annual investments, 2001 – 2005

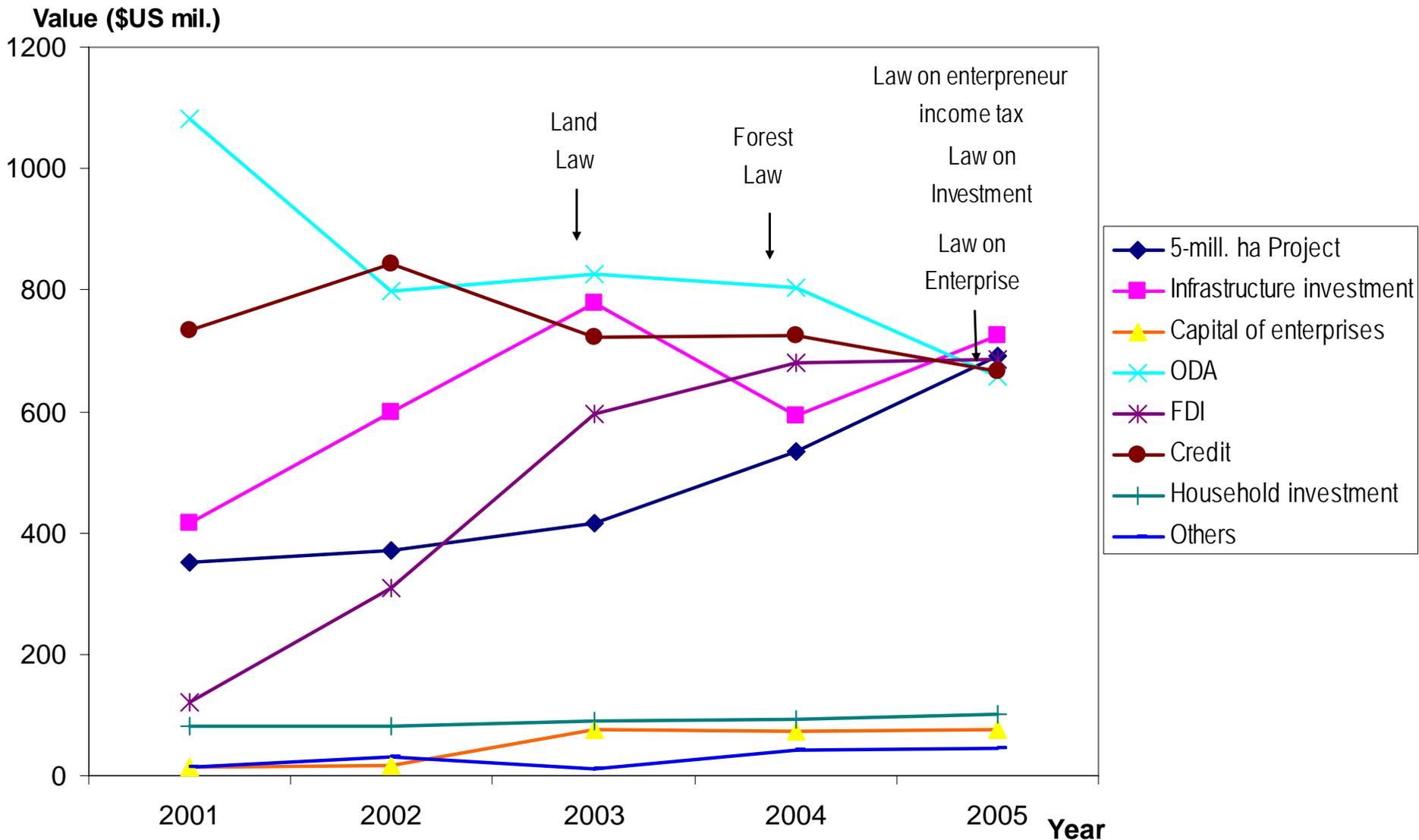
(in VND billion)

No	FUNDING SOURCES	2001	2002	2003	2004	2005	Total
	Total investment	2.814	3,050	3.515	3,542	3.646	16.566
1	State budget for Project 661	352	370	417	533	691	2.364
2	Infrastructure investment	417	600	778	594	725	3.115
3	Credit	734	843	722	724	667	3.690
4	Capital of enterprises & SFEs	13	17	75	74	75	254
5	FDI	120	308	597	680	686	2.391
6	Household investments	81	82	90	92	100	444
7	ODA	1.083	799	825	803	657	4.167
8	Other	15	31	10	41	44	141

Exchange rate: \$US1 = VND17,000

Forest sector annual investments, 2001 – 2005

(in VND billion)



Shortcomings of the forest sector in 1996 - 2005

- Low and unsustainable performance, low profitability and weak competitiveness.
- Gradual increase in forest area has been achieved but its quality and biodiversity are continuously degrading in many places.
- Development of the processing industry is spontaneous and unstable without strategic planning and vision.
- Sectoral impacts on poverty reduction are limited.

