VIET NAM

NATIONAL EXPORT ROADMAP

WOODEN FURNITURE

SECTOR

Acknowledgements and disclaimer

This document was developed under the aegis of Viet Nam's Ministry of Industry and Trade (MoIT) following the leadership of the Planning & Finance Department and the Foreign Trade Agency with the technical assistance of the International Trade Centre (ITC). The purpose of the document is to orient Viet Nam's future trade development. The findings in the document are based on extensive research and the result of several national and sector stakeholder consultations. The document summarizes the trade and competitiveness performance of Viet Nam and contains a detailed plan of action to guide its further development and future upgrading. This document was shared and taken into the Vietnam National Import-Export Strategy period to 2030, its National and Ministerial Action Plans. The document was developed following the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

This National Trade Strategy was developed following the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

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Abbreviations and acronyms

AFTA	ASEAN Free Trade Area
AKFTA	ASEAN-Korea Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CPTTP	Comprehensive and Progressive Agreement for Trans Pacific Partnership
ESG	Environment, Social and Governance
EU	European Union
EVFTA	European Union-Viet Nam Free Trade Agreement
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement, Governance and Trade
FTA	Free Trade Agreement
FSC	Forest Stewardship Council
GSO	General Statistics Office
MARD	Ministry of Agriculture and Rural Development
MOC	Ministry of Construction
MOIT	Ministry of Industry and Trade
MOF	Ministry of Finance
MONRE	Ministry of Natural Resources and the Environment
MPI	Ministry of Planning and Investment
PEFC	Program for the Endorsement of Forest Certification
OEM	Original Equipment Manufacturing
ODM	Original Design Manufacturing
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and Development
RTA	Ready-To-Assemble
SME	Small and Medium Enterprise
SOHO	Small Office Home Office
SWP	Supporting Wood Products
USD	US Dollar
VAFS	Viet Nam Academy of Forest Sciences
VCCI	Viet Nam Chamber of commerce and industry
VFCO	Viet Nam Forest Certification Office
VFCS	National Forest Certification Scheme
VNFOREST	Viet Nam Administration of Forestry
VNTLAS	Viet Nam Timber Legality Assurance System
VPA	Voluntary Partnership Agreement

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Executive summary

Many development plans and strategies have been formulated on the wood processing sector of Viet Nam, however there is lack of in-depth study on the wooden furniture sector, which constitutes an important part of the overall wood processing sector. The focus of this export strategy is wooden furniture (WF), and we also consider for analysis some supporting wood products (SWP). The SWP considered are those which have a synergy of impact on the main Wooden Furniture market; in capacity of raw material, intermediate product, or a crucial component in WF assembly line.

This strategy provides a comprehensive blueprint for the next five years (2022-2027) to leverage wooden furniture sector's potential for sustainable export growth. Majority of Vietnamese businesses involved in manufacturing of wooden furniture are small and medium enterprises (SMEs). The objective of this strategy is to link SMEs to and upgrade Viet Nam's position in the global value chain. It strategizes operations and activities which can help Viet Nam become a global hub in production/export of sustainable, modern, and trendy wooden furniture. For example, by equipping and up-skilling SMEs in product design, innovation, marketing, etc.

Furniture being fashion, must offer a variety of design and materials from which it is made, as consumers are increasingly discerning about fashion trends in the marketplace. Viet Nam has strong foothold in the upholstered seats, seating with frames, as well as bedroom furniture, but it lacks depth in own-design and other categories of wooden furniture. In line with global trend towards modern and trendy wooden furniture, Viet Nam must take cue from other global manufacturers, to embark on innovative and high value-added furniture manufacturing, to produce own-design furniture. Viet Nam needs to diversify its product offering, shifting away from its focused wooden furniture manufacturing, to produce furniture using different materials or hybrid-materials, such as metal, plastics, composites, glass, etc. Presently, alternate wood furniture accounts for only 2% of wooden furniture, however its share is steadily increasing. Therefore, increase in use of alternate wood materials like rattan, bamboo, cane, etc. can also be considered.

Driven primarily by changing demographics and lifestyle changes, consumers are moving towards small-sized apartments and living spaces. Moving away from functional/structural rigidity, transportation of furniture using the ready-to-assemble (RTA) concept is on the increase, especially among the younger Y and Z generation of consumers. Smaller size of houses and apartments, which is the more pervasive dwelling for younger generation requires versatile, multi-functional furniture. Multi-functional wooden furniture and wood-panels based furniture are promising products of the future, and Viet Nam should consider embarking on the production of such products.

The trend towards circularity and green merchandise in furniture, using recycled materials of plastic, metal, wood, paper, glass, etc. is gaining momentum, especially in Europe. In this context, Viet Nam's furniture manufacturers should also be proactive to explore possibilities of manufacturing furniture using recycled mixed materials, which will in turn add value to furniture, while at the same time, comply with global trend. This is particularly important as the world becomes increasingly environment-conscious, and demand for furniture with low-carbon footprint is expected to rise, and thus 'green furniture' procurement is also expected to grow and dominate the global marketplace in years to come.

Future of Viet Nam's furniture export appears to depend on its capacity to comply with environmental, social and governance (ESG) criteria and maintaining sustainable/legal wood supply requirement of markets. In now day, accessibility to furniture markets is often subjected to non-tariff barriers, rather than tariff barriers. With greater attention paid by Viet Nam's furniture exporters towards sustainability and legality of wood resources, as signalled by the increasing number of enterprises with Chain of Custody (CoC) and Forest Stewardship certification, the volume of export to many countries with strict regulations regarding legality of wood product, is expected to increase.

Besides conducting in-depth research, value chain and constraint analysis, we focus on devising a market diversification and innovation strategy for the future.

It is anticipated that market diversification may become an essential future growth-strategy, not only due to demographic changes in the target markets, but also due to changing economic conditions. Viet Nam should be poised to look for alternative export markets, like Middle East/GCC, European Union, and markets in Asia-Pacific. While Viet Nam's furniture exports to Europe has been limited in past, Viet Nam should seriously consider boosting its market compliance requirements to gain greater access to the European market, which is a huge potential market for Vietnamese exports.

Demand in Asia-Pacific is expected to drive global growth. The global furniture market is expected to continue growing, primarily driven by the rapidly flourishing consumer markets in Asian countries. With a strong recovery anticipated in the Asian region, Viet Nam should also intensify its promotion activities to capture a greater market share of imported furniture in Japan, Korea, China, and India. Australia is another market worth pursuing by Viet Nam's furniture manufacturers, as demand for furniture is on rise due to a robust housing sector. It is estimated that intra-regional trade of furniture is making up a greater proportion of furniture exports.

The sector's strategic orientation follows a consolidation approach. The strategy for the next five years will be built around the goals of ensuring legal, environmental and sustainability compliance to increase market share while building the industrial base and expanding the innovative capacity to foster greater SMEs participation in the global value chain. The next step will then be to investigate specific ways to increase value addition and diversify the offering of Vietnamese products, to remain competitive in the traditional market and diversify to emerging new ones.

This strategy was the result of consultations with public and private sector stakeholders, leading to invaluable cooperation among sector operators. Key private sector stakeholders and leading institutions facilitated an exhaustive analysis of the sector. Market-led strategic orientations, prioritized by stakeholders and embedded into a detailed implementation plan, provide a clear road map that can be leveraged to address constraints to trade and maximize value addition.

In addition, the inclusive approach ensured that all stakeholders were committed to the process. The Wooden Furniture Strategy provides Viet Nam with a detailed Plan of Action (PoA) to achieve growth in the sector within the next five-year period. The Strategy is articulated around a unifying vision and three strategic objectives.

> "Viet Nam – emerging hub for sustainable, modern, and trendy wooden furniture"

Strategic Objecitive 1: Ensure legal, environmental and sustainability compliance to increase market share globally	Strategic Objecitive 2: Build the industrial base and expand the innovative capacity to foster greater SMEs participation in the global value chain	Strategic Objecitive 3: Reinforce export diversification considering emerging market trends to ensure long-term competitiveness of the sector
• 1.1. Improve supply of sustainable and legal wood resources	• 2.1. Enhance attractiveness and quality of furniture made in Vietnam	• 3.1. Ensure long term competitiveness of the wooden furniture sector
• 1.2. Improve efficiency, and transparency and compliance of all wood entering in Vietnam	• 2.2. Increase export potential by building up the industrial base	• 3.2. Expand scope of exports to new and emerging markets
	• 2.3. Increase export potential by focusing on labour productivity and skills	

This wooden furniture sector export roadmap provides a framework for coordinated action in minimising the weakness and leveraging the strengths present in the furniture sector of Viet Nam.

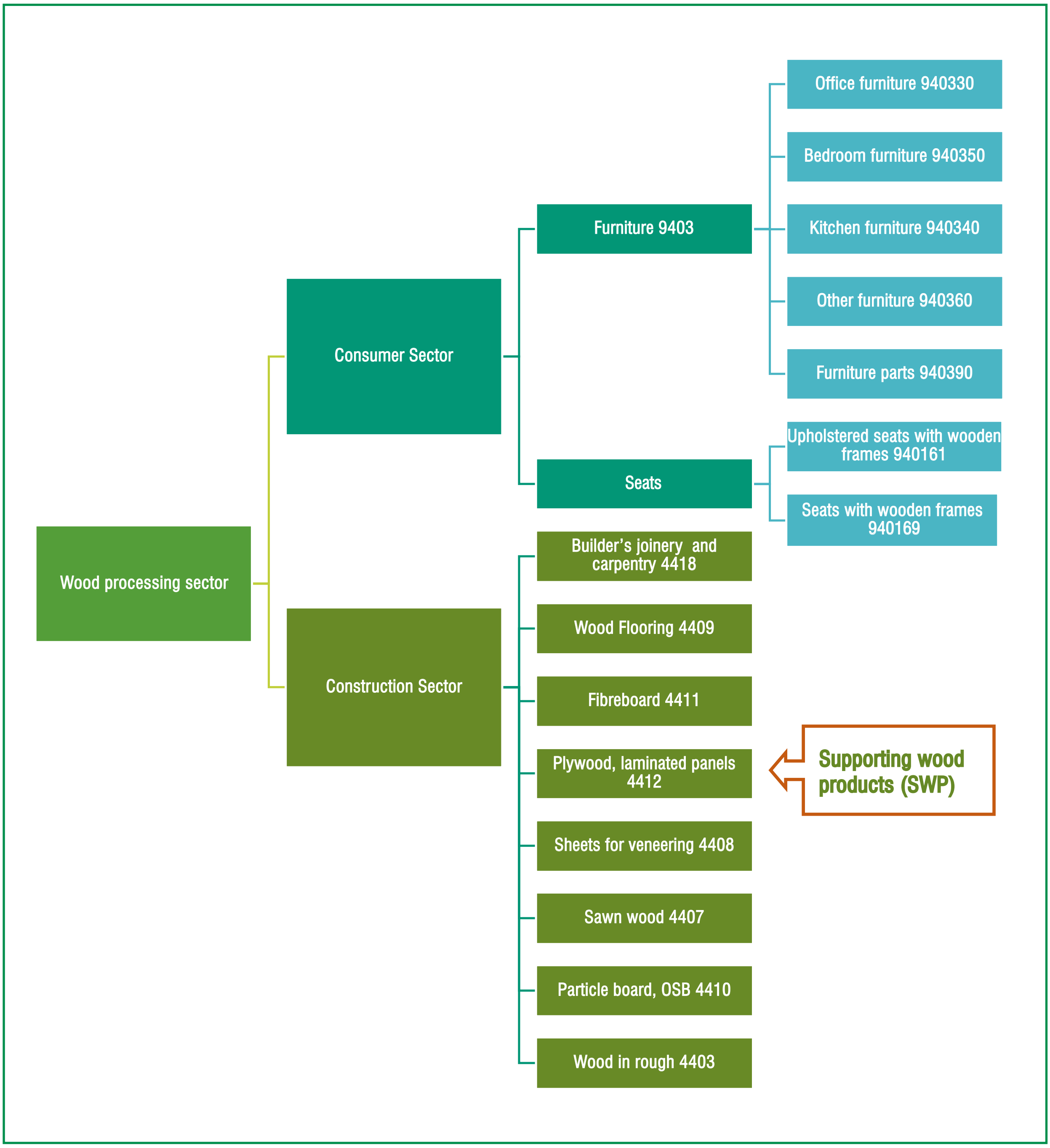
Photo: Links, 3.Teak Supper Decking (Substitute Photo for beside of Acknowledgements Page).jpg

Wood Processing Sector and its International Environment

Wood and wood products are generally in sold semi-processed or processed form to the consumption, construction, and energy sectors. Among processed wood products destined for the consumer sector, furniture plays a major role as it comprehends a wide array of items, such as beds, shelves, cupboards, seats etc., used in residential, commercial, education, healthcare, and hospitality sector, among many others. The use of furniture finds place in kitchens, bedrooms, offices, hotels, factories, and as parts of transport, tools, fittings, etc. The furniture market is essentially classified by the end-user. Other processed wood consumer products include handicrafts, paper, and paper products.

For export diagnostics, we focus on the overall furniture sector (HS 9403), which includes wooden furniture, metal furniture, plastic furniture, and alternate wood furniture (furniture made of bamboo, rattan, cane, etc.) and wooden seats (HS 9401). HS 9403 is taken as proxy for wooden furniture because out of all materials used in furniture manufacturing, wood is the most popular base material, accounting for almost 86% in export value of Vietnamese furniture. It includes wooden furniture for bedroom, kitchen, offices, parts thereof, and other furniture. HS 9401 is taken as proxy for wooden seats, of which upholstered seats with wooden frames and seats with wooden frames are of significant proportion. The products can also be classified into indoor and outdoor.

Figure 1: Wood processing sector - Product map



Source: *ITC*

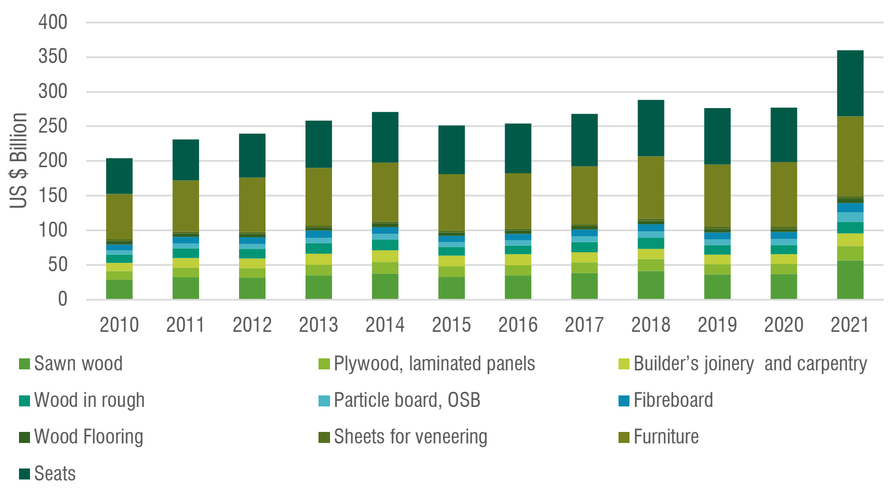
Global trade of all major wood-based products has registered steady growth over the years.

Factors such as, population growth, demographics, employment level, population age structure, housing start-ups, rate of urbanization, economic growth, and gross national product (GNP), have significant impact on consumption and trade demand for wood products.[1] Additionally, the carbon-neutral status of wood makes it an ideal material in building construction, and is considered relatively environment-friendly compared to materials such as bricks, concrete, metal, plastic, etc. According to International Tropical Timber Organization (ITTO), environment-friendly building construction is envisaged to accelerate in years to come, in lieu of the efforts taken by many countries to mitigate the global climate change phenomenon.

As shown in Figure 2, despite global challenges, consumption of furniture and supporting wood products (SWP) around the word, remains steady and on a gradual upward trend. Among SWP, sawn wood, plywood laminated panels, wood in rough, and builder's joinery and carpentry are the most traded wood products.

In 2020, global sawn wood production totalled 486 million m3, representing a rise of 1.8% over 2019. Sawn wood production has grown consistently due to increasing production in Asia-Pacific, Europe, and North America. United States and China are among the main importing countries of sawn wood with steady growth in consumption of 34% and 11%, respectively, between 2016 and 2020. However, between 2020 and 2021, import growth of United states was approximately 69% and that of China was only 3%. On the other hand, production of wood-based panels reached 401 million m3 in 2020, representing 1% increase in production over the previous year. Leading producing countries for both sawn wood and wood-based panels are China, United States, Canada, Russia, and Germany. Production in these five countries represents 58% and 69% of world's sawn wood production and wood-based panels, respectively.[2]

Figure 2: Global furniture and supporting wood product export (US $ billion)



Regional differences exist in the composition of wood-based panel products. For instance, in North America and Europe, reconstituted panels, i.e., particleboard and fibreboard, dominate over the traditional wood-based panel products such as plywood. In Asia-Pacific, especially China and Viet Nam, plywood is the main wood-based panel product, although particleboard and medium density fiberboard are also steadily increasing in terms of production volume. The leading global exporter and importer of plywood are China (28% market share) and United States (24% market share), respectively. However, the ongoing trade tensions between

1.– UNECE/FAO Forest Products Annual Market Review, 2019-2020

2.– https://www.itto.int/biennal_review/ ?mode=searchdata the two countries have seriously impacted the plywood trade, which has led to supply crunch in other markets.[3]

Production of engineered products, such as cross-laminated timber and glue-laminated timber continue steady growth in European countries, such as Austria, Germany, and Sweden, due to an increased demand for wooden construction, including high-rise buildings. A similar trend is also observed in Australia, and to a lesser extent in Japan. Based on available data, it may be construed that this product will increasingly find application in wooden building construction as the shift toward green economy picks up pace globally.

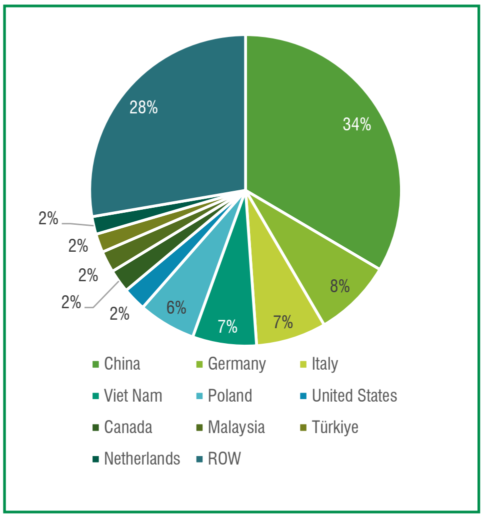
On the other hand, leading global exporters for sheets for veneering were China (18% market share), Canada, United States, Gabon, and Ukraine. Main importers of the product were United States (11%), China, India, and Viet Nam. Each of these countries have shown an increase in annual growth in value between 2017-2021, where Japan and Germany present the highest growth of 7%, respectively.

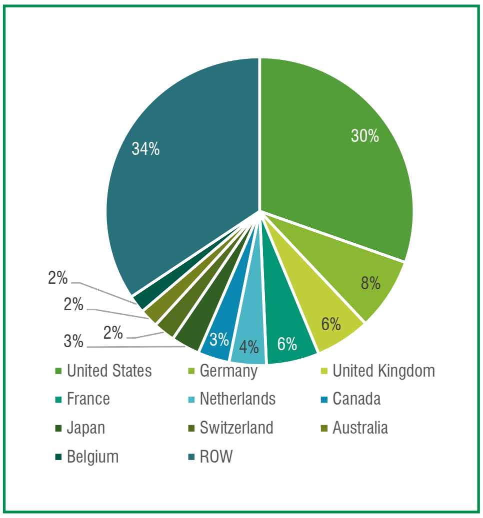
Global trends in wooden furniture export and import

Wood furniture, being merchandize, is increasingly traded internationally. Main driver of this trend is presence of global supply chains. Estimates indicate that roughly 38% of global furniture production is traded internationally.[4] The global furniture market was valued at USD 493 billion in 2021 and is projected to grow to USD 720 billion by 2028.[5] Between 2018 and 2021, furniture production experienced over 14% cumulative growth, as demand for home-office and small-office (SOHO) furniture saw exponential growth due to rampant work-from-home practices witnessed in many countries hit by the Covid-19 pandemic and ensuing lockdowns.

The major wooden furniture exporters are predominantly in the Asia-Pacific region, including China, Viet Nam, and Malaysia, although several manufacturers in the western hemisphere continue to hold their position in the league of top furniture exporters, including Germany, Italy, and Poland. On the other hand, major consumer countries remain the OECD countries, which have proportionately higher gross national product (GNP), and consumer purchasing power. Covering period 2010-2021, Figure 4 captures the trend in exported value of furniture products (HS 9403) by top ten global exporters. The global exported value in 2021 was USD 114 billion, vis a vis exported value in 2010, which was USD 65 billion. While global exports grew on average by 6.2%, export by all economies have shown consistent increase during this period. This suggests that global market for wooden furniture is on steady rise. Among major exporting economies, Viet Nam registered the highest average growth rate between 2010-2021 (21%), followed by Turkey (16%), Netherlands (14%), and Poland (11%). In recent period, i.e., between 2020-2021, global export demand rose by 22.3%. Figure 3 (left) shows leading exporters of wooden furniture in 2021.

Figure 3: Top exporters (left) and importers (right) of wooden furniture (HS 9403) in 2021



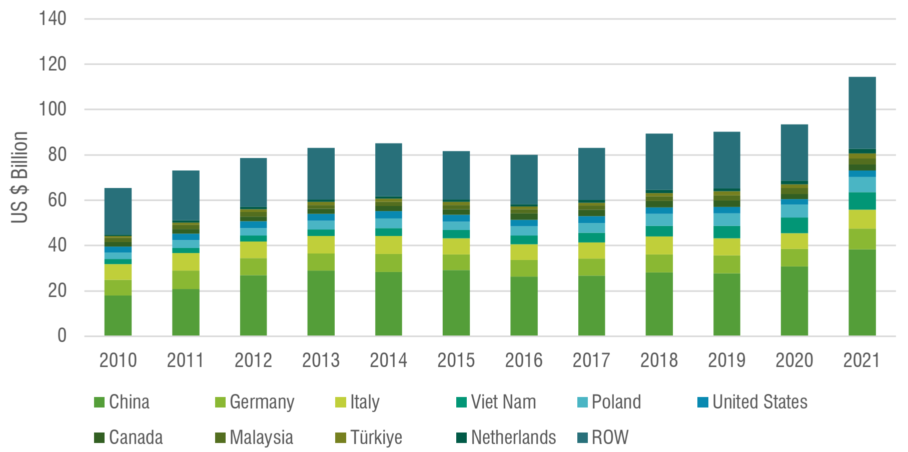


3.– UNECE/FAO Forest Products Annual Market Review, 2019-2020

4.– Timberland Flash Report April 2021

5.– UNECE/FAO Forest Products Annual Market Review, 2019-2020

Figure 4: Increasing trend in the exported value of wooden furniture (HS 9403) by top 10 exporters (2010-2021)

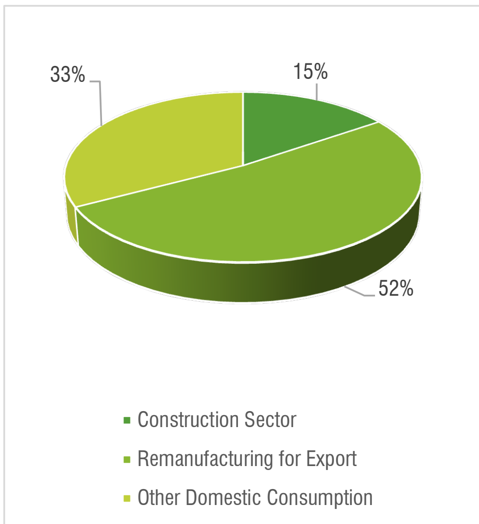


In 2021, The leading import markets for wooden furniture (HS 9403) included in sequence; the United States, Germany, United Kingdom (UK), France, and Netherlands, followed by Canada and Japan: Figure 3 (right). These markets accounted for about 60% of total import turnover (USD 105 billion), and they all had promising growth in 2021 compared to 2020. Despite the severely negative effects of Covid-19 pandemic, the global import demand rose by 24% during this period. Looking at the long-term trend, the average growth rate in global import demand for furniture was 5.7% between period covering 2010-2021. Netherlands registered the highest increase (12%), followed by United States (8%), Germany (5%) and Switzerland (4.6%).

THERE IS GEOGRAPHICAL SHIFT IN WORLD FURNITURE PRODUCTION TOWARDS ASIA-PACIFIC

The geography of furniture production has changed considerably over the past 10 years. It was previously dominated by European countries, whose share in global production has declined from 42% in 2007 to 25% in 2021. This change is largely driven by rapid industrial development and sustained growth in emerging economies in the Asia-Pacific, especially China and Viet Nam. Countries in Asia-Pacific have moved up the global ranks of furniture production and export. In 2020, the main furniture producing regions were Asia Pacific (54%), followed by Europe (26%) and North America (15%).[6] Within Asia Pacific, China is the largest furniture manufacturer, but one notable country that continues to register strong growth is Viet Nam.

Figure 5: Demand for wood products in Asian region



6.– Ibid

Figure 5 shows demand proportion for wood and wood products within the Asian region. Demand is driven largely by three main factors; construction (15%), import to remanufacture for export purposes (52%), and other domestic consumption (33%), thus emphasizing Asia's importance as a global remanufacturing hub for wood products. Despite economic slowdown experienced in developed nations, especially Europe and the United States, growth in Asian countries remains relatively buoyant. The main enabling factors for industry growth include rising disposable incomes and technological innovations Consumption shares of Asia-Pacific almost doubled, going from 26% in 2008 to nearly 45% in 2021. The large middle market segment in both China and India, has created a large consumer base that is demanding higher quality wood and wood products. This has resulted in increased application of wood-based panels in furniture production, especially particleboard and medium-density fiberboard, and rapid expansion of ready-to-assemble (RTA) furniture globally.

Box 1: Key Takeaways on Global Trade Overview

- Global production of furniture has shifted from developed countries to the Asia-Pacific region, especially to China and Vietnam.
- Consumption of furniture, though relatively large in the developed countries, has seen a decline due to the Covid-19 pandemic and global economic slow-down caused due to the Russia-Ukraine conflict.
- Consumption of furniture and accessories has doubled from 2008 to 2021 in the Asia-pacific region due to a larger proportion of middle market segment, especially in China and India, with higher disposable incomes and technological innovation.
- There is increased demand for ready-to-assemble, flat-packed furniture, made up of wood-based panels.

Overview of Viet Nam's wooden furniture Sector

Structure of Viet Nam's Wooden Furniture Sector

VIET NAM'S LOCAL ADVANTAGES IN THE WOOD PROCESSING INDUSTRY HAVE CONTRIBUTED TO ITS SUCCESS IN WOODEN FURNITURE SECTOR.

Viet Nam's wood product industry is regarded as highly competitive at the world stage. The sector developed gradually in 1990s, enhancing its growth since the 2000s. According to the General Statistics Office's Statistical Book 2020, there were 5,338 furniture companies in 2019, employing a total of 384,254 workers. Some key factors that have contributed to Viet Nam's success as a leading furniture producer and exporter to the world are its predictable regulatory framework, sizeable foreign-owned enterprises, low labour costs, abundant and hardworking workforce, ease in import of wood raw materials, and its favorable geographical location. SMEs have relatively strong linkages to the world market, via various distribution channels. Further, government has long supported the wood and furniture sector by issuing regulations and measures to boost the development of value chain, from raw material supply (development of plantations) to investment and trade encouragement. In this context, the main enabling and deterring factors that continue to shape Viet Nam's wooden furniture sector are as listed below.

Enabling factors	Deterring factors
• Cost competitiveness. • Predictable regulatory framework. • Favourable investment environment. • Voluntary Partnership Agreement (VPA) with EU and several other Free Trade Agreements (FTAs). • Growing tract of forest plantation within the country continue to boost industrial production. • Direct contracts with leading furniture companies, especially through foreign-owned companies. • Increasing number of companies with Chain of Custody (CoC) and Forest Stewardship Certification. • FDI continue to drive exports. • Captured 10% global market share for furniture exports.	• Growth of exports of wood chips may threaten raw material availability for domestic wood processing industry. • Heavy reliance on imported wood material, subject to sustainability and legal scrutiny. • Lack of up-skilling and knowledge workers may hinder the capacity to innovate and move up the value-chain. • Innovations and new products design is inherently limited, and dependent on foreign buyers. • Pace of adopting sustainability practices continue to cast doubt on growth of overall wood-processing industry. • Dependent on few established markets, including US, Japan, and UK; there is need for market diversification.

With nearly 100 million people, expanding middle class and urbanization, Viet Nam's domestic market for furniture and SWP is prominent, and estimated to consume approximately USD 4 billion worth products in 2021, an increase of about 40% compared to 2017, and accounting for roughly 21% in total revenue of the wood processing sector.[7,8] Phuc (2017) indicated that furniture directed to domestic markets can be categorized into four groups; construction, housing, mining and boatmaking, with an estimated market share of 39%, 14%, 42% and 5%, respectively, measured by volume of timber material inputs used. Production for the domestic market include both modern style as well as traditional products.

7.– https://kinhtedothi.vn/tieu-thu-go-thi-truong-noi-dia-tang-manh.html.

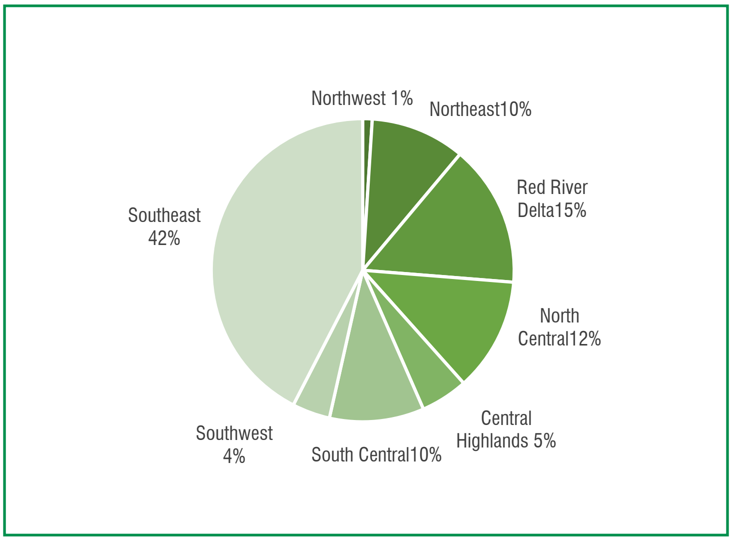
8.– https://nammywood.com.vn/tin-tuc/tieu-thu-go-thi-truong-noi-dai-tang-manh-35.html

LARGE NUMBER OF SMES ARE DISTRIBUTED ACROSS GEOGRAPHICAL CENTERS

As shown in VNFOREST's report in April of 2022, Viet Nam has 5,580 formally registered local and FDI enterprises operating in manufacture, processing, and trade of wood and forest products, showing a growth of 57% compared to 2016.[9] While a total of 4,760 enterprises engage in manufacture of furniture (including seats), about 2,600 manufacturers directly engage in export of timber & timber products (VNFOREST, 2022b).

Besides the formally registered enterprises, there are also thousands of timber & timber product processing and trading local un-registered entities, operating in about 340 woodworking villages or geographical areas associated with raw materials nationwide.[10] Most of these woodworking enterprises are micro and small and have been set up for household scale production (Quang et al., 2022a) According to Viet Nam General Statistics Office (2020), by 2019 there were in total 12,952 timber related enterprises (both registered and non-registered), providing jobs to about half million workers. According to government's definition of enterprise size, micro and small enterprises account for 96.2%, medium-sized enterprises 2.2%, and large-sized enterprises 1.1%.[11] FDI enterprises comprise 30% of large-sized enterprises (GIZ and NEPCon, 2020).

Figure 6: Geographical allocation of wood processing enterprises in Viet Nam



Source: *VNFOREST, 2022b.*

Viet Nam currently maintains three main hubs of wooden furniture production:[12]

- Northern Red River Delta region (Hanoi, Bac Ninh, Nam Dinh provinces): Specialising in production of traditional solid wood furniture mainly for the domestic market and partly for export to China.
- Southeast region (Ho Chi Minh, Binh Duong, Dong Nai provinces): Specialising in production of western style furniture targeted for exports markets like the EU, United States, Japan, and Korea Republic, and partly for domestic market.
- South Central region (Binh Dinh province): Specialising in production of western style furniture targeted primarily for export to the EU market, recently to the US market, and partly for domestic market.[13]

9.– VNFOREST (2022b) Report on "Results of forest plantation development for timber material for timber processing industry, export" presented on the Workshop on "Development of material production area for timber processing industry sector, export" held in Quy Nhon city, Binh Dinh province, on April 22, 2022.

10.– Each of these woodworking villages has an average of 1,000 to 2,000 households engaging in wood industries (Forest Trends and NepCon - currently known as Preferred by Nature, 2018).

11.– Draft project proposal on developing sustainable and effective wood processing industry 2021-2030, Ministry of Agriculture and Rural Development.

12.– Direct interviews (July-September 2022) and USDA (2020).

13.– Direct interview to a representative of FPA Binh Dinh (August 2022).

Ho Chi Minh city and its surrounding Southern provinces of Binh Duong, Dong Nai and Binh Dinh are home to 56% of total enterprises, including 70% of the country's 600 largest furniture manufacturers.[14] The industry continues to expand, with more factories opening in other Southern provinces, including Tay Ninh, Binh Phuoc, and Long An (USDA, 2020).[15]

HIGH CONTRIBUTION FROM LARGE NUMBER OF FDI FURNITURE MANUFACTURING ENTERPRISES

Viet Nam has become a renowned supplier of wood products, particularly wooden furniture. It must be noted that the presence of large number of foreign-owned furniture manufacturing enterprises has helped fuel the rapid growth of Viet Nam's furniture sector. FDI has played a key role in the impressive expansion and export of the industry. As of 2019, there were 966 active FDI projects operating in the sector, with a total registered investment of more than USD 6.2 billion.[16] In 2020, although negatively affected by Covid-19 pandemic, Viet Nam received additional USD 811 million worth FDI into the sector. These FDI projects came from 20 countries and territories, and mainly from Asian countries. Based on newly registered projects, the five largest investment countries in 2018-2020 were China, Taiwan, South Korea, Japan, and Hong Kong (Phuc et al. 2020 and 2021a). Key products exported by FDI enterprises include furniture products under HS 9403 product line, seats (HS 9401), particle boards (HS 4410), sheets for veneering (HS 4408), fiberboard (HS 4411), plywood laminated panels (HS 4412); and wood panels (HS 4418). (Phuc et al. 2020 and 2021a; USDA, 2020).

In 2019, exports from wood-processing FDI enterprises investing in the wood industry of Viet Nam reached USD 4.95 billion, equivalent to nearly 48% of total export turnover of the whole wood industry combined (USD 10.4 billion) (Phuc et al., 2020). In 2021, export turnover from wood-processing FDI enterprises reached nearly USD 7.5 billion, increasing 51.5% compared to 2019, accounting for 50.4% of the total export turnover of wood industry in 2021.

An estimate from SIPPO highlights that FDI enterprises currently account for about 20% of total wood-processing enterprises, but export value from them accounts for 80% of country's total wood-processing export turnover.[17] Building business synergies between the local SMEs and FDI enterprises offers vast opportunity in manufacture of high value-added furniture, which in turn will help local SMEs to become more established furniture exporters competing in the global marketplace.

Trade performance of Wooden Furniture sector

WOODEN FURNITURE SECTOR IN VIET NAM HAS GROWN DESPITE GLOBAL UNCERTAINTY.

Viet Nam's wood processing sector suffered some setback due to the disruption in global supply chains caused during Covid-19 pandemic. It was on path to recovery when the Russia-Ukraine war broke out, thereby increasing inflationary pressures. However, despite global economic uncertainty and the 3C threat of Covid, Conflict and Climate Change, Viet Nam has emerged as one of the world's leading exporters of wooden furniture. Viet Nam was world's fourth largest furniture exporter in 2021, amounting to USD 7.6 billion. Among major exporting countries, Viet Nam registered the highest average growth rate between 2010-2021 (21%). Even during the Covid years 2019-2021, Viet Nam grew on average by 12.5%. As shown in Figure 7, Furniture (HS 9403) together with Seats (HS 9401) have accounted for large proportion of export turnover of wood-based products over the years. However, it is important to note that furniture and seats are finished products with higher valuations compared to raw timber/timber-based products.

14.– https://www.yumpu.com/en/document/read/4325081/the-Vietnamese-furniture-industry-ahk-Viet Nam-ahks

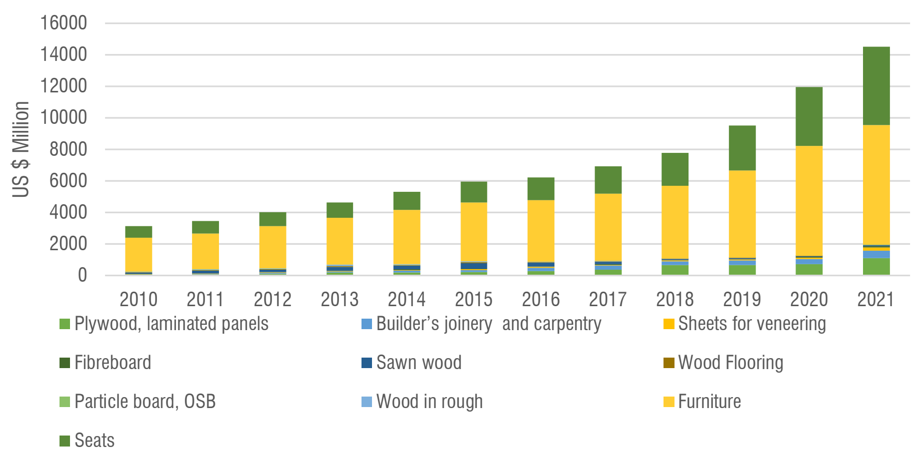
15.– https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Viet Nam%20Wood%20Processing%20 Industry_Ho%20Chi%20Minh%20City_Viet Nam_06-11-2020

16.– VNFOREST (2022b) indicates the total number of FDI enterprises by April 2022 being 767 enterprises.

17.– https://www.sippo.vn/en.

Geopolitical tensions between China and United States have also benefitted Viet Nam, as imposition of high import tariffs on Chinese products has forced many Chinese manufacturers to relocate their operations to Viet Nam or even simply translocate shipments through Viet Nam enroute to the US. This has contributed to the steady growth of furniture and wood product exports of Viet Nam.