Forestry development in 2006 – 2020

- Forest sector objectives for 2006 – 2020
- Expected investment in 2006 – 2020
- Investment structure in 2006 – 2020

Forestry sector objectives for 2006 – 2020

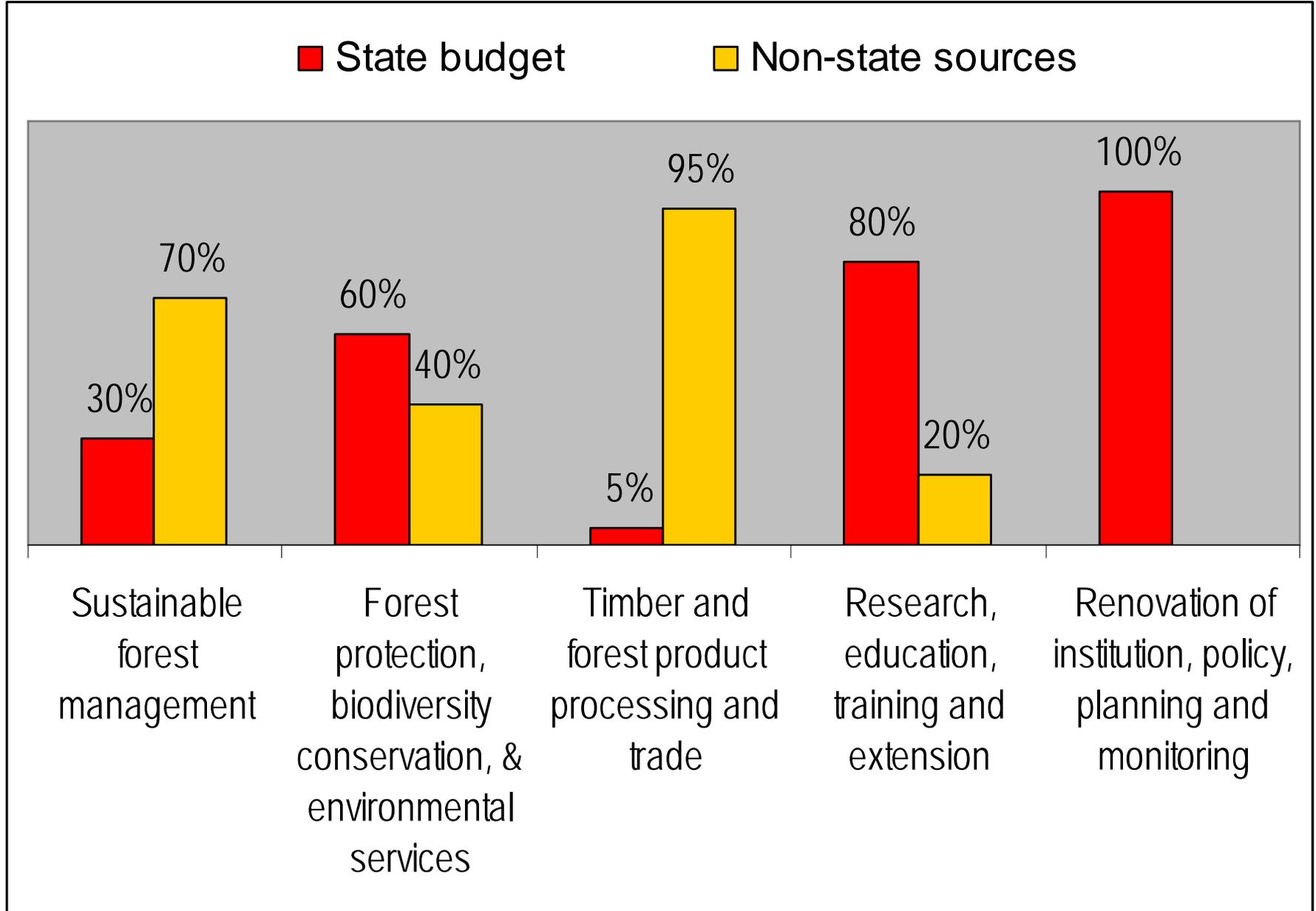
- To establish, manage, protect, develop and utilize sustainably 16.24 mil. ha set for forestry development.
- To increase forest forest cover to 42-43% in 2010 and 47% by 2020.
- To ensure a wider involvement of economic entities and social organizations in forestry activities.
- To implement eco-environment protection, biodiversity conservation, and delivery of environmental services.
- To ensure poverty reduction, improvement of livelihoods for mountainous farmers, and contribution to national security

Expected investment in 2006 – 2020 (VND billion)