Figure 7: Viet Nam wooden furniture and supporting wood product export value (US $ million)



Source: *ITC*

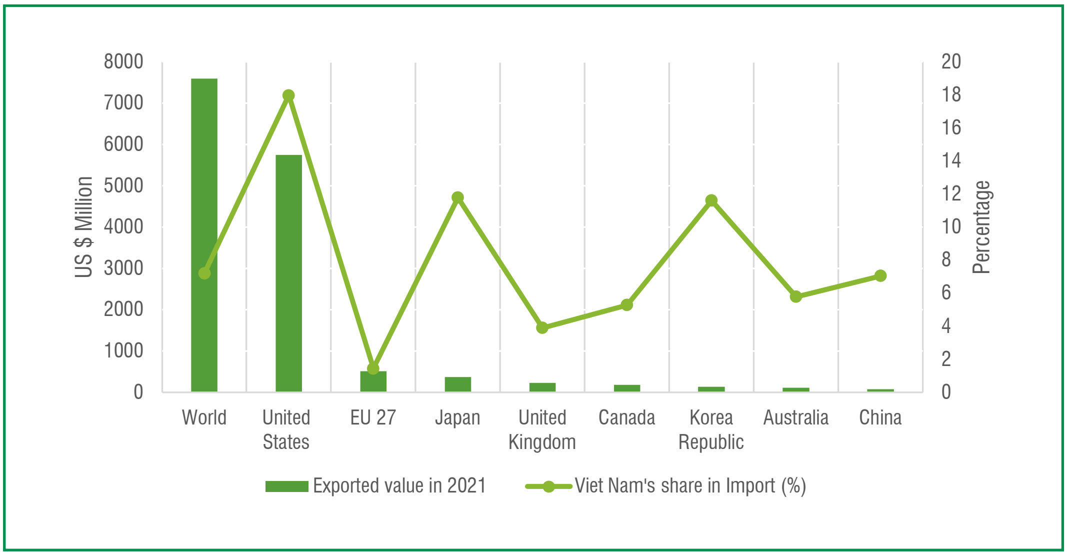
Further, free-trade agreements with the European Union (EU) and UK have opened new market opportunities, capitalizing on the home renovation boom witnessed in many Western countries during the Covid-19 pandemic. It is noteworthy that all these industry developments are realized on account of Viet Nam's local advantages like cheap labour and relatively well-developed wood-processing industry. Thus, compared to its regional competitors, Viet Nam has potential to reap high dividends from new-generation free trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and other trade opportunities.

DESPITE SERVING TO TOP GLOBAL IMPORTERS OF WOODEN FURNITURE, VIET NAM IS STILL NOT THE MAIN CONTENDER IN MOST OF THESE MARKETS

Viet Nam exports wooden furniture and supporting wood products to some 160 countries and territories. The top global importing markets of wooden furniture are also the leading export destinations of Viet Nam's wooden furniture (HS 9403). However, despite registering an increase in growth (38%), Viet Nam's rank in global export dropped from third position in 2020 to fourth position in 2021. Though Viet Nam supplies to all leading importing markets, its share is not substantial in most of these markets, which are primarily served by countries like China, Italy, and Poland.

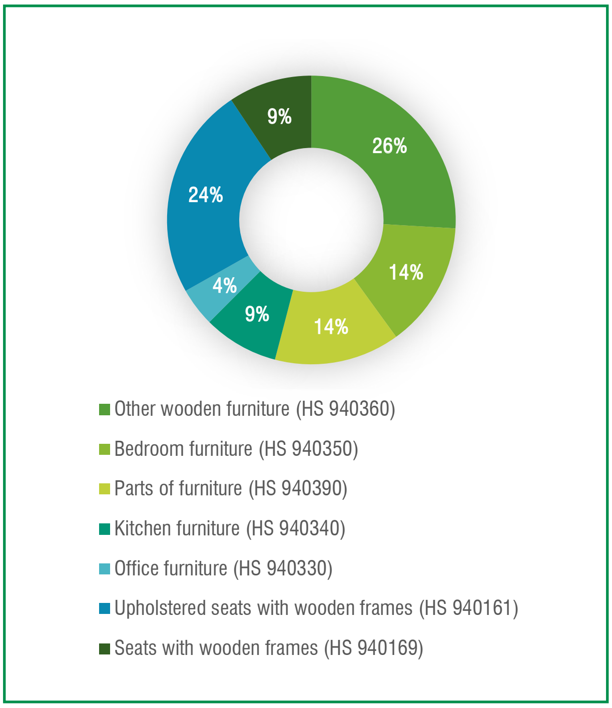
Top export destinations of Viet Nam in 2021 (and Viet Nam's relative share in their import market) is as follows; United States (18%), Japan (11.8%), United Kingdom (3.9%), Canada (5.3%), Korea Republic (11.6%), Australia (5.8%), and China (7.1%). Viet Nam exports over 90% of its furniture to these markets. It should be noted that while Viet Nam directs 75.8% of its furniture to United States (Figure 8), its share in US import market is only 18%. Meanwhile, Viet Nam has strong presence in regional markets like Japan, Korea Republic, and China, close to 10%, even though it directs only 5%, 2% and 1% of its furniture to these markets. Among EU countries, Viet Nam's top destination for wooden furniture export are Germany, France, and Netherlands, with Viet Nam's supply share in their total import, being 1.5%, 1.6% and 2.2%, respectively. Cumulatively, EU 27 accounts for 6.8% of Viet Nam's total furniture export turnover, but market share of Viet Nam in EU is only 1.5%. Furniture exported to these markets are mainly modern in style and wood materials used to produce these products are from legally low-risk sources.

Figure 8 Top export destination of Viet Nam wooden furniture (HS 9403) in 2021



Source: *ITC*

Figure 9 Product-wise split of wooden furniture export of Viet Nam in 2021 (%)



Source: *ITC*

As mentioned above, United States market alone accounted for 75.8% of Viet Nam's total furniture (HS 9403) export turnover in 2021. This pattern remains same for all wooden furniture products exported to the US, for example, 87.4% of Viet Nam's total export of HS 940161 (upholstered seats with wooden frame) is directed to the US. Figure 9 shows a product-wise split of top wooden furniture products exported by Viet Nam. Other wooden furniture (HS 940360) and Upholstered seats with wooden frames (HS 940161) account for highest exports among furniture products. It must be noted that the tailwind for rapid growth of Viet Nam's furniture exports is due to the imposition of 25% import tariff by the US on Chinese furniture, resulting in demand shifting to Viet Nam, which has been the primary beneficiary of Sino-US trade tensions.

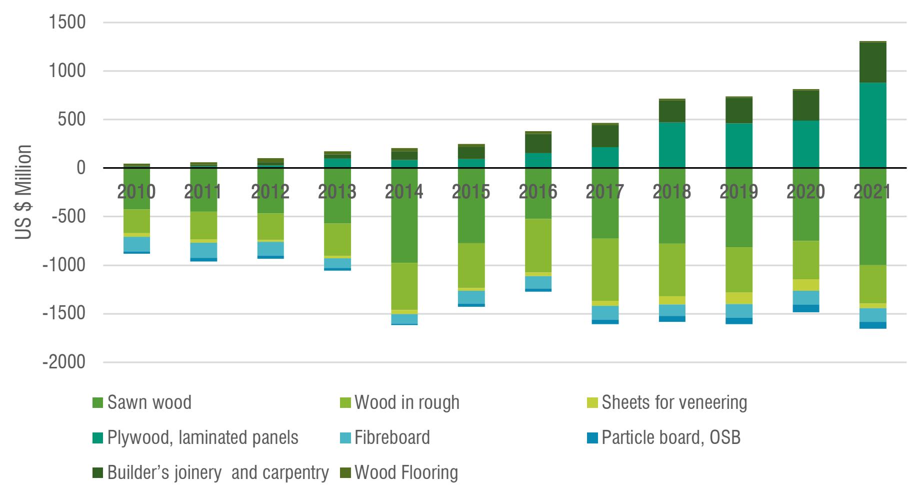
Among export of supporting wood products, Viet Nam's share is highest in Plywood laminated panels (HS 4412), Sheets for veneering (HS 4408), and Builder's joinery and carpentry (HS 4418), appropriating 5.4%, 5%, and 2.5% share in global export, respectively. United States and Southeast Asian countries are the primary export destinations for SWP.

HIGH DEPENDENCE ON IMPORTED TIMBER RAW MATERIALS

Over the years, Viet Nam has maintained a positive trade balance in wooden furniture sector. During the period between 2016 to 2020, trade surplus values for all wooden furniture products increased at an increasing rate. The period between 2020-2021 saw sudden spike in trade surplus values for most wooded furniture products due to high rate of export growth during in this period. Trade surplus declined for office furniture (HS 940330), seats with wooden frame (HS 940169) and parts of furniture (HS 940390) but were still positive in value.

On the other hand, majority of supporting wood products have consecutively registered negative trade balance (Figure 10). Trade deficit has been highest for sawn wood (HS 4407) and wood in rough (HS 4403), followed by fibreboard (HS 4411), particle board OSB (HS 4410) and sheets for veneering (4408). Though Plywood laminated panels (HS 4412), builder's joinery & carpentry (HS 4418), and wood flooring (HS 4409) have consecutively registered surplus trade. During the pandemic period, there was additional spike in surplus value for plywood.

Figure 10: Trade balance of supporting wood products (US $ million)



Source: *ITC*

Owing to rapid expansion of wood product manufacturing and export, demand for timber raw materials increased 36% between 2016-2021. Viet Nam's wood processing industry uses both domestic and imported raw materials. It was estimated that in 2021, the industry used about 41 million m3 round wood equivalent (RWE) of wood and wood-based raw materials, an increase from 34.2 million m3 in 2017, a rise of nearly 20%.[18] In 2021, domestic sources of timber from planting production forests, rubber plantations, and non-forest scattered planting areas supplied 31.7 million m3, accounting for 77% of total raw material demand. (VNFOREST, 2022b) However, it is estimated that only 30-40% of this domestic supply can be used directly for furniture production (including builder's joinery & carpentry). Rest 60-70% domestic supply of stems, branches or small-sized timber is mainly suitable for producing chips or pellets[19].

Table 1: Import volume of Supporting wood products (SWP)

SWP	HS Code	Import volume 2020 (m3)	Import volume 2021 (m3)	Growth in import volume between 2020-2021 (%)
Sawn wood (round logs)	4407	2541569	2782007	10%
Wood in rough	4403	2019902	1930398	-4%
Fibreboard	4411	744665	823305	11%
Plywood, laminated panels	4412	604283	548680	-9%
Particle board, OSB	4410	434719	361784	-17%
Sheets for veneering	4408	275979	306159	11%

Source: *ITC*

18.– VNFOREST, 2022b and https://www.mard.gov.vn/Pages/hoi-nghi-phat-trien-vung-nguyen-lieu-phuc-vu-nganh-cong-nghiep-che-bien-go-xuat-khau.aspx

19.– https://baochinhphu.vn/nganh-go-no-luc-giai-bai-toan-kho-102220422205647492.htm

Imported material from more than 100 supply markets provided 9.3 million m3, 23% equivalent, of total raw timber used in the industry in 2021 (Cam et al., 2022). Sawn wood, wood in rough, and fibreboard account for highest volume (m3) of imported timber. In other words, Viet Nam is heavily reliant on foreign supply of timber materials for producing export furniture. Reasons of this include high rate of expansion of furniture industry, imposition of total logging ban in natural forests, low quality, and small size of domestic timber supply, and increasing demand from international furniture buyers for certified sustainable timber, which Viet Nam is presently unable to supply on large scale. [2021]

Links, 4. Teak Veneer (Substitute at Page 11).jpg

The five largest log supply markets for Viet Nam are Cameroon, United States, Australia, Belgium, and Papua New Guinea (PNG). Supply from these 5 markets reached 1 million m3, accounting for 52% of total volume and value of round log imported by Viet Nam during 2021. Australia has emerged as a strong market supplying large volumes of log to Viet Nam (Cam et al., 2022).

The five largest supply sources of sawn timber to Viet Nam include, United States, Chile, Brazil, Canada, and New Zealand. Supply from these countries reached 1.46 million m3, accounting for 52.6% of total sawn timber volume entering Viet Nam in 2021. A total of 29 countries supply plywood and wood-based panels to Viet Nam, but the biggest suppliers are China and Indonesia. China continues to be the largest source accounting for 91% of total volume and 89% of total value of plywood imported from all markets in 2021. China supplied 498,000 m3 of plywood, equivalent to USD 206 million, down 10.6% in volume, but up 1% in value compared to those in 2020. In 2021, Indonesia exported to Viet Nam 26,0000 m3, equivalent to USD 12.4 million, up 35% in volume and 34% in value compared to 2020, accounting for nearly 5% of total plywood imported into Viet Nam (Cam et al., 2022).

Box 2: Key Takeaways on Trade Performance

- Viet Nam has emerged as one of the world's leading exporters of wooden furniture (HS 9403), ranked fourth largest furniture exporter in 2021, amounting to USD 7.6 billion.
- The top global importing markets of wooden furniture are also the leading export destination of Viet Nam's wooden furniture (HS 9403). United States alone accounted for 75.8% of Viet Nam's total furniture (HS 9403) export turnover in 2021.
- EU 27 accounted for 6.8% of Viet Nam's total furniture export turnover in 2021. Furniture exported to these markets are mainly modern style products; and wood materials used to produce these products are from the legally low-risk sources.
- Top product groups of wooden furniture export from Viet Nam in 2021 include Other wooden furniture (HS 940360) 26%, Upholstered seats with wooden frame (HS 940161) 24%, Bedroom furniture (HS 940350) and Parts of furniture (HS 940390) 14% each.
- Being signatory to several free-trade agreements provide more opportunities for Viet Nam's wooden furniture trade.
- Cheap labour and relatively well-developed wood-processing industry provides advantages for Viet Nam's global wooden furniture export.
- In 2021, the five largest log supply markets for Viet Nam were Cameroon, United States, Australia, Belgium, and PNG; and the five largest supply sources of sawn timber to Viet Nam included United States, Chile, Brazil, Canada, and New Zealand.

20.– Viet Nam has imposed logging ban since 2014, and applied a total logging ban from natural forests since 2016.

21.– Only 30-40% of the domestic supplied timber can go directly to furniture production: 60-70% go to chip and pellet production (https://baochinhphu.vn/nganh-go-no-luc-giai-bai-toan-kho-102220422205647492.htm).

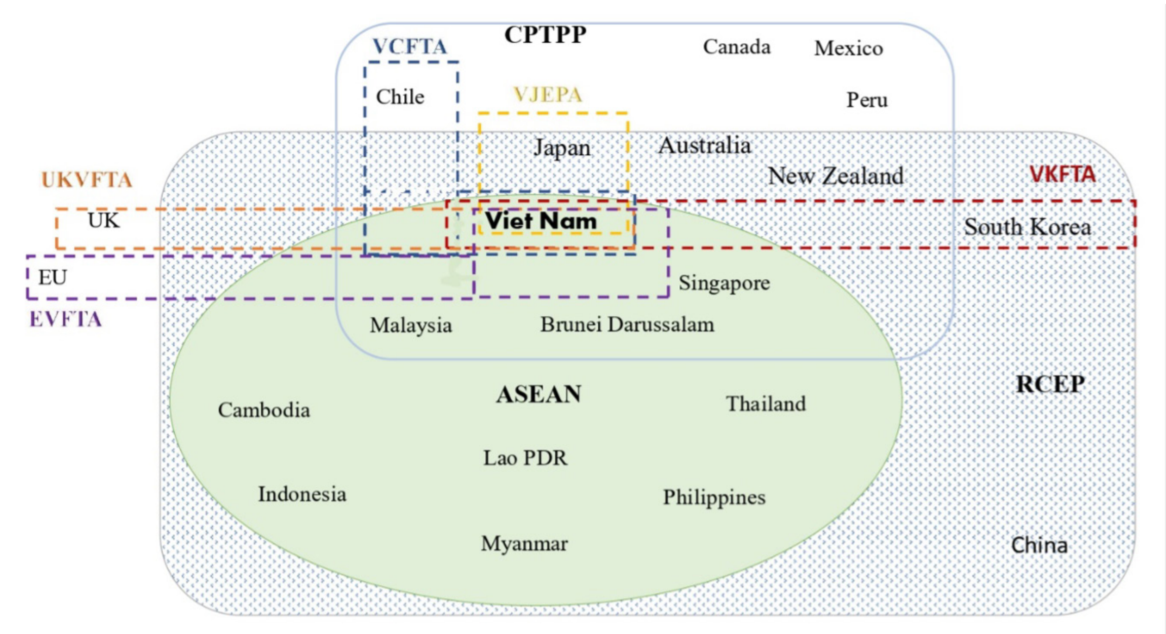
Current Initiatives, Policy & Regulatory Framework

CERTIFICATION, TRADE AGREEMENTS AND COMMITMENTS

Viet Nam's wooden industry has grown in recent years. This can be attributed to the reforms in the domestic legal system that encourages trade openness, accompanied by newly signed Free Trade Agreements such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), Free Trade Agreement between Viet Nam and the EU (EVFTA), and Regional Comprehensive Economic Partnership (RCEP). The newly signed Free Trade Agreements, of which Viet Nam is a signatory, have provisions to encourage a high degree of comprehensive commitment among the partner countries. This helps local timber enterprises integrate better into the existing wood product global value chain, creating a positive spillover effect on potential buyers.

Additionally, although not an FTA, Viet Nam's bilateral agreement with the United States provides Vietnamese producers with an upper hand in the US furniture market compared to Chinese exporters. Viet Nam also benefits from initiatives and harmonized and mutual recognition trade agreements under ASEAN. Continuing moving towards trade openness, Viet Nam is currently negotiating a Free Trade Agreement with the EFTA countries (Norway, Iceland, Liechtenstein, and Switzerland).

Figure 11: Viet Nam's FTAs and other agreements with major trading partners



Timber sourced from legal and sustainably managed forests is becoming the global trade norm rather than the exception. Many global wooden furniture retailers, such as IKEA and B&Q, are demanding that their suppliers comply with these requirements. The days of purchasing simply based on cost are numbered as other factors become more important in the purchase decision. Meeting environmental certification requirements ensuring that wooden furniture is legally and sustainably sourced is becoming a prerequisite for manufacturers willing to penetrate key markets such as the United States and EU.

In this context, the term 'sustainable wood' refers to wood obtained legally and gathered in ways that protect other trees in the forest, as well as the waterways, wildlife, and environment in which the wood was harvested. For imported wood resources, sustainability also means gathering the timber in a way that respects the rights of indigenous people in the source area. In a sustainable lumbering practice, new seedlings are planted faster than trees are removed, ensuring that forests regrow.

The term 'legally sourced wood' refers to wood that can be traced from its harvest point to its end use and has been harvested by paying the necessary taxes and dues. In addition, and most importantly, third-party auditors can verify its origin and compliance with an approved guideline or certification standard. Inevitably, most major markets for wooden furniture throughout the world have environmental or certification regulations to ensure sustainability and legality that must be complied with by all suppliers. Major environmental regulations related to wooden furniture are presented in box 3.

Box 3: Main sector-relevant certifications

PEFC (Program for the Endorsement of Forest Certification)

PEFC is a leading global alliance of national forest certification systems since 1999. As an international non-profit, non-governmental organization, it is dedicated to promoting sustainable forest management and chain of custody (CoC) through independent third-party certification.

FSC (Forest Stewardship Council)

FSC is an international non-profit multi stakeholder organization, since 1993 to promote responsible management of the world's forests. The FSC does this by setting standards on forest products, along with certifying and labeling them as eco-friendly.

Forest Law Enforcement, Governance and Trade (FLEGT)

FLEGT Trade Action Plan was defined by the EU back in 2003 to fight illegal logging and associated trade. Key regions and countries targeted in the Action Plan are Central Africa, Tropical South America, and Southeast Asia. FLEGT allows for control of entry of timber into the EU from countries entering bilateral VPA.

Viet Nam Timber Legality Assurance System (VNTLAS)

VNTLAS was implemented in 2020 by Viet Nam, to ensure that timber products are verified legal according to specified requirements for all stages of the supply chain, from the forest or the point of import to the point of final sale or export.

National Forest Certification Scheme (VFCS)

VFCS is a national scheme, developed and operated by Viet NamForest Certification Office (VFCO), to implement sustainable forest management and forest certification practices in Viet Nam.

Viet Nam signed the VPA on Forest Law Enforcement, Governance and Trade (FLEGT), which is a legally binding bilateral trade agreement aiming to improve forest governance and promote trade in legal timber from Viet Nam to the EU. Under the VPA, Viet Nam developed the Timber Legality Assurance System (VNTLAS) to ensure legality of imported timber and will develop a FLEGT licensing system for timber products being exported to the EU.

Viet Nam has also joined the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), becoming its official signatory since 1994. The Convention's aim is to ensure that international trade in specimens of wild animals and plants does not threaten the survival of the species.[22]

Notably, on October 1, 2021, Viet Nam and United States signed an agreement against illegal logging and trade of illegal timber. This is to address the US concerns on illegal logging and illegal timber trade activities in Viet Nam, to protect the environment and natural resources.[23] The Agreement contains commitments by Viet Nam to improve its Timber Legality Assurance System; keep confiscated timber (i.e., timber seized for violating domestic or international law) out of the commercial supply chain; verify the legality of domestically harvested timber regardless of export destination; and work with high-risk source countries to improve customs enforcement at the border and law enforcement collaboration.[24]

22.– https://cites.org/eng/disc/what.php.

23.– It is also called the Viet Nam Timber Section 301 investigation, under Section 301 of the US Trade Act of 1974.

24.– https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/october/ustr-announces-agreement-between-united-states-and-Viet Nam-resolve-timber-section-301-investigation

SUPPORTING POLICIES, PROGRAMS/PROJECTS

The Government of Viet Nam has issued several regulations, policies, and programs to manage and support the activities of organizations (including enterprises) and individuals in ensuring the legality, efficiency, and sustainability (economic, social, environmental) for the exploitation, use and trade of wood and wood products. These policies, programs are promulgated in accordance with Viet Nam's domestic management needs as well as its commitments to relevant international conventions and agreements to which Viet Nam is a signatory.

Regarding the timber and timber product processing and trade, one of the important regulations is the Decree 102/ND-CP promulgating Timber Legality Assurance System of Viet Nam (or VNTLAS).[25] [26] This Decree is a milestone for the implementation of the abovementioned EU-Viet Nam VPA. The Decree, entering into force on October 30, 2020, provides for Viet Nam Timber Legality Assurance System (VNTLAS) for export and import; criteria, authority, procedures for classifying enterprises engaged simultaneously in timber processing and export; and issuance of FLEGT licenses. The Decree stipulates regulations for importing and exporting timber following a risk-based approach on timber species (low/high risk of legality) and geographical origin of timber (positive/non-positive geographical area). Article 5 of the Decree stipulates Criteria for determination of a country belonging to a positive geographical region exporting timber to Viet Nam.[27] Article 6 of the Decree, on the other hand, stipulates criteria for determination of timber of risk categories imported into Viet Nam.[28] And Article 12 stipulates criteria for classification of enterprises.[29]

- Following the VNTLAS, the Ministry of Agriculture and Rural Development (MARD) issued Decision 4832/QD-BNN-TCLN in November 2020, announcing a list of 51 countries of positive geographical areas.[30] Countries that fall outside this list are considered non-positive, or high risk, sources.

- During 2020-2022, MARD issued several Decisions announcing and updating the list of all timber species that have been imported into Viet Nam. The latest Decision 2752/QD-BNN-TCLN in July 2022, announcing the list of 837 timber species having been imported into Viet Nam by the end of June 2022.[31] Timber species on the CITES list as prescribed by Vietnamese law or those not in the list of the 837 species are considered high-risk species.

- In 2021, MARD issued Circular 21/TT-BNNPTNT regulating the classification of wood processing and exporting enterprises. This Circular, being into force on May 1, 2022, applies to enterprises with simultaneous timber processing and export activities; organizations and individuals engaged in activities related to wood processing and export. Accordingly, engaged enterprises are classified into 2 groups. Group I are enterprises that comply with the provisions of law in establishment and operation of enterprises, and comply with the provisions of law on legal timber origin.[32] Group II are enterprises that do not meet any of the criteria to be classified as under Group 1.

Besides of VNTLAS, management and traceability of origin of forest products, including timber, used in the country territory is stipulated by the Circular 27/TT-BTTPTNT issued by MARD in 2018.[33] The legal document, became effective on January 1, 2019, regulating the management and traceability of origin of forest products. This Circular provides provisions for: (1) Order and procedures for exploitation of common forest plants, (2) Legal dossiers of forest product, forest product traceability inspection, (3) Marking of specimens of species on the list of endangered, precious, and rare forest plants; wild forest plant species on CITES Annexes; and finished wood products.[34]

25.– https://thuvienphapluat.vn/van-ban/Thuong-mai/Nghi-dinh-102-2020-ND-CP-quy-dinh-He-thong-bao-dam-go-hop-phap-Viet-Nam-451590.aspx

26.– Decree 102 has been planned to be revised.

27.– Article 5 of Decree 102: 1.

28.– Article 6 of Decree 102: 1.

29.– Article 12 of Decree 102: 1.

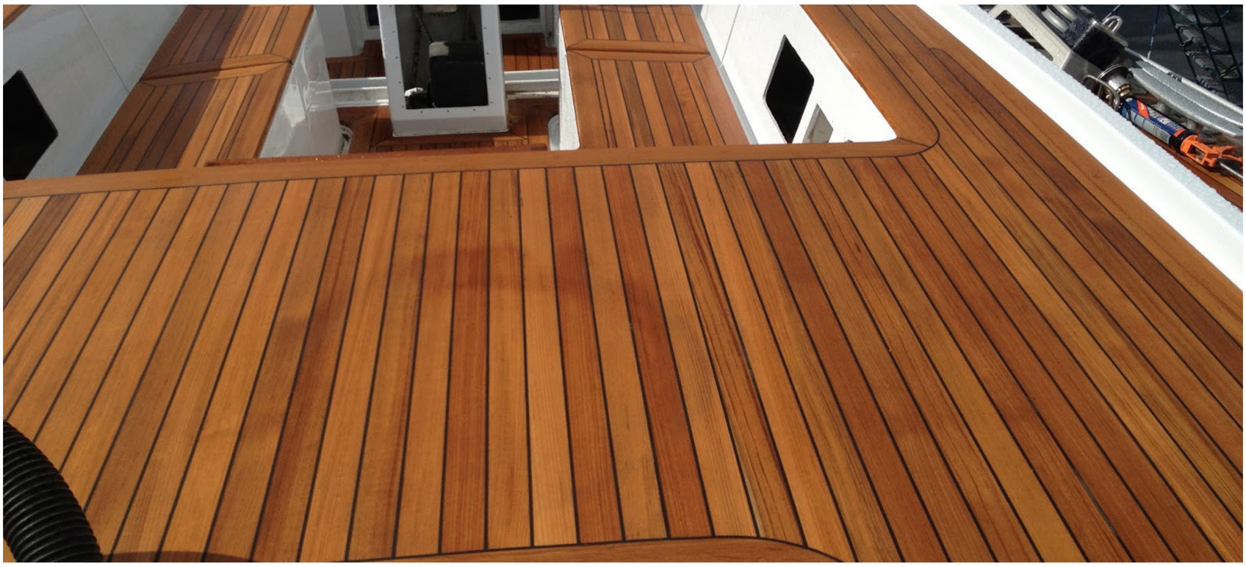
30.– https://thuvienphapluat.vn/van-ban/Xuat-nhap-khau/Quyet-dinh-4832-QD-BNN-TCLN-2020-cong-bo-Danh-muc-cac-loai-go-da-nhap-khau-vao-Viet-Nam-458434.aspx

31.– https://luatViet Nam.vn/xuat-nhap-khau/quyet-dinh-2752-qd-bnn-tcln-bo-nong-nghiep-va-phat-trien-nong-thon-226519-d1.html.

32.– https://thuvienphapluat.vn/van-ban/Doanh-nghiep/Thong-tu-21-2021-TT-BNNPTNT-phan-loai-doanh-nghiep-che-bien-va-xuat-khau-go-499499.aspx

33.– https://thuvienphapluat.vn/van-ban/Linh-vuc-khac/Thong-tu-27-2018-TT-BNNPTNT-quy-dinh-quan-ly-truy-xuat-nguon-goc-lam-san-402849.aspx

34.– The Circular 27 has been in process of being replaced by a new one.



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In March 2022, the Prime Minister issued Decision 327/QD-TTg, approving the scheme for sustainable and efficient development of timber processing industry for period 2021-2030.[35] By 2030, the Scheme aims to develop the timber processing industry into an important economic sector; build and develop prestige brands of Vietnamese timber products in both domestic and foreign markets; strive to put Viet Nam among the group of world's leading countries in the sector of timber and timber product production, processing and export. The Scheme's specific objectives include:

a) The export value of timber and forest products is expected to reach USD 20 billion and USD 25 billion by 2025 and by 2030 respectively, in which export turnover of timber and timber products is expected to reach more than USD 18,5 billion and more than USD 20,4 billion by 2025 and 2030, respectively.

b) The value of timber and timber products sold domestically is expected to reach USD 5 billion and more than USD 6 billion by 2025 and 2030, respectively.

c) More than 80% of timber processing and storage facilities are expected to be capable of adopting advanced manufacturing technologies.

d) 100% of timber and timber products, whether exported or sold domestically, are made of legal timber materials or timber granted sustainable forest management certification.

The Scheme also provides a comprehensive set of tasks and solutions which will ensure achieving the above objectives. Related to domestic material timber supply, the Scheme sets target by 2030:

- Having at least 0.5 million ha and 1 million ha of forest areas granted sustainable management certification by 2025 and 2030, respectively.
- Planting 1 billion trees.
- Striving to meet at least 80% of demand for timber materials for manufacturing and processing activities.

Some other prominent policies include:

Decision 493/QD-TTg by the Prime Minister in April 2022 on approving the strategy for merchandise exports and imports by 2030.

Directive 08/CT-TTg by the Prime Minister in March 2019 on solutions for fast and sustainable development of wood and non-timber forest product processing industry for export.

Directive 25/CT-TTg by the Prime Minister in August 2018 on some tasks and solutions for production development and export promotion.

Decree 39/ND-CP by the Government in March 2018 on stipulating some articles of the law supporting small and medium-sized enterprises.

Decision 38/QD-TTg by the Prime Minister in September 2016 on promulgating some policies on forest protection and development and supporting infrastructure investment, assigning public utility roles to agroforestry companies.

35.– https://thuvienphapluat.vn/van-ban/Linh-vuc-khac/Quyet-dinh-327-QD-TTg-2022-De-an-phat-trien-nganh-cong-nghiep-che-bien-go-ben-vung-506116.aspx

Value chain and competitiveness constraints analysis

Value chain mapping

INPUT MATERIAL

Wood materials including raw-wood (log or sawn timber) and wood-based panels/boards/planks are the most important inputs in the furniture processing industry. Viet Nam's timber processors source wood materials from domestic timber plantations and through imports. Domestic timber is used to produce mainly modern style furniture for export and partly for domestic market. To produce a furniture product, sometimes domestic timber is also mixed with imported timber, for example, using imported timber as veneer covering join-fingered boards made from domestic timber.

DOMESTIC TIMBER

Supply source and species: Domestic sources of timber include planting production forests, rubber plantations, and non-forest scattered planting areas/trees, and public land. Domestic sources supplied 31.7 million m3 RWE (77% of total) raw timber input used in wood-processing industry in 2021. Acacia, rubber, eucalyptus, and pine are the main domestic timber species, in which acacia volume from production forests accounts to more than half.[36] These timber species are primarily used for production of outdoor furniture, than indoor furniture.[37]

Most of timber from domestic sources, although being non-FSC certified, is seen as legal timber since they are derived from land which has been issued Land Use Certificate and no-conflict (between land holders) certificate. Domestic timber supply also includes timber from conversion forests (conversion timber), from lands without Land Use Certificates, or from illegal harvest and trade. It is estimated that about 1 million m3 of timber from these sources enter the timber supply chain annually (GIZ and NEPCon, 2020).

Linkages: Wood processing enterprises, including sawmills, chipmills, and furniture producers, mainly source domestic raw wood from local dealers/agents, who often specialize in trading domestic timber only and not imported wood. Domestic wood dealers are spread across the country selling small to large varieties of wood (Quang et al., 2021 Quang et al., 2017). Wood processing enterprises buy domestic wood directly from a forest owner, or a group of forest owners. Buyers and sellers can sign a long-term agreement for supply of predetermined type of timber, e.g., FSC-certified Acacia wood.

36.– VNFOREST (2022b). Other domestic timber trees planted on the mentioned land include Mo (*Magnolia chevalieri*), Bo De (*Ficus religiosa*), Lat (*Chukrasia tabularis*), Xoan (*Melia azedarach*) and some other local species.

37.– Direct interviews (July-September 2022).

IMPORTED TIMBER

Although Acacia and rubberwood constitute a large share of the total species imported by Viet Nam, round logs and sawn timber of some 160 different species from more than 100 countries are also imported, along with variety of plywood and wood-based planks/panels. Imported timber can be divided into two main groups:

- Wood species originating from tropical forest countries such as those in the Mekong region and Africa, classified as high-risk in terms of legality. In 2021, Viet Nam imported 1.78 million m3 RWE of round logs and sawn timber from 64 high risk supply markets, accounting for nearly 30% of total imported volume of round logs and sawn timber in the same year (Quang et al. 2022b)

- Wood species originating from the United States, countries in Europe and Latin America, seen as low risk timber mostly from FSC-CoC certified plantations. In 2021, Viet Nam imported 4.22 million m3 RWE of round logs and sawn timber from 44 low risk supply countries, accounting for 70% of the total imported volume of round logs and sawn timber in the same year (Quang et al. 2022).

Table 2: Details of Timber importing companies

Timber importing companies – Total 300	Of these, 10 are 100% FDI companies.
Up to 50,000 m3 RWE timber import per year	20 traders
5,000 - 10,000 m3 RWE per year	100 traders

Timber importing companies: Processing enterprises in Viet Nam buy imported timber either directly from importing companies, or from local dealers/agents, who buy the timber from importing companies. Depending on volume or value, transactions can be made with or without a contract between the buyer and seller. However, without-contract transactions only happen in the case of micro and small enterprises.[38] For medium and large processors, especially those which directly export wooden furniture, contracts are always made to ensure compliance with financial and tax regulations, and for tracing materials used (stakeholders' consultation, 2022). Notably, there are timber-import companies that are also furniture manufacturers.

Auxiliary input materials

Besides wood material input, Viet Nam depends heavily on auxiliary materials, such as paint, chemicals, glue/adhesive, screws, etc., 90% (about USD 300 million) of which is from imported sources, mainly from China and partly from EU (VNFOREST, 2022b). Most of the furniture parts made of wood substitute materials such as leather, plastic, metal, fibre ribbons/ropes, etc. are imported from China. Domestic wooden furniture producers often buy imported auxiliary materials from domestic trading companies.[39]

MACHINERY

Machinery used by domestic wooden furniture processing enterprises are from China, Taiwan, Viet Nam, and Europe (mainly Italy and Germany), in this sequence.[40] Woodworking machinery does not require high-level technology, and machinery usage does not depend on product type, production region, or processing stage. Machines both from developing countries and European countries offer same level of function and product quality, but the value of investment in former is 5 to 7 times lower than the latter. In fact, machines manufactured by China, Taiwan or Viet Nam are more multifunctional than those from European manufacturers. Investing in them brings about higher economic efficiency (saving production cost) and faster depreciation, therefore can be quickly replaced by new machines when more modern/high-tech machines are born. FDI furniture producers tend to invest in more high-tech machinery compared to local producers, as they have better financial capacity.[41]

38.– In some handicraft woodworking villages in the North, cases that micro and small processors buying material timber (both domestic and imported timber) without contract or VAT invoice, even borrowing timber from each other are not scarce (Quang et al. 2022a).

39.– https://www.researchgate.net/publication/46449865_An_Explorative_Study_on_Functional_Upgrading_and_Export_Development_of_Viet Nam_Wood_Furniture_Producers

40.– Based on consultation to processing enterprises and representatives of wood associations of DOWA, BIFA, and HAWA (July- September 2022).

41.– Based on consultation with stakeholders in 2021 and 2022.

DESIGN

Viet Nam lacks design expertise and most furniture produced is based on customer-provided designs, especially for the US and EU markets. However, Viet Nam is slowly changing its position from design-taker to design-provider, especially in the European market, where consumers are open to both Vietnamese and European designs. On the other hand, there is diversification in functions of Vietnamese producers in value chains with East Asian buyers, as East Asian consumers tend to be design-takers.[42]

Recently, some Vietnamese enterprises have invested significantly in functional upgrading, self-product design, combined original equipment manufacturing (OEM) and original design manufacturing (ODM). Some enterprises have proportion of revenue from self-designed products accounting for 30-40% of their total annual revenue. There is also increasing usage of wood-alternative materials such as leather, metal, fibre strings, plastics, etc. into the self-designed products. In some products such as outdoor tables and seats, sun loungers, etc., the value of substitute materials accounts for 40-60% of total production value of the product. This is a much higher proportion than before, when wood materials usually accounted for at least over 70% of total production costs. However, these alternative materials are still largely dependent on imports, especially on suppliers from China

Processing and Post-production

Wood processing activities can basically be divided into two stages: primary and final processing. Primary processing includes works such as splitting, drying, roughing, creating parts of product. Final processing includes product finishing stages such as mortising, smoothing, painting, polishing. Final processing enterprises often order wood from a supplier of raw materials, then hire this same supplier, or another facility that specializes in providing sawing, cutting, drying, veneering services. The final enterprises then receive wood that meets the required size and moisture-content and continue to process the wood according to pre-set designs of the product they need to make, mortise, assemble and finish the product. Normally, a processing enterprise participates in primary processing following an order from final processing enterprise. However, there are enterprises that import raw wood, and do both primary processing and final processing at the same time.

Among processing enterprises, both domestic and FDI, those that directly export wooden furniture to markets such as the US, EU, Japan, Australia are usually large-scale enterprises with about 200 workers at the least. These enterprises are mainly located in southern provinces and have high scale of production because orders to above markets often require large quantities of wooden furniture. In other words, small and medium-size processing enterprises have little opportunity to directly participate in signing of contracts to produce large volume of orders for large markets like US, EU, Japan, and Australia.

Only a few small and medium enterprises can export wooden furniture directly. These enterprises are mainly located in the North, almost all of them are Vietnamese enterprises, and export to the Chinese market, but the main target market of these processors is domestic market. As reported by stakeholders, the way to export to the Chinese market is usually by entrusting export through a Chinese trading company or a Vietnamese trading company which has representative office in China.The source of imported wood materials used in production process determines the main export market, type of wooden furniture produced and location of a processing enterprise:

- Processing enterprises that use natural non-FSC/PEFC/CoC certified timber imported from high-risk sources such as Africa, Laos, Cambodia, etc., are local Vietnamese enterprises, households within woodworking villages in Northern region, producing mainly traditional style of furniture for domestic market, with a small share exported to China.
- Processing enterprises that use FSC/PEFC/CoC certified plantation timber (Acacia, rubber, eucalyptus, teak, pine, ash, oak) imported from low-risk sources such as Europe, US, Canada, New Zealand, etc., are in the Southern region (particularly HCMC, Binh Duong, Dong Nai and Binh Dinh provinces), producing Western modern style of furniture mainly exported to markets in the US, EU, Japan, Australia. This furniture is also partly sold in the domestic market.

Marketing, Distribution and Export

Generally, timber value chains are driven by exporting companies which are in turn in a captive relation with major importers, while the level of horizontal cooperation among chain participants is weak, if not absent. Distribution and after-sale services in export markets are mainly operated by foreign buyers. However, the relationship of SMEs in Viet Nam with buyers worldwide tends to differ. While furniture producers are moving towards functional upgrading in the downstream value chain with

42.– https://www.researchgate.net/publication/46449865_An_Explorative_Study_on_Functional_Upgrading_and_Export_Development_of_Viet Nam_Wood_Furniture_Producers

Links, pexels-ono-kosuki-5973971.jpg

US buyers, they are expanding on the design and marketing function in the value chain with European buyers. There is diversification in functions in the value chains with East Asian markets.