No	PROGRAMS	2006–2010	2011–2020	TOTAL	Share (%)	State budget	Non-state sources
	Total	31,946	68,414	100,360			
1	Sustainable forest management	16,214	28,220	44,434	44	30%	70%
2	Forest protection, biodiversity conservation, & environmental services	3.871	10,263	14,134	14	60%	40%
3	Timber and forest product processing and trade	10.428	26,663	37.091	37	5%	95%
4	Research, Education, Training and Extension	547	849	1396	1,4	80%	20%
5	Renovation of institution, policy, planning and monitoring	886	2,419	3,305	3,3	100%	-

Exchange rate: USD1 = VND17,000

Projection on forestry investment in 2006 - 2020



Investment in Vietnam's forestry SWOT Analysis

- Strengths
- Opportunities
- Weaknesses
- Threats

Investment in Vietnam's forestry - STRENGTHS

- Increasingly stable and enabling investment environment
- Rapidly growing domestic market
- Low cost, trained and educated labour force
- Openness to FDI
- Good policy and legal framework favouring production forestry and private sector involvement
- Good infrastructure in coastal areas
- Good access to international markets

Investment in Vietnam's forestry - OPPORTUNITIES

- Great potential in enhancing plantation and industry productivity
- Investment opportunities for all products offered by domestic and international markets
- Mobilization of smallholder resources
- Synergies with other industries (clusters) and integrated wood utilization
- Creation of strong domestic private (SME) sector
- Value-chain concept to make best use of market opportunities & scarce land: potential for rubber wood, integrated sawlog and pulpwood/fibre production

Investment in Vietnam's forestry - WEAKNESSES

- No existing critical mass of plantation resources
- Shortage of homogenous areas of quality land
- Population pressure, increasing land prices
- Shortage of domestic capital
- Growing conditions are not competitive
- Infrastructure in remote areas need to be improved

Investment in Vietnam's Forestry - THREATS

- Insufficient infrastructure development in remote areas
- Increasing regional and international competition
- Competing land uses: rubber development, export-oriented cash crops vs forestry
- SFE and land reform may proceed slowly
- Import of logs declines risking the wood supply for wood-export industries

Emerging issues

- **Raw material supply:**
 - Vietnam should secure raw materials from domestic (plantations) and overseas supplies.
 - The focus has so far been on fast growing species but consideration should be given to large-sized timber trees.
- **Information sources:**
 - More accurate information sources and data are needed to form a database containing all information relevant to investors.
- **Land:**
 - The availability of large areas for plantation purposes appears as a constraining factor to investment.
 - A large share of forest land is allocated to farmers. Cooperation with farmers and adequate policies to free-up land or incentives for farmers to apply their land to forestry are needed.
 - Development of government policies for long term land tenure needs to occur.

Emerging issues (cont.)

- **Timber processing:**
 - The timber processing industry is small in scale. Capital and labour skills are limited and technology is obsolete.
 - Possibility of anti-dumping trails in major timber consuming countries.
 - Requirements on legitimate timber origin (certification) and environmental standards from major timber markets.
- **Financing:**
 - Access to finance for household farmers and entrepreneurs.
 - Microfinance or other type of partnership arrangement needs to be put in place to be provided to a group of household farmers.
- **Policy orientation:**
 - Focus of recent investment on fast-growing plantation and pulp production causes environmental impacts.
 - Harmonisation of benefits between different stakeholders (Government, investors and communities).

Lessons learned

- Socialisation of the forestry sector through diversifying sources of investment is promoting fast forestry development:
 - Government budget: mainly for protection forests and protected areas.
 - Other sources: mainly for production forests
- Recent land allocation has created opportunities for small-holder forestry development but has constrained large-scale investment.
- Decentralisation and empowerment boost local forestry investment and development.
- Flexible investment policies are *neccesary*, but a clear benefit-sharing mechanism is *essential* for forestry investment and development.

Vietnam & Philippines: Comparison of facts

No.	Facts	Vietnam	The Philippines
1	Location	SE Asia	SE Asia
2	WTO member	Yes	Yes
3	Economy	Developing	Developing
4	Area (sq. km)	330.000	300.000
5	Land use:		
	<i>Arable land (%)</i>	<i>20.14</i>	<i>19.00</i>
	<i>Permanent crops (%)</i>	<i>6.93</i>	<i>16.67</i>
	<i>Other (%)</i>	<i>72.93</i>	<i>64.33</i>
6	Climate	Tropical	Tropical
7	Population (million)	88.5 (84)	89.7
8	Life expectancy (yr)	72 (M) / 76 (F)	70 (M) / 74 (F)



Concluding remarks

- Vietnam and Phillipines are alike in many conditions and aspects.
- To some extent, experiences and lessons from Vietnam could be useful for promoting forest investment in the Philippines, and *vice versa*.

THANK YOU FOR ATTENTION