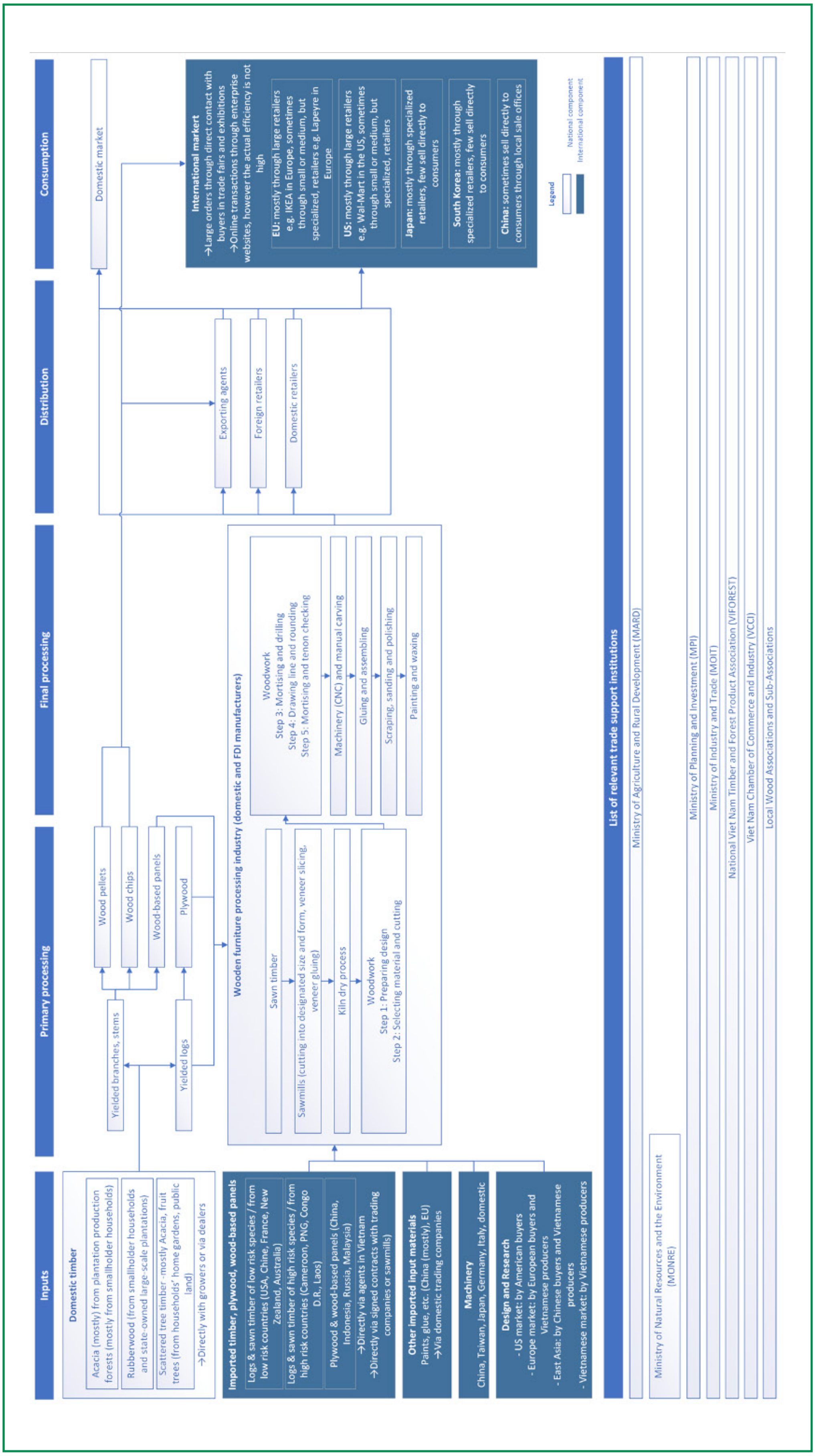
In terms of marketing, producers often obtain large orders through direct contact with buyers in trade fairs and exhibitions held in the country and abroad every year. Vietnamese firms have been participating in trade fairs abroad through financial support from Viet Nam Trade Agency. Major trade fairs that Vietnamese firms participate in:

- Tendence lifestyle (Germany) - orders from Europe.
- Expo and VIFA (Viet Nam) - orders from American buyers.
- International Furniture Fair (Singapore) - orders from both Western and Asian markets.
- International Furnishing/Merchandise (Carolina, United States)
- Houston Furniture & Accessory Market (Texas, United States)
- International Contemporary Furniture Fair (New York, United States)

In recent years, especially since the Covid-19 epidemic, some enterprises have developed their owned websites to advertise, introduce products, and conduct online transactions. However, the actual efficiency of sales activities through websites is not high, due to the typical specificity of wood processing industry and requirement of physical check of production capacity and product quality.

Most Vietnamese producers do not sell their products directly to the European or American consumers, but mostly through large retailers (like IKEA in Europe, and Wal-Mart in the US) and sometimes through small or medium, but specialised, retailers (like Lapeyre in Europe). To cater to consumers in the East Asian market, many firms sell to specialised retailers in Japanese market, few firms sell directly to the South Korean and Japanese consumers, and some Vietnamese producers open sale offices in China to sell their products directly to Chinese customers.

Figure 12: Viet Nam's timber and furniture value chain



Institutional framework

The success of the wooden furniture sector will not only depend on the internal capacities of the operators in the industry, but also on the role of the various ministries and public institutions, as well as other technical agencies. For the sector to achieve long-term sustainable growth, participating enterprises must be able to rely on a capable network of government and private sector support institutions. The overall Trade Support Network (TSN) of the sector in Viet Nam is considered for this sector strategy as the aggregate institutional framework in the country, bringing together those institutions that have a particular interest in, or bearing on, the sector's development and competitiveness.

This network involves line ministries including the MARD, MOIT, MPI. These institutions have respectively the following roles:

- Ministry of Agriculture and Rural Development (MARD) coordinates and facilitates the tasks of the departments included in it, namely Viet Nam Administration of Forestry (VNFOREST), Forest Protection Department (FPD), CITES Management Authority, Plant Protection Department, Department of Agriculture Commodity Processing and Market Development (Agrotrade), Viet Nam Forest Certification Office (VFCO). Mainly supervise and manage forestry development, protection, development and exploitation of forests and rubber plantations; planning of planting areas, processing and trading of timber and forest products, issuance of sustainable forest certification (VFCS); CITES licensing, Phytosanitary licensing; promotion of processing and trade of timber and forest products.

- Ministry of Natural Resources and the Environment (MONRE) oversees and facilitates environmental quality standards, land administration and sustainable natural resources use and conservation, including land use planning.

- Ministry of Planning and Investment (MPI) - Department of SME promotion, supports the mainstreaming of sustainable development and climate change into the preparation, appraisal, and approval of investment programs formulated under the five-year Socio-Economic Development Plans (SEDP).

- Ministry of Industry and Trade (MOIT) coordinate and facilitate the task of the departments and agencies it comprises, including Viettrade, trade protection agency, and import and export agency. MOIT ensures a continuous supply of information on wood products. MOIT's focus can include coordinating with key ministries in assisting SMEs in perspective of the markets, including markets for raw wood material.

- Other trade support institutions are also active in the sector: National Viet Nam Timber and Forest Product Association (VIFOREST) is an NGO that links, cooperates and supports others in production, business, and product value enhancement. VIFOREST represents and protects the legitimate rights and interests of members in domestic and international trade. It also supports providing information to members on relevant national and international policies and regulations, human resource training, and production organization in accordance with international standards.

- Viet Nam Chamber of commerce and industry (VCCI) gathers, protects, and supports the domestic business community, promotes economic and trade cooperation with foreign countries.

- With number of wood-processing enterprises increasing, some local Wood Associations and Sub-Associations have been formed in different parts of the country, especially, HAWA, FPA Binh Dinh, BIFA, DOWA, etc. Main tasks of these associations is to assist their members in business development and export.

In addition to the institutions mentioned above, some other trade and investment support institutions play a key role in developing the wooden furniture sector and fostering coherent approaches to diversifying production and exporting to new markets. These institutions are divided into four main categories: policy support, trade services, business services, and academia and civil society (see table below).

Table 3: Institutions supporting the Wooden furniture sector

Institutions names
• Ministry of Natural Resources and the Environment (MONRE)
• Ministry of Planning and Investment (MPI)—Department of SME promotion
• Ministry of Agriculture and Rural Development (MARD)—Viet Nam Administration of Forestry (VNFOREST), Forest Protection Department (FPD), CITES Management Authority, Plant Protection Department, Department of Agriculture Commodity Processing and Market Development (Agrotrade), Viet Nam Forest Certification Office (VFCO)
• Ministry of Finance (MOF)
• Ministry of Construction (MOC)
• Ministry of Industry and Trade (MOIT) – Trade Protection Agency; Trade Promotion Agency (Viettrade); Import-Export Agency
• Ministry of Labour, Invalids and Social Affairs (MOLISA)
• Ministry of Public Security (MOPS)
• National Viet Nam Timber and Forest Product Association (VIFOREST) • Local Wood Associations and Sub-Associations: HAWA, FPA Binh Dinh, BIFA, DOWA, etc. • Department for SMEs promotion of MPI
• Viet Nam Chamber of commerce and industry (VCCI) • Viet Nam representatives abroad
• Educational/Vocational institutions: Viet Nam Forestry University; HCMC Nong Lam University; HCMC University of Technology and Education, Hue University of Agriculture and Forestry) • 4 vocational colleges (Northeastern College of Technology, Agriculture and Forestry, and 3 Vocational Colleges of Phu Ly (Ha Nam), Quy Nhon (Binh Dinh) and Di An (Binh Duong))
• Thua Thien Hue Forest Owner Sustainable Development Association (FOSDA)
• The Green Viet Nam Fund
• Forest Owner Association (VIFORA)
• Viet Nam Academy of Forest Sciences (VAFS)

Competitiveness constraints analysis

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely, and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business ecosystem and achieving a sustainable return on the resources employed.

Figure 13: SME Export Competitiveness Grid

The ITC SME Export Competitiveness Grid provides a methodology for analysing the current situation and export capabilities and identifying key challenges and issues.

1. Compete - covers items related to industries' ability to compete, such as, productivity, quantity, cost, timeliness, consistency, etc.

2. Connect - ability to connect to information, public-private collaboration, private-private collaboration, institutional coordination, communicating with clients, product branding, etc.

3. Change - capacity of industries to access the right skills, innovation, attracting investment, intellectual property requirements, etc.

Based on the ITC SME Competitiveness Grid, challenges across the three levels and three dimensions of competitiveness of Viet Nam's furniture exports were analysed.

COMPETE

"Compete" assesses whether current production is efficient and meets market requirements. The competitiveness of exporting sectors in the country is undermined by several factors related to the firms' capabilities, institutional support, and national environment.

Box 4: Competitiveness constraints at the whole economy level: Compete

Compete
Firm capabilities
Low labour productivity negatively affects value-creation in the wooden furniture sector. High import dependence due to low quality of domestic timber and under-developed auxiliary industry.
Business Ecosystem
Certified area in Viet Nam is limited and difficult to expand due to land-use patterns. FSC implementation is limited due to low competitive advantage of FSC wood. Timber from high-risk sources and illegal harvest still enters the supply chain.
National Environment
Uneven demand and geographically unsynchronized industry result in high cost of transportation. Increased dependence on Chinese supply has increased the risk of trading fraud. Traceability of wood is not guaranteed in SME and household production.

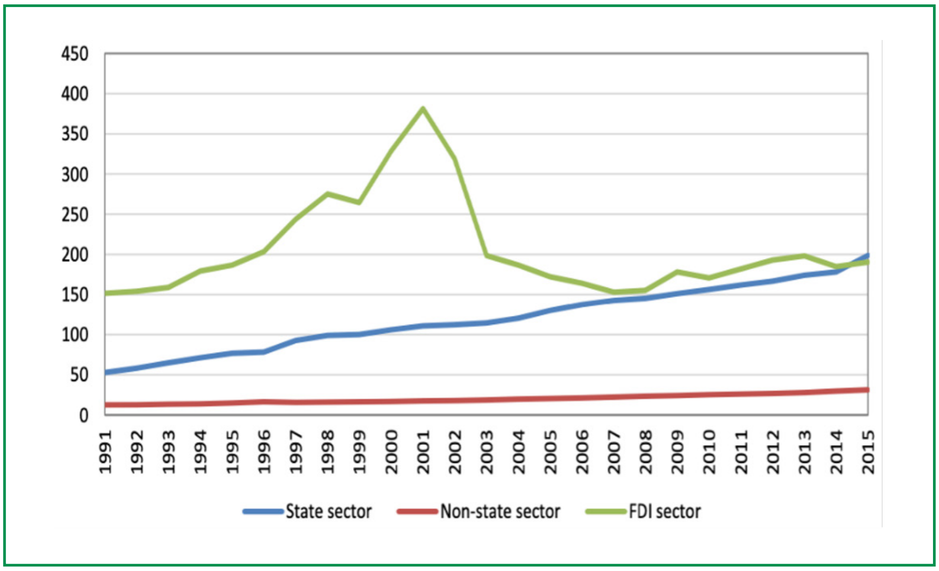
Low labour productivity negatively affects value-creation in the wooden furniture sector

Low professional and technical education imply adverse implications on labour productivity in the wood industry of Viet Nam, which is 50% compared to Philippines, 40% of China and 20% of the European Union (EU). Average working age of workforce is 34.3 years of age, while average years of experience is 6.6 years[43]. Labour productivity growth has not been fast enough to close the gap with competing countries. There also exist severe competition for labour from other manufacturing industries, including FDI furniture industry. Labour productivity in FDI enterprises is much higher than in non-state enterprises. Efforts can be made to promote FDI spillover effects on the wooden furniture industry.

At the same time, wood processing industry is viewed as an unattractive sector where most of the workers are untrained and from rural areas. While employment of workers from rural areas fulfills low-cost requirement

43.– (PDF) Labour practices in Viet Nam's wooden furniture industry: Challenges and good practices (researchgate.net)

Figure 14: Labour productivity by ownership (VND million per worker, at constant 2010 price)



Source: *VEPR and GRIPS, 2020.*

of Vietnamese wood processing industry, there is low awareness among these workers regarding industrial production procedure, standards, and FSC compliance. At USD 300 in 2020, Viet Nam has lower labour costs compared to other competing economies such as China (USD 700) and Malaysia (USD 600). However, low earning of employees negatively affects their productivity. To achieve value-creation in the wooden furniture industry, Viet Nam needs to make stronger efforts to enhance its labour productivity.[44] This can be done by mainstreaming innovation and entrepreneurship and making the wooden furniture sector more attractive to productive labour-force and entrepreneurs.

Despite high proportion (42.4% in 2019) of females in workforce, female representation remains unequal in the furniture industry. Women account for only 27.2% of senior management (ILO 2019). Two important factors that create opportunities for women advancement in the furniture industry are: shortage of (male) labour and rise of female entrepreneurs. The wooden furniture companies headed by female chief executive officers have known to be more open to extending training opportunities in male dominated technical jobs to women and incorporating more women into senior management.

- Plan of action: Activities 2.3.1; 2.3.2; 2.3.3.

High import dependence due to low quality of domestic timber and under-developed auxiliary industry

Potential shortage of raw materials threatens the sustainability of wooden furniture industry. Forest growers, especially households, do not have access to guaranteed quality seedling sources. Due to low quality and small size of wood, only 30-40% of domestic raw materials can be used directly for processing wood products. This has increased the dependence of furniture production on imported timber to as high as 80%, and needs to be addressed. Viet Nam, which depends heavily on imported wood materials to cater for its booming wood and wood products industry, has put itself in a precarious position of having to prove sustainability and legality of its wood supply, if it wishes to continue to enjoy market access to countries with strict sustainability requirements.

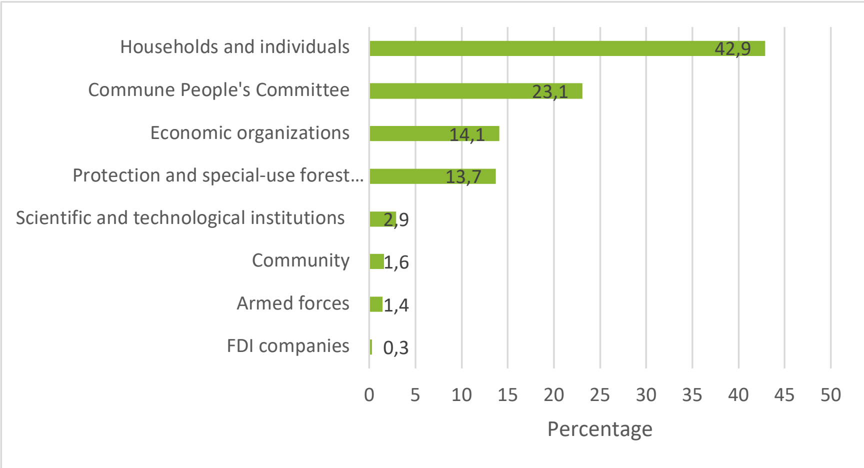
Besides wood raw materials, Viet Nam also depends on import of auxiliary materials such as paint, chemicals, glue/adhesive, screws, etc. Main import sources for these materials are China (70%) and EU, and only 10% is supplied by domestic sources. The high dependence on import (over 90%) is because industries for production of auxiliary materials are not well developed in Viet Nam.[45] But at the same time, supplies from China and domestic sources are estimated to be of much lower quality as compared to supplies from the EU.[46] Most materials such as hinges, and screws are from handicraft

44.– https://en.vcci.com.vn/labor-productivity-important-factor-for-growth

45.– https://www.researchgate.net/publication/46449865_An_Explorative_Study_on_Functional_Upgrading_and_Export_Development_of_Viet Nam_Wood_Furniture_Producers

46.– Based on stakeholders' consultation in woodworking villages in Hanoi and Bac Ninh provinces in 2021.

Figure 15: Planting production forest, by ownership (%)



villages and difficult to use for production of high-class export quality furniture.

- Plan of action: Activities 1.1.1; 1.1.2.

Certified area in Viet Nam is limited and difficult to expand due to land-use patterns

According to data from Forest Protection Department (2022), Viet Nam has 14.68 million hectares (ha) of forest area, of which FSC-certified forests (53 units) and VFCS/PEFC-certified forests account for 1.5% and 0.4%, respectively. FSC-certified forests include natural forests (18%) and plantations (82%), together making only 8% of plantation area as FSC-certified.[47] On the other hand, all VFCS/PEFC-certified forests are rubber areas belong to the State-owned Viet Nam Rubber Group.

Given increasing regional and international demand for certified timber products, government has recently planned to expand certified forest areas and provide sustainable management certification to at least 0.5 million ha and 1 million ha forests by 2025 and 2030, respectively. However, FSC implementation and expansion of certified area in Viet Nam is difficult owing to multiple factors, including land-use patterns.

Land area of many state-owned forestry companies overlaps with (encroached by) areas of households belonging to neighbourhood communities. In many cases, land under the enterprises' management exist only on paper and has been allocated to neighbouring households under long-term contract. In case of individual household land, the area and boundary of land (both on map and field) are unclear and not according to the information given in land-use certificate. Due to buying and selling among households, there are changes in land ownership without any update in the land management system. Additionally, the land area of households is small and dispersed, which makes it difficult to obtain an FSC certificate.

- Plan of action: Activities 1.1.2; 1.1.3.

FSC implementation is limited due to low competitive advantage of FSC wood

Large-sized FSC timber account only for 20-25% of the total FSC timber harvested (especially in the northern region). In some locations in central region, the highest proportion of large-sized wood is 40-50%. However, price of this large-sized FSC wood is only around 10% higher than the non-FSC wood of the same size. On the contrary, selling price of small-sized FSC wood, which accounts for majority of total wood exploitation and used in production of plywood, wood chips and pellets, is not much different than that of non-FSC wood. There are also cases of non-FSC wood mixed with FSC-certified wood. These factors reduce the competitive price advantage of FSC wood.

Wood yield of FSC plantation reaches 75-130 m3/ha on average, which is not much different than the yield on conventional plantations. With similar yield and not much price

47.– Phuc et al. (2022) "Actual situation and some barriers in the forest timber production with sustainable certificates in Viet Nam." VIFOREST, HAWA, FPA Binh Dinh, DOWA, BIFA and Forest Trends. April 2022.

advantage, there is little incentive for forest growers to plant FSC wood. Low soil fertility and adverse geographical conditions like poor land quality, high slopes, etc. also negatively affect reforestation of large-sized timber, thereby reducing chances to obtain sustainability certification.

- Plan of action: Activities 1.1.2; 1.1.3

Timber from high-risk sources and illegal harvest still enters the supply chain due to markets preference in the regions.

Wood processing SMEs (household scale) in the Northern region primarily produce traditional style of furniture, which mainly serve the domestic market, and a small share is exported to China. Given preference of these markets for products made from natural tropical timber, the processing enterprises use natural non-certified (not FSC/PEFC/CoC) timber imported from high-risk sources such as Africa, Laos, Cambodia, etc. or use illegally harvested and traded timber. Illegal sourcing negatively affects the global recognition/reputation of the entire industry.

- Plan of action: Activities 1.1.2.

Traceability of wood is not guaranteed in SME and household production

The regulation requires SMEs to set up in-out timber monitoring books, prepare and submit periodic reports to local forest protection department. Most SMEs do not comply with the regulations; hence it becomes difficult to trace the origin and legality of wood used in production by these enterprises. Reasons for non-compliance with regulations on traceability include, limited knowledge and awareness of SMEs, no FSC/PEFC/CoC requirement from buyers who are mainly domestic end users, lack of serious enforcement by management agency, especially the local forest protection department. To improve compliance, Timber Associations must raise awareness and strengthen guidance to SMEs. Forest Protection Department must improve inspection and implement strict sanctions for violations. Developing a digital/online monitoring & reporting system can improve traceability of timber.

Having too many micro and small processing enterprises also make it difficult for managerial agencies (which already have limited resources and capacity) to inspect and supervise trading transactions. Among micro and small enterprises, based on volume or value, sometimes tractions between the buyer and seller are made without any contract. Such transactions are more prone to be high-risk and legally compromised. Changing consumer preferences against non-certified wood products and changing production to a larger scale would help curb the use of high-risk timber. Improving traceability of wood products will also expand market access to high-end markets such as the EU and US.

- Plan of action: Activities 1.1.1

Uneven demand and geographically unsynchronized industry result in high cost of transportation

Planting production forest area of 3.68 million ha is the main source of domestic timber raw material, supplied primarily from the Northern regions of Viet Nam. Market demand of FSC wood is uneven across regions as major timber processing hubs are in the Southeast and Southcentral provinces (HCMC, Binh Duong, Dong Nai, and Binh Dinh), accounting for 70% of industry turnover. Long geographical distance and high cost of transportation between north and south reduce competitiveness of domestic/FSC wood as compared to imported wood sources.

A new government programme has declared a total of 489,000 ha of forest area for investments to improve supply of large-sized timber. Of this area, 67% is allotted to Northern region, 25% to North-Central region, and only 4.4% to Southeast region, which is the most important hub of furniture manufacturing. Hence, where on one hand the material wood growing area is not synchronized with key wood-processing industry zones/clusters, the government programmes are further accentuating this issue.[48]

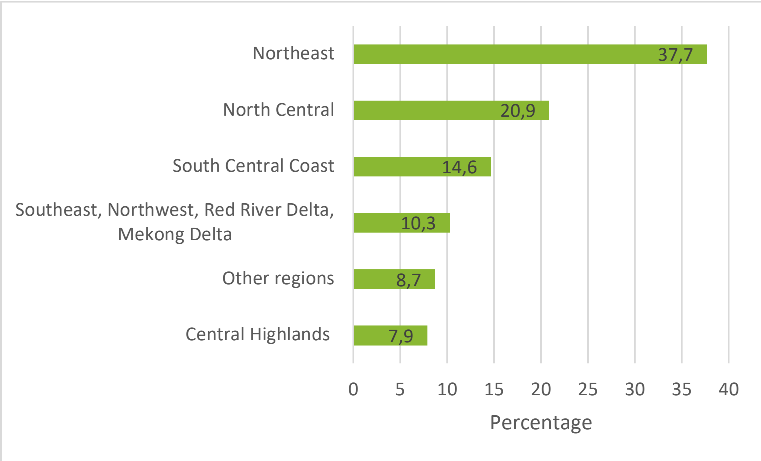
- Plan of action: Activities 2.2.1; 2.2.2.

Increased dependence on Chinese supply has increased the risk of trading fraud

China is Viet Nam's largest source of wood materials, especially plywood, veneer and fiberboard. Both, import of these materials, and export of products made from these materials, have risen sharply since the US-China trade war broke out in 2018. This has raised skeptical questions about Chinese enterprises adopting "Investment under hood and shadow", whereby Chinese enterprises rent Vietnamese workshops/factories, workers, and managers to import furniture parts from China, and assemble them into finished products in Viet Nam, before exporting to the US. Such cases have been registered for products like kitchen cabinets, sofa with timber frames

48.– https://baochinhphu.vn/nganh-go-no-luc-giai-bai-toan-kho-102220422205647492.htm

Figure 16: Planting production forest, regional distribution (%)



and plywood.[49] Some Chinese manufacturers have relocated their operations to Viet Nam or even simply translocated their shipments through Viet Nam enroute to the US. Thus, allowing Chinese firms to take Viet Nam origin labels to avoid US tariffs.

Though FDI is currently an integral part of timber industry, cases of trade protection investigations against foreign investment are increasing. Key products imported from China, like plywood product line with HS code 4412, are subject to anti-dumping duties by the US against China. Their export from Viet Nam puts Vietnamese wood industry at risk of commercial fraud allegations, damages the global reputation of Vietnamese products, and disrupts access to more regulated markets like the EU.

- Plan of action: Activities 1.1.1; 1.2.1; 1.2.2.

CONNECT

The "connect" dimension has to do with the connectivity aspects of competitiveness. To be competitive, enterprises must link to customers, businesses, institutions, and be literate in information and communications technologies. Critical factors constrain the ability of Viet Nam's export sector to connect and maintain commercial relationships.

Box 5: Competitiveness constraints at the whole economy level: Connect

Connect
Firm capabilities
FDI enterprises have a "closed" supply chain and there are no exchanges/linkages with local enterprises that can promote knowledge spill-over and mutual collaboration. Over-reliance on limited export markets pose risks, there is need to expand and diversify export markets.
Business Ecosystem
Lack of cooperation between processors and forest small holders. The Covid-19 outbreak, and Russia-Ukraine war will likely have long-term impact on the wooden furniture production and export.
National Environment
Lack of coordinated statistical data restrict reliable analysis and recommendations. Lack of coordinated government action in statistical and management function cause trading difficulty for SMEs.

49.– https://goviet.org.vn/upload/aceweb/content/Bao%20cao_Rui%20ro%20mat%20hang%20sofa%20tu%20bep.pdf; https://goviet.org.vn/upload/aceweb/content/Bao%20cao%20FDI_9%20thang%202020.pdf; https://goviet.org.vn/upload/aceweb/content/2020.7.5_Bao%20cao%20go%20dan%20-Dinh%20vi.Final.pdf

FDI enterprises have a "closed" supply chain and there are no exchanges/linkages with local enterprises that can promote knowledge spill-over and mutual collaboration

In 2021, FDI wooden furniture producing enterprises contributed approximately 80% to total wooden furniture export value of Viet Nam. However, FDI enterprises usually have a "closed" supply chain, where links in a supply chain (procurement of inputs/raw-material, sales etc.) operate relatively independent of local WF processors.[50] Only one case was noted where FDI processors bought materials (including sawing and drying services) from a Vietnamese timber provider. All local processors interviewed under this study confirmed that they lack knowledge about the full supply and value chain of FDI enterprises.[51] Further, General Department of Customs and Ministry of Planning & Investment have information only on the value of investment/ import-export of FDI enterprises investing in the wood industry. There is no detailed information on level of technology, employers, material inputs (volume, value, source), etc.

FDI enterprises mainly communicate with each other through their own chambers of commerce, and generally are not official members of timber associations, even though there is no regulation to prevent their membership (Phuc et al., 2021a). Some FDI enterprises which are members of local timber associations, their role is limited to update information to the government regarding their production/business activities.[52] Their representation in meetings is usually by junior employees who participate only to gather business information than to share any technical know-how, promote linkage/collaboration or extend support to local enterprises.[53] Local players also view FDI enterprises as potential threat in domestic market, with whom if they exchange business or customer information, owing to higher capacity in terms of capital, technology, experience, and market capture strength, FDI enterprises may push out the local enterprises from domestic market. For these reasons local Vietnamese members oppose membership of FDI enterprises into timber associations. To address limitation in interaction/linkage between FDI and local enterprises, it is important that official activities/initiatives are undertaken by associations. It is important that local enterprises are made to understand the benefits of improved linkages with FDI; like knowledge spill-over, support in technology, capital, etc.

- Plan of action: Activities 2.1.3; 2.2.1; 2.2.2.

Over-reliance on limited export markets pose risks, there is need to expand and diversify export markets

Vietnamese wood processing enterprises primarily focus on a few large markets, especially the US. The EU currently accounts for only about 10-13% of Viet Nam's total export turnover of wood and wood products. But the fact that Vietnamese products have already penetrated and are meeting the high-quality standards of developed and regulated markets like the US, Japan, and EU, proves potential of the production and export capacity of Vietnamese wood processing enterprises. Taking cue from this success, processing enterprises should strengthen compliance with high standards and regulations on legality and sustainability, which will help them further expand and diversify export markets. As confirmed during the Covid-19 crisis, relying on a limited number of export markets pose risks to the wood processing industry.

It is understood that enterprises often select foreign suppliers through referrals from partners, through direct contact, or in trade fairs, and rarely under the assistance of associations or government organisations.[54] The Trade Promotion Agency (including trade counsellors at Viet Nam's diplomatic missions abroad), Import-Export Agency and Timber Associations should play active role in supporting SMEs/processing enterprises to connect with new customers. This can be done by establishing digital channels, issuance of regular online bulletins, promoting trade fairs and exhibitions, etc. There is need for government agencies to make dedicated effort to assist SMEs to expand and diversify export market. Increased assistance from government can also help enterprises in selecting low-risk suppliers.

- Plan of action: Activities 2.1.1; 2.1.2; 2.1.3.

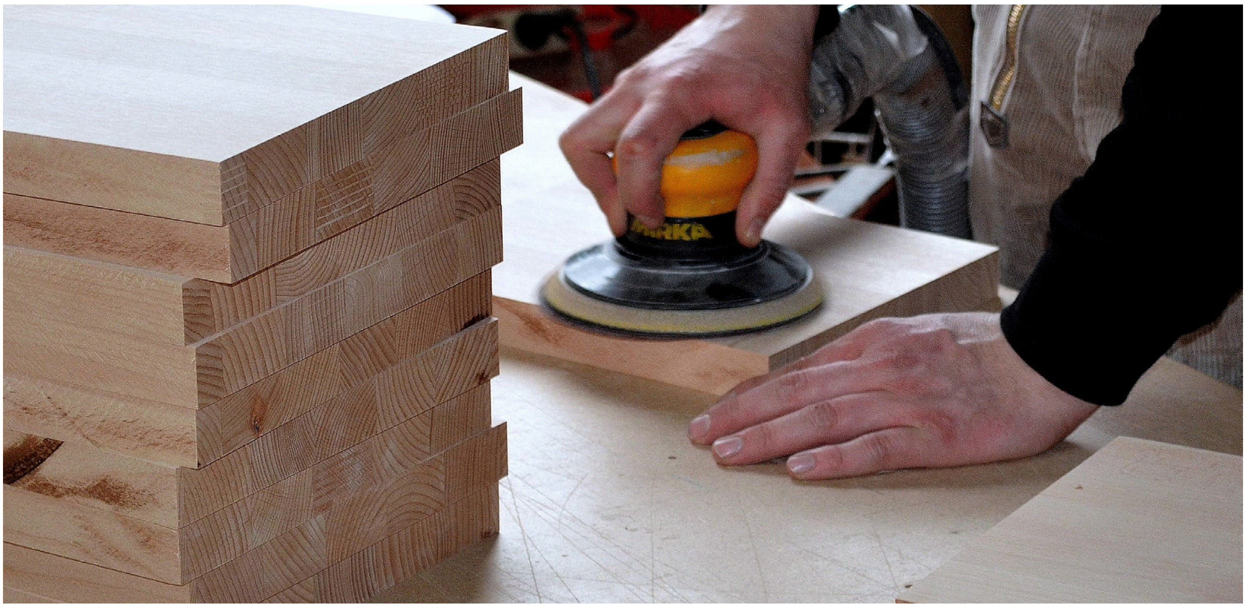
50.– Representatives of BIFA, DOWA and HAWA confirmed that there are FDI members in their associations (about 10 enterprises for BIFA and "a few" for DOWA and HAWA. These FDI enterprises—including Taiwanese, Korean, Japanese, Chinese, American ones–joined the association just in recent years, especially after appearing anti-subsidy and anti-dumping investigations by the United States for some wood products from Viet Nam exported to this market. These FDI enterprises have participated in a number of meetings of the associations, but they "always only send junior staff to attend, with the purpose of capturing information, not sharing anything at meetings" (Direct interviews, September 2022).

51.– The research team failed to approach any FDI WF-related enterprises for interview.

52.– Comments by representatives of BIFA, DOWA and HAWA.

53.– Stakeholders consultation (September 2022).

54.– https://www.koreascience.or.kr/article/JAKO201716463831029.pdf



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Lack of cooperation between processors and forest small holders

Vietnamese timber industry also lacks strong linkage between processors and forest smallholders which is required for developing large areas of concentrated forest. Lack of cooperation exists because there are high opportunity costs for processing companies, and Afforestation households are reluctant to trust processors. The legal responsibilities and rights between processing enterprises and forest planting households are not clear, as households have been known to break commitments with processing companies. Lack of government involvement, particularly in aspects of determining land origin, boundaries, and in promoting connections between the two hinders formation of linkages. It is important to view the relationship between enterprises and households as a crucial component in large scale afforestation, and not merely an economic transaction.

- Plan of action: Activities 2.1.1; 2.1.3; 2.2.2

Lack of coordinated statistical data restrict reliable analysis and recommendations

A general situation in Viet Nam, not just for the wood processing industry, is that statistical indicators are not detailed enough to provide all the necessary information. For example, information on the dynamics of domestic market is scant, with little systematic collection of data concerning the scope, operations, production, and distribution networks (GIZ and NEPCon, 2020). The figure of USD 4 billion has actually been estimated by the national Viet Nam Timber and Forest Products Association (VIFOREST) since 2018 and remains unchanged until present.[55] In many cases, different agencies collect and compile same sector-specific information, but apply different indicators, measuring units, or different methods of calculation. Often the reason cited is different management requirements, but this practice results in data that is inconsistent, difficult to analyze, and not suggesting reliable recommendations. Access to data is also often not easy and there is large delay. For example, annual statistics data compiled by Statistical Offices is usually only published in June or July of the following year.

- Plan of action: Activities 3.2.1; 3.2.2; 3.2.3

Lack of coordination among government agencies and overlapping management functions cause trading difficulty for SMEs

Government agencies overlap in management function and are not well coordinated with each other to effectively support processing/exporting enterprises. For example, production and trade activities of the wood processing industry are managed by four ministries - Agriculture, Industry & Trade, Finance, and Construction. Due to overlapping responsibilities, the management and support action of these ministries (and their agencies) is limited, untimely and inefficient. Lack of coordinated government action cause SMEs difficulty in trading and are they are forced to pay extra price to work as sub-contractors for larger enterprises. It is suggested that lack of budget, lack of human resources and high workload are the reasons for this situation. Improved institutional coordination is required to adequately support firms at all stages of the value chain.

- Plan of action: Activities 3.2.1; 3.2.2; 3.2.3

55.– https://kinhtedothi.vn/tieu-thu-go-thi-truong-noi-dia-tang-manh.html

CHANGE

Change is the dynamic dimension of competitiveness. It assesses whether enterprises have the capacity to make human and financial investments and to adapt to fast-changing markets.

Box 6: Competitiveness constraints at the whole economy level: Change

Change
Firm Capabilities
Lack of qualified staff/workers in wood processing industry New product design is inherently limited, and dependent on foreign buyers.
Business Ecosystem
Limited number of vocational centers offering woodworking skill suitable for modern furniture Due to limited innovation and weak operational capacity, only few SMEs engage in export business Large scale afforestation has suffered due to lack of long-term investment capital

Lack of qualified staff/workers in wood processing industry

The shortage of skilled labour in Viet Nam's domestic wood processing enterprises is described as "very serious". Most workers employed in the manufacturing industry in general have low levels of professional and technical education. Within wood processing industry, 70-80% of employees are untrained or unskilled workers, 20-30% are basic trained, and only 1-2% are engineers or interior designers.[56] It is estimated that by 2025 Viet Nam's timber processing industry will need an additional workers with university education or above.[57] However, in 2020, the premier universities and vocational colleges which offer long term courses on timber processing and interior design recruited less than 1000 students, cumulatively.[58] Lack of up-skilling and knowledge workers hinder the capacity of SMEs to innovate and move up the value-chain.

- Plan of action: Activities 2.3.1; 2.3.2; 2.3.3.

Limited number of vocational centers offering woodworking skill suitable for modern furniture

Viet Nam has 63 vocational centers distributed across all provinces, offering short-term (1-6 months) training courses to improve labor skills. Yet only few centers offer courses on woodworking skills, which are mostly suitable for handicraft-making rather than production of modern furniture for export. The quality of training institutions is either low, or not relevant to the wooden furniture industry. The equipment and machinery offered by training institutions for practice and testing are obsolete, and the training documents/programs have not kept pace with the requirements of the modern furniture industry. There is an immediate need to focus on the quality of training and capacity building of workers in the wooden furniture industry.

- Plan of action: Activities 2.3.1; 2.3.2; 2.3.3.

56.– https://vnuf2.edu.vn/vi/huong-nghiep-ky-nang/1680-nganh-go-dang-thieu-tram-trong-lao-dong-co-trinh-do-cao.html

57.– https://vnuf2.edu.vn/vi/huong-nghiep-ky-nang/1680-nganh-go-dang-thieu-tram-trong-lao-dong-co-trinh-do-cao.html

58.– Four universities are Viet Nam Forestry University; HCMC Nong Lam University; HCMC University of Technology and Education; and Hue University of Agriculture and Forestry. Four vocational colleges include Northeastern College of Technology, Agriculture and Forestry, Vocational College of Phu Ly (Ha Nam), Vocational College of Quy Nhon (Binh Dinh), and Vocational College of Di An (Binh Duong).

Links, DOWELL-MYANMAR STREET (37 of 117).jpg

Due to limited innovation and weak operational capacity, only few SMEs engage in export business

According to SMECS data, exporting firms develop and implement new processes/products more often (49%) as compared to non-exporting firms (41%). However, in Viet Nam, a vast majority of wooden furniture processing enterprises are micro, small, and medium in size, of which only a few medium sized enterprises directly engage in export. Majority of enterprises do not export due to limited capacity in product design, low production scale/facilities, and low productivity of labour force. Inadequate management capacity, financial weakness, lack of trade promotion and logistical know-how also hinder export potential. Lack of long-term vision due to limited capital and backward technology, limit innovation and development of new product designs, thereby impacting export to developed markets. So far Viet Nam has "just exploited processing opportunity, and has untapped potential for designing, branding, and trade opportunity, especially in the US and EU markets".[59]

- Plan of action: Activities 2.1.2; 2.1.3; 2.2.1; 2.2.3;

New product design is inherently limited, and dependent on foreign buyers.

Since Viet Nam lacks design expertise, most of the furniture produced is based on designs provided by customers, which usually generate low value. There is also an issue of weak horizontal cooperation among supply chain participants. It is known that distribution and after-sales service in export markets are mainly operated by foreign buyers instead of Vietnamese producers. This increases the need for functional diversification and upgradation. There is also an immediate need to address operational bottlenecks and empower local SMEs to move up the supply and value chain of wooden furniture. To ensure that high quality, high-value and fashion-sensitive wooden furniture is produced and exported, Viet Nam needs to invest in innovation and change its position from being a design-taker to design-provider.

- Plan of action: Activities 2.3.2; 2.3.3; 3.3.1; 3.3.2.

Large scale afforestation has suffered due to lack of long-term investment capital

Table 5: Viet Nam Forest area distribution, Million hectares (ha)

Viet Nam Forest area	Million ha
Protected forest (75%)	11
Planting production forest (25%)	3.68
Total	14.68

Large scale afforestation has suffered due to lack of long-term investment capital for afforestation of forest smallholders (more than 1 million households). The high demand for living requires households to sell the forests early when the tree is only 3-5 years old. While there are new government programmes to encourage development of large-sized timber plantations, households find it difficult to benefit from them due to strict criteria related to land, land use certificates, requirement of clear field boundary maps, ages of trees, etc. There is need make the procedures easy to understand for forest planting households and to offer them dedicated support in this regard.

- Plan of action: Activities 1.1.2; 1.1.3.

59.– https://goviet.org.vn/bai-viet/tang-nang-luc-canh-tranh-nganh-go-bang-cong-nghe-9475

The way forward

Opportunity for Viet Nam Furniture and Wood Processing Sector

While Viet Nam's growth as an important furniture exporter is nothing less than impressive, the market demand for wood and wood products is affected by several global trends, that not only determine the market size, but also the type of products produced and exported. In this respect, some of the major trends shaping global demand for furniture are highlighted below. They offer to Viet Nam many opportunities for its wooden furniture sector, provided it successfully rides the tide of these global trends.

Demand for wood products is cyclical and structural.

The global wood products industry is characteristically subjected to price volatility, which is influenced not only by supply-demand, but also global events that affects the supply chain, logistics cost, economic health, consumer spending, etc. Additionally, the market is shaped by trade and non-trade-related policies and actions. The ongoing trade dispute between China and the United States, leading to the implementation of import tariffs on Chinese exports into the US, has benefitted countries in the South-East Asian region, especially Viet Nam, that has enjoyed significant growth in exports to the US. However, this growth cannot be sustained in the long term if, and when, trade normalises between China and the United States. The 'Brexit' or the Britain exiting the European Union, has also exempted Britain from the common customs union with the EU, which in turn requires a specific trade agreement. Fortunately, with Viet Nam having signed FTAs with many nations, it will continue to enjoy preferential trade with those countries.

Environmental consciousness in line with awareness of global climate change among consumers is rising.

The growing search for sustainable, environmentally friendly, climate-neutral modes of living allows the wood industry to enjoy new popularity. Consumer awareness regarding the environment, deforestation, and climate change is rising, particularly in the developed world. Wood is considered a sustainable resource, as it comes from a renewable source, consumes low energy, and using wood in construction results in a lower carbon footprint than building with other materials. Further, wood is the only renewable construction material. Although the willingness-to-pay (WTP) among private consumers is marginal compared to institutional consumers, the demand for environment-friendly products is expected to grow. As the world becomes increasingly environment-conscious, demand for 'green furniture' with low-carbon footprint is expected to rise and dominate the global marketplace in years to come.

Sustainability in the wood industry is the new norm.

Many governments in the developed countries, have introduced regulations on the need to demonstrate that wood products are from legal and sustainable sources, with an aim to tackle illegal logging. These measures have an impact on market access for wood and wood products.

In fact, larger importers, retailers, chain-stores, trade associations, etc. in many European countries, also seek certifications, such as the FSC and PEFC, to respond to an increased demand for sustainability in wood and wood products supply. Although certain buyers are willing to pay premiums for certified products, it is worth noting that some European importers consider only legal timber, i.e., FLEGT compliant, to be good enough. If the European market is a market to be pursued and gain access to, then finalizing VPA with the EU is a must, where certifications provide a strong advantage. Other countries, including the United States, Australia, Switzerland, United Kingdom, and Japan, are also tightening the requirements for environmentally compliant legal timber supply. The Lacey Act, Australian Illegal Logging Prohibition Act, The Swiss Timber Trade Ordinance, United Kingdom Timber Regulations, and the Goho-Wood are the certification schemes enforced to ensure timber supply meet the environmental and legal requirements in these markets, respectively.

Mass timber and engineered wood products will continue to find new applications in building and furniture manufacturing.

New technologies and systems are transforming the manufacturing processes of the industry with innovative machinery and assembly methods. The emergence of engineered products and mass timber, e.g., cross-laminated timber and glulam, is transforming the building construction sector to become more environment-friendly, energy efficient, and of a lower carbon footprint.

On the other hand, innovations and technology is also allowing light-weight furniture to be manufactured, which in turn makes transportation easier. In fact, low-weight furniture in the form of ready-to-assemble (RTA) format is the fastest growing market segment in the markets of the developed countries. The advent of these low-weight furniture components, together with easy fixtures, has transformed furniture manufacturing worldwide to a higher level of efficiency and product diversification.

Growing interest in forest plantations in both emerging and developed markets, to off-set reduction in natural forests harvest.

As the global market faces the 3C threat of Covid, Conflict and Climate Change, the accelerated interest in plantation forests cannot be denied. This is further fuelled by the fact that the supply of wood resources from natural forests, especially from the tropical region, is steadily dwindling. Species such as *Acacia, Eucalyptus, Hevea*, etc. are gaining prominence in many Asian countries, and increasingly the South-South trade is offering opportunities for suppliers beyond developed countries. As increasing demand puts more pressure on tropical forests, buyers will prefer doing business with suppliers with their own plantations, so they are provided with supply guarantees.

Circular economy is gaining importance in the wood products industry.

The concept of circular economy which emphasizes minimising raw materials input, while increasing the recycling and reusing activities, is gaining a strong foothold in the wood products industry. This is most visible in wood-based panel sector, where manufacturing using recycled fibres is gaining importance, and products aligned to this concept appear to have greater market acceptance. This trend towards circularity and green merchandise in furniture, using recycled materials of plastic, metal, wood, paper, glass, etc. is gaining fast-paced momentum in Europe. It is a matter of time before such a trend catches up in Asia.

E-commerce and digital marketing present valuable opportunities for wood products trade.

Online marketing channels offer an opportunity to find new markets and customers, particularly during and after the Covid-19 epidemic. E-commerce will become increasingly important, mainly for finished value-added products, such as wood handicrafts and wooden furniture. According to Alibaba.com, the e-commerce market for furniture was valued at USD 27 billion in 2021 and is forecasted to reach USD 40 billion by 2030. With the advent of digital marketing technologies, especially through augmented reality (AR) and virtual reality (VR) tools, the marketing of home furnishing is being transformed worldwide. In a recent report, it was noted that with the reopening of economies after the Covid-19 pandemic, trade of wood and wood products, have assumed a hybrid-mode, using both brick-mortar stores and showrooms, and digital marketing.

Technology is accelerating the manufacture of innovative wood and wood products.

The advent of technological revolution, particularly Industry Revolution 4.0 (IR 4.0), and its increasing adoption in the wood and wood products industry has increased global production to a level not seen before. Technological innovations have resulted in increased rates of recovery, use of small-dimension timber and emergence of new uses for wood, which have positively impacted the production of processed wood products. Use of technology also significantly transforms the manufacturing and marketing practices of wood and wood products trade.

Inevitably, application of such technologies will require skilled and knowledgeable workers. Without sufficient workforce with such skills, the adoption of such technologies remains slow in many emerging economies, which aspire to continue moving up the value-chain in the global wood and wood products market. In this context, the aspiration to move up the value chain is dependent on the availability of skilled and knowledgeable workforce who are competent to work with technology, to produce innovative design and wood products. In fact, technology is envisaged to have the most pronounced effect on the degree of innovativeness recorded within the wood and wood products industry.

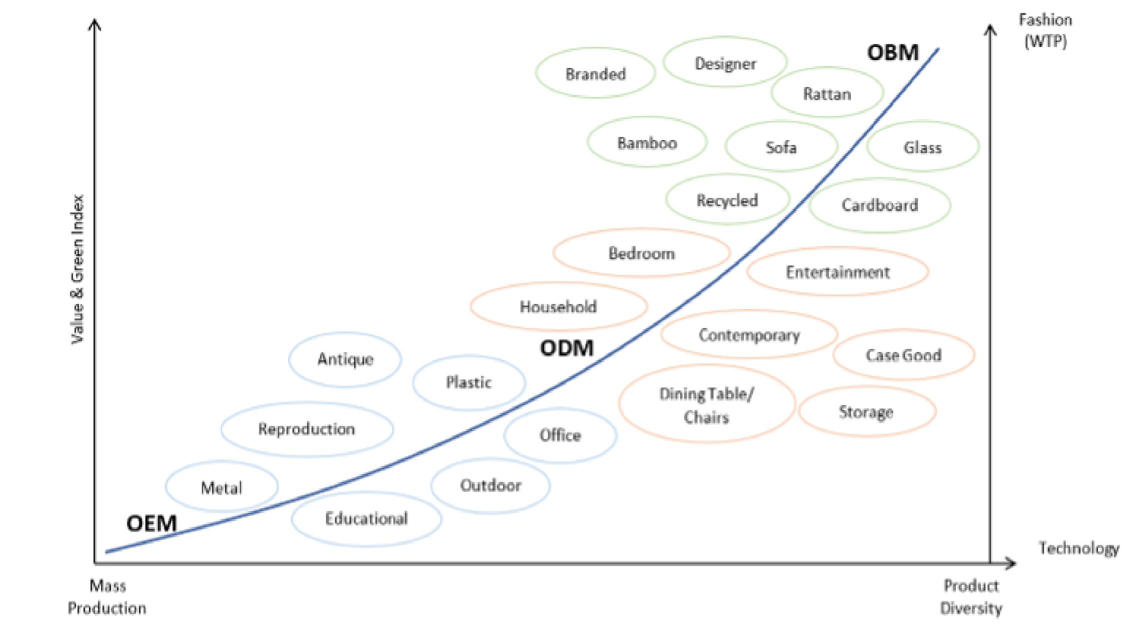
Demand for RTA and SOHO furniture is accelerating.

The demand for ready-to-assemble (RTA) and home-office small-office (SOHO) type of furniture has seen an exponential growth since the onset of the global Covid-19 pandemic. Even now, during the post Covid-19 period, demand for such furniture remains strong, as the concept of work-from home (WFH) continue to be widely practiced by many corporations and organizations throughout the world. Driven by changing demographics, lifestyle changes, and consumer shift towards small-sized apartments and living spaces, there is a shift away from functional/structural rigidity of furniture toward more versatile and multi-functional furniture. It is envisaged that demand for such furniture will remain buoyant in years to come, especially catering for the needs of millennials.

Differential value-addition among wood products determine its price point in the market.

Furniture is a merchandise, which is also a fashion product, with the highest added-value in the wood product value-chain. It has been reported that wooden furniture provides up to 7x greater value-addition compared to the sawn timber production.18 In this context, it must be recognized that furniture produced can fall within a wide range of added-value; from low-end products that are often regarded as commodity-type furniture (e.g., school furniture) to high-end designer furniture (e.g., specialty furniture).

Figure 17: Differential Value-Addition among Furniture Products



As shown in Figure 17, furniture manufacturing begins with contract manufacturing, under the original equipment manufacturing theme, then moving along to become original design manufacturing, and finally the original brand manufacturing (OBM). The transition from OEM to ODM and OBM, requires not only skills and innovative capabilities, but also use of different materials, or a combination of materials. In this context, it must be recognized that value-created in furniture, will determine its price point in the market. The transition from OEM to ODM to OBM in furniture manufacturing could be channeled through design, materials, or process attributes. For Viet Nam, 'its recommandated to move from ODM to OBM. This transition offers Viet Nam's manufacturers of wooden furniture a choice to choose in their value-adding strategy, number of obtion are possible, starting by ensuring branding and design of their products and increasing use of alternate wood.

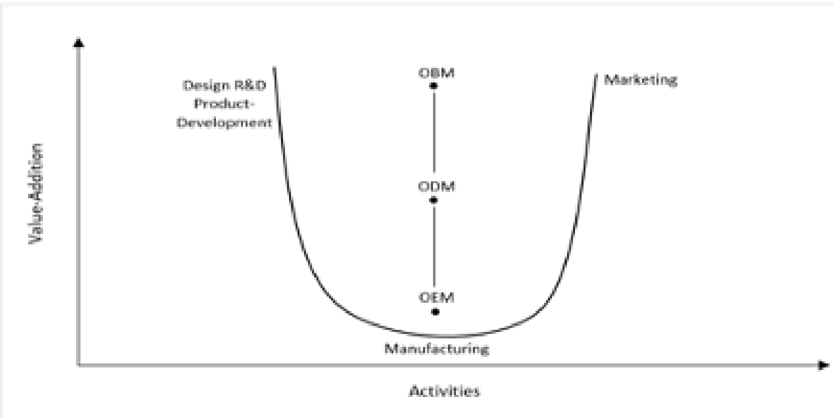
Structural improvements of the value chain

The global wooden furniture industry is under increasing scrutiny of environmentalists, retailers, and consumers, as it is often associated with practices that are not deemed 'environment-friendly'. In this context, the following suggestions are made to assist Viet Nam's wood furniture sector to come up to speed with the rest of the world in coping with such issues.

Moving Up the Value-Chain

Vietnam's wooden furniture industry remains focused on a few types of products, often produced with designs from buyers. In this context, efforts must be made to move up the value chain through aggressive product and design development, to produce original-design furniture, and eventually achieve the status of own-brand manufacturing (Figure 18). To add value to furniture will require creativity and innovativeness in using different materials (such as metal, paper, recycled-plastic, composites, glass, etc.), empowering local design talents, and working closely with research and development (R&D) facilities, including universities and colleges. Presently, alternate wood furniture account for only 2% of wooden furniture in Viet Nam. Increase in use of alternate wood materials like rattan, bamboo, cane, etc. in the production of wooden furniture are important to move up to the value chain and to keep increasing markets sharing considering the consumers interest for sustainable wooden furniture production.

Figure 18: *Value-Addition Trend*

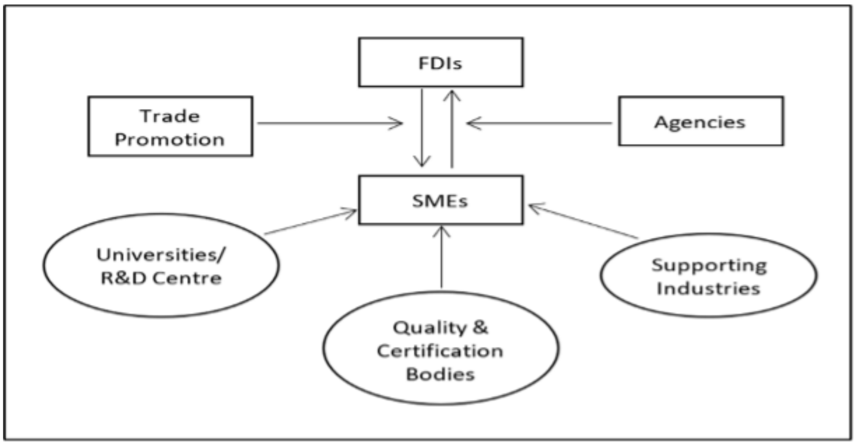


Source: *Ratnasingam (2018)*

Fostering Close Collaboration between Foreign Enterprises and Local SMEs

As shown in Figure 19, a close collaboration between the foreign enterprises involved in the furniture industry, with domestic SMEs will empower and develop the SMEs to expand their production capacity and technical capability. The facilitating role of relevant trade agencies, with support from universities, trade associations and trade promotion offices can make such collaboration a reality.

Figure 19 Fostering Close Collaboration between FDIs and SMEs

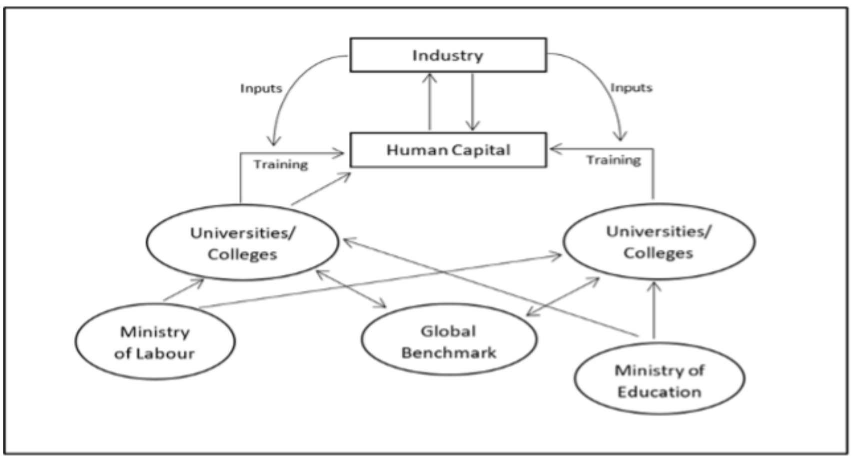


Source: *Ratnasingam (2018)*

Enhance Domestic Human Capital

The lack of skilled workers and low productivity levels among domestic workers is a problem pervasive throughout the region. In this context, it is advisable for furniture manufacturers to participate actively in the design and development of training curriculum not only in colleges but also in universities, to ensure the human capital produced meet their requirements (Figure 20). In this respect, a good model to be emulated is as practiced in close collaboration between the Wood Industry Skills Development Centre, Universiti Putra Malaysia and the wood industry at large in Malaysia (Ratnasingam 2018). It has been noted, through such intervention efforts, productivity levels and skills among the local workforce has seen significant improvements.

Figure 20 *Empowerment of Local Workforce*

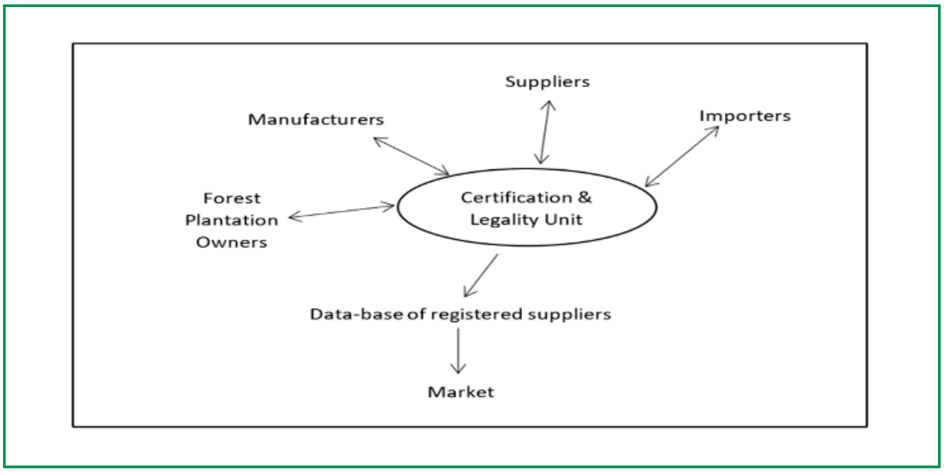


Source: *Ratnasingam (2018)*

Improving the Supply of Sustainable and Legal Wood Materials

To improve the supply of sustainable and legal wood material, and to alleviate the extent of compliance to global sustainable standards, it is important that a unit of wood certification be established under the relevant ministry (Figure 21). This unit should be empowered to monitor and register all importers or wood in the country, while at the same time create a register of certified wood suppliers, which is accessible to the wood products manufacturers. This will allow close monitoring of movement of wood supplies within the industry and market, while at the same time, may curb any illegal supply. Such an initiative has proven extremely useful in Malaysia and Indonesia. The ongoing dialogue to establish Viet Nam Forest Certification System (VFCS) is a move in the right direction to achieve this goal.

Figure 21 : Improving the Supply of Sustainable and Legal Wood Materials



Source: Ratnasingam (2018)

Market Diversification Opportunities

Furniture, a fashion, requires market diversification as a core business strategy In this respect, Viet Nam's market diversification efforts for its wooden furniture must be intensified through the many initiatives of trade promotion offices, which may include visitation to trade fairs, invitations to buyers' delegations, market intelligence information, trade mission, and regional collaboration (Figure 19), which in turn will develop strong synergies between manufacturers not only among their peers but will also facilitate further development of non-traditional markets.

Export to the United States accounts for majority of total wooden furniture exported by Viet Nam. The preferred wood species include Ash, Pine, Gum, and Poplar. Deep wood finishes with rich shades of brown, e.g., cherry, expresso, merlot, are in demand. In contrast to the European market, glossy finishes are sought for in the US market. However, it must be noted that the Sino-US trade tensions have fuelled the recent rapid growth of Viet Nam's furniture exports to the US. Such a condition may not persist for long-term, as when trade normalises, the productive capacity may shift back to China.

Moreover, traditional export markets, especially United States, are increasingly becoming crowded with competition from other regional furniture producing nations, particularly China, Malaysia, and Indonesia. Unlike Viet Nam, which depends on imported wood resources to fuel its exports, the competitors appear to have more sustainable wood supplies from domestic sources, which creates more competitive pressure for Viet Nam.

The global furniture market is expected to continue growing, primarily driven by the rapidly flourishing consumer markets in Asian countries. It is estimated that intra-regional trade constitutes a greater proportion of furniture exports in the Asian region. According to ITTO, a booming middle-class, despite Covid-19 restrictions, remains a dominant market force in shaping consumer behaviour in the Asian region, especially in China and India. Furniture demand both in China and India is estimated to breach the USD 150 billion mark by 2030, highlighting the importance of these markets as potential furniture export destinations.

It is imperative that Viet Nam's furniture exporters make all necessary efforts to diversify their market. Despite serving to top global importers of wooden furniture, Viet Nam is still not the main contender in most of these markets. Table 6 gives a detailed account of share of Viet Nam in top importing markets of the world, vis a vis, share of its competitors. To move up the value-chain, and to capture a bigger market share of the international furniture and furnishing market, Viet Namshould pay special attention to product and market diversification activities.

CHINA

Asian market for wood and wood products is highly dependent on China's role as the manufacturing factory of the world. Fuelled by its growing domestic demand, the production capacity for wood and wood products in China has experienced exponential growth over the years, and the excess capacity is transformed into finished products for exports to Japan, Middle East, Europe, and the United States. However, the strict zero-Covid-19 policy in China has severely affected the production capacity of the Chinese furniture industry, and it is estimated that Chinese imports of furniture is on the rise. Solid wood furniture, which is perceived to have better quality, is the domestic consumption preference of wood among Chinese consumers, which comprise of a dominant middle class driven by improved living standards. Preferred wood species are Oak for contemporary furniture, Walnut among high-end markets, along with Tulipwood.

JAPAN

Although Japan has considerable forest resources, it relies heavily on imported supplies. Within Asian region, Japan is the leading importer of wooden furniture, followed by Korea. Main suppliers of furniture to Japan include China, Viet Nam, and Malaysia. Since 2016, Japan has implemented the Clean Wood Act to ensure that sustainable and legally harvested wood products enter the Japanese market, which signal the growing importance of trading in sustainable and legally processed wood and wood products. The preferred wood species include Beech, Birch, and other light coloured wood materials. Functional and esthetical elements are of paramount importance to Japanese consumers. Market is not price-sensitive, but price points are often closely linked to perceived value.

Table 6: Export-Import market diagnostics of wooden furniture (HS 9403), (USD Billion)

Top Importers 2021	Share in global import of HS 9403 (%)	Share of total HS 9403 exported by Viet Nam (%)	Share of Viet Nam in import (%)	Rank of Viet Nam in Import	Rank 1 Supplier	Share of Rank 1 Supplier (%)	Rank 2 Supplier	Share of Rank 2 Supplier (%)
World	100.0	100.0	7.2	4	China	36.4	Germany	8.8
EU 27	33.6	6.8	1.5	16	China	19.8	Germany	14.9
United States	30.4	75.8	18.0	2	China	29.5	Canada	7.9
Germany	7.6	1.6	1.5	13	Poland	23.8	China	22.0
United Kingdom	5.8	3.1	3.9	4	China	40.5	Italy	11.0
France	5.5	1.2	1.6	7	China	21.3	Germany	16.1
Netherlands	3.9	1.2	2.2	12	Germany	28.8	China	20.3
Canada	3.3	2.4	5.3	3	China	41.5	US	18.7
Japan	3.0	4.9	11.8	2	China	50.8	Taipei, Chinese	7.8
GCC countries	2.9	0.5	1.2	7	China	36.5	Italy	12.5
Switzerland	2.3	0.1	0.2	7	Germany	38.1	Italy	16.6
Australia	2.0	1.6	5.8	2	China	71.2	Malaysia	3.3
Belgium	1.9	0.6	2.5	11	China	22.6	Germany	16.7
China	1.0	1.0	7.1	3	Italy	35.9	Germany	16.4

Note: *Total HS 9403 exported by Viet Nam = USD 7.6 billion; Rank values are calculated based on data recorded by importing country.*

AUSTRALIA AND NEW ZEALAND

Australian strong import demand and preferences brought by free trade agreements such as the ASEAN-Australia-New Zealand FTA make exporting wood products to Australia a viable prospect. Australia imported almost USD 238.4 million worth of furniture products from Viet Nam in 2021, including it among the top ten export destinations for Vietnamese wooden furniture. Notably, with imposition of the Illegal Logging Prohibition Act in 2012, Australia has significantly tightened its market that requires sustainably and legally supplied wood and wood products. Australia is worth pursuing by Viet Nam's furniture manufacturers, as demand for furniture is on the rise due to a robust housing sector.

MIDDLE EAST

Middle East has a sizeable, imported furniture market, however, the market for wooden furniture is highly price sensitive. While there is no specific wood species that appears to be preferred, there is a tendency to move towards mixed material construction, that offers value for money. Traditional designs are preferred compared to contemporary designs. Within Middle East region, the Gulf Cooperation Council (GCC) countries account for majority (63.8%) of import of wooden furniture (HS9403). GCC countries like United Arab Emirates (UAE), Saudi Arabia, Kuwait, are high income countries with increasing expatriate population from around the world. This makes them a viable market to consider for export diversification.

EUROPEAN UNION

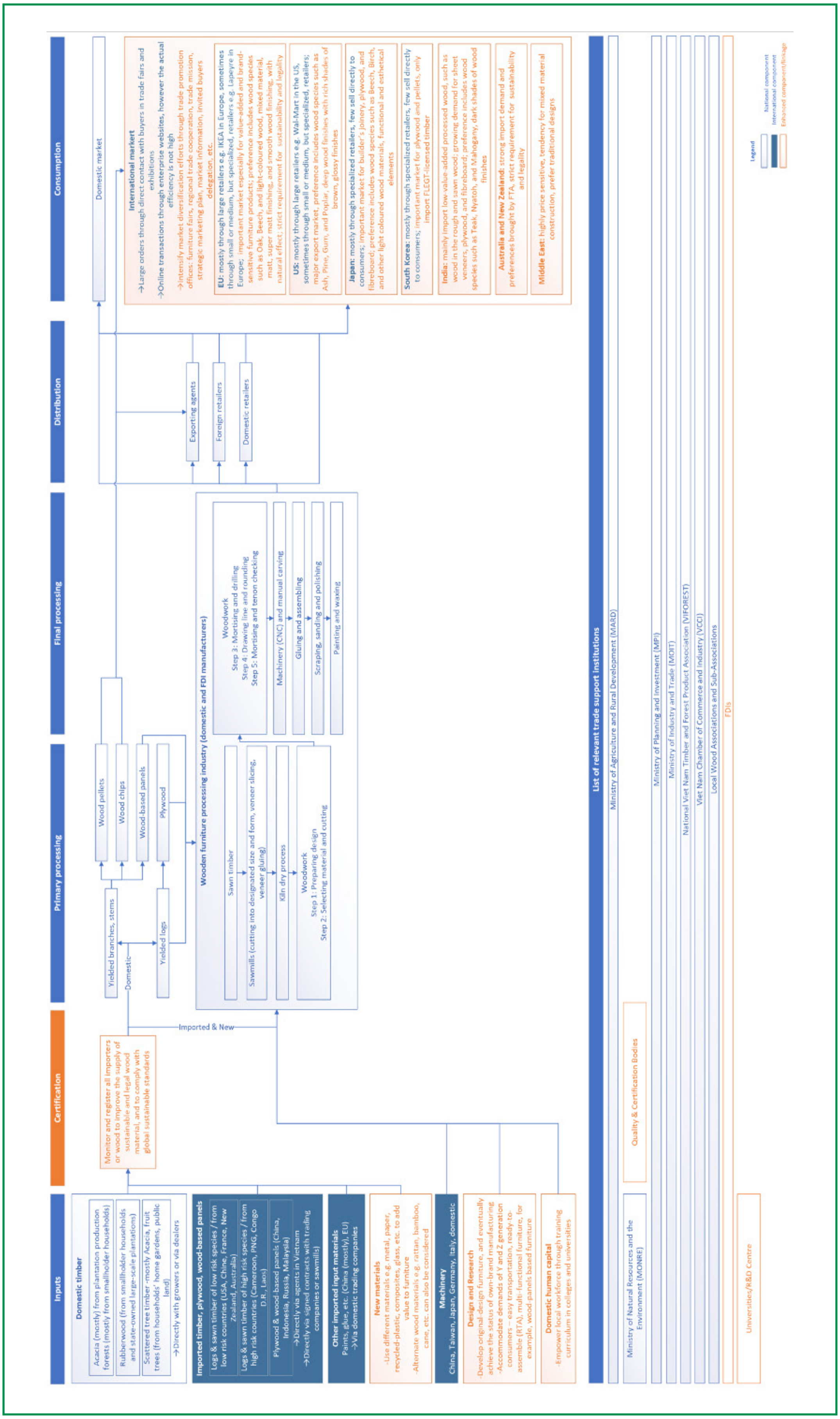
EU 27 was the largest importer of furniture (HS 9403) in 2021, importing an estimated 34% of the product globally. Collectively, EU remains an important market for furniture exports, especially for value-added and brand-sensitive furniture products, which have a larger market share in EU compared to the US. Wood remains an appealing material for furniture products consumed in the region. Interest in tropical wood, such as Teak, is most in northern European countries. Increasingly popular wood species include Oak, Beech, and light-coloured wood. Combination of wood with other materials, such as glass, metal, or stone, is perceived as modern. Matt, super matt finishing, and smooth wood finishing, with natural effect, are in trend and a preferred finishing option in this market.

EU is also one of the most environment-conscious market for furniture in the world, demanding stringent sustainability and legality compliances. Viet Nam's export to the EU is relatively low at this point, and it remains an attractive market for Viet Nam to diversify its exports to. Therefore, to capture a bigger market share in the EU, Vietnamese manufacturers/exporters of wooden furniture must strive to move up the value-chain and pay attention to the sustainability and legal requirements of this market.

Box 8: Key Takeaways on markets diversification

- Viet Nam should be poised to look for alternative export markets, like Middle East/GCC, European Union, and markets in Asia-Pacific.
- Accessibility to furniture markets is often subjected to non-tariff barriers, rather than tariff barriers. Future of Viet Nam's furniture export depends on its capacity to comply with ESG criteria and maintain sustainable/legal wood supply requirement of markets.
- Viet Nam's compliance towards sustainability and legality of wood resources will allow it greater market access into Europe, which is a huge potential market for Vietnamese exports.
- Demand in Asia-Pacific is expected to drive global growth. Hence, Viet Nam should intensify its promotion activities to capture greater market share in regional markets like Japan, Korea, China, and India.
- Australia is also another market worth pursuing by Viet Nam, as demand for furniture is on the rise due to a robust housing sector.

Figure 22 : Future value chain of the wooden furniture sector



Strategic framework

VISION AND STRATEGIC OBJECTIVES

The wooden furniture sector possesses significant potential for imparting socioeconomic contributions to Viet Nam through the domestic market and export-led growth. In order to realize this potential, competitive constraints along the value chain nodes need to be addressed, and identified opportunities need to be leveraged.

The consulted stakeholders validated the following vision and strategic objectives, which are as follows:

> "Viet Nam – emerging hub for sustainable, modern, and trendy wooden furniture"

The Strategy's Plan of Action responds to this vision by comprehensively addressing the sector's constraints and leveraging opportunities. To this end, specific efforts will be made in the following strategic directions.

Strategic Objective 1: Ensure legal, environmental and sustainability compliance to increase market share globally	Strategic Objective 2: Build the industrial base and expand the innovative capacity to foster greater SMEs participation in the global value chain	Strategic Objective 3: Reinforce export diversification considering emerging market trends to ensure long-term competitiveness of the sector
• 1.1. Improve supply of sustainable and legal wood resources	• 2.1. Enhance attractiveness and quality of furniture made in Vietnam	• 3.1. Ensure long term competitiveness of the wooden furniture sector
• 1.2. Improve efficiency, and transparency and compliance of all wood entering in Vietnam	• 2.2. Increase export potential by building up the industrial base	• 3.2. Expand scope of exports to new and emerging markets
	• 2.3. Increase export potential by focusing on labour productivity and skills	

The Wooden furniture strategy provides a comprehensive blueprint for the next five years (2022-2027) to leverage wooden furniture sector's potential for sustainable export growth. The objective of this strategy is to link SMEs to and upgrade Viet Nam's position in the global value chain. It aims to set the sector on the course of strategic development by addressing constraints in a comprehensive manner and defining concrete opportunities that can be realized through the specific steps detailed in its Plan of Action. The Strategy is an integral part of the NES of Viet Nam.

Strategic objective 1: Ensure legal, environmental and sustainability compliance to increase market share globally

Viet Nam has taken several measures to improve the sustainability of timber and timber-processing industries, including the wooden furniture industry. Implementation of these policies remains a major challenge. The first strategic objective focuses on ensuring control and traceability of timber raw materials through improved policy frameworks and enforcement, to guarantee legal, environmental and sustainability compliance. Furthermore, it concerns the efficient use of resources and promotion of certification along the value chain of the wood processing industry. Strengthening the procurement and supply chain of environmentally friendly materials by SMEs will ensure a sustainable supply of resources used in the wooden furniture industry. Eco-friendly products will appeal to a new generation of environmentally conscious consumers.

This strategic objective will be achievable through two operational objectives, which are:

1. Improve the supply of sustainable and legal wood resources.

2. Improve efficiency, transparency and compliance of all wood entering in Viet Nam.

Strategic Objective 2: Build the industrial base and expand the innovative capacity to foster greater SME participation in the global value chain

Enhancing the attractiveness and quality of furniture made in Viet Nam is crucial. This can be achieved through operational goals and related activities that meet the needs of today's new market, which includes consumers who value space, durability, compactness, and aesthetics in their furniture.

In order to upgrade the supply and global value chain and realize product diversification and specialization of wooden furniture, SMEs needs to be strengthened. This can be done through trainings on innovation, business formation system, product diversification and specialised wooden furniture. These actions could be implemented through development of an innovative business ecosystem which fosters successful innovation and business creation.

Value can be created by increasing labour productivity in the wooden furniture industry through operational objectives and related activities aimed at increasing the number of skilled workers in the wooden furniture industry who can produce professional, innovative, and high-quality products for the export market. It is important to foster an entrepreneurial mindset in the industry by mainstreaming innovation and entrepreneurship topics into the curriculum, on social media, and local platforms.

This strategic objective will be achievable through three operational objectives, which are:

1. Enhance attractiveness and quality of furniture made in Viet Nam

2. Increase export potential by building up the industrial base

3. Increase export potential by focusing on labour productivity and skills

Strategic Objective 3: Reinforce export diversification considering emerging market trends to ensure the long-term competitiveness of the sector

Expanding the scope of exports to emerging markets is essential to ensure the long-term competitiveness of the wooden furniture industry. This can be achieved through operational objectives and related activities that focus on strengthening support for exporter-customer linkages and creating favourable conditions for exporters and processors to expand and diversify the export markets. Improve policymakers' understanding of domestic firms' strengths, weaknesses, and export readiness. Armed with robust statistical evidence, policymakers can better design their export promotion and SME support programs. It can be used to select FTA partners and strategic export markets. Improving linkages between actors in the supply chain and collaboration between institutions should aim to achieve a common understanding of the real needs of all actors in the value chain.

This strategic objective will be achievable through two operational objectives, which are:

1. Ensure long-term competitiveness of the wooden furniture sector.

2. Expand the scope of exports to new and emerging markets.

Plan of action

Strategic Objective 1: Ensure legal, environmental and sustainability compliance to increase market share globally			
Operational objective	**Activities**	**Executing agency**	**Timeframe & Targets**
1.1. Improve supply of sustainable and legal wood resources	1.1.1. Improve policy framework and enforcement to ensure control and traceability of raw wood materials		Short & Medium term
	• Improve existing regulations through revision or replacement by more comprehensive to ensure the management and traceability of all wood materials used by the wood processing industry • Increase inspections on compliance, with regulations on traceability and use of legal timber by puuting in place a mechanism for regular information exchange on the timber supply chain with at least 3 important timber supply countries • Apply a digital/online monitoring & reporting system for inspections on compliance and traceability • Improve collaboration and develop a mechanism to exchange and regularly update information with countries supplying raw timber, to ensure legal and transparent timber supply, possibly through the establishment of a unit to control, regulate, register, and provide a database on suppliers of such materials.	MARD, MOIT, MONRE, VCCI	• Legal documents on wood management and traceability, and timber legality assurance are revised or replaced by a more comprehensive one. • A mechanism for regular information exchange on the timber supply chain with at least 3 important timber supply countries is established and operated. Create a database of sustainable and legal suppliers.
	This activity is to make the legal framework and enforcement more reliable pertaining control and traceability of wood materials.		
	1.1.2. Improve compliance and traceability of legal wood materials		Short term
	• Develop incentives program to encourage SMEs to increase the proportion of timber from domestically planted forests, legally sourced timber, and SFM-certified timber and to terminate the use of high-risk timber sources of unclear origin, illegal trade or those imported from high-risk sources. If possible, introduce a stringent carrot-stick system to punish non-compliance, after the expiry of grace period. • Conduct awareness campaigns on the benefits of using legally sourced timber, such as new opportunities in export markets like the EU. • To facilitate compliance, develop a joint program with MOIT and MARD to ensure sustainable and legal wood materials are procured and supplied within the supply chain. Assist small farmers to apply for certification scheme as a collective unit.	MARD, MOIT, TA	• At least one incentives program is established and introduced to all timber associations and woodworking villages. • All timber associations and woodworking villages conduct awareness campaign to their members. • A MOIT-MARD joint program is established.
	This activity aims to strengthen the sourcing and supply chain of legal wood materials from both domestic and import sources. Legal transparency will make Vietnamese WF open to markets like the EU which have high legal standards. There are links with Activity 1.1.3.		
	1.1.3. Promote certification and ensure use of environmentally sustainable materials in the wooden furniture sector		Medium term
	• Promote expansion of production plantations in the country with sustainable forest management (SFM) certificates. • Increase investment and provide incentives to foster innovation in wood products (using alternative materials, combining/diversifying other materials, reducing the quantity and proportion of wood products, etc.), in the direction of saving raw wood materials and protecting the environment (low emissions) • Mobilise forest smallholders into groups for obtaining SFM certifications, and speedy supply of timber to processors. • Adopt effective plantation forestry program to ensure viable and sustainable supply of home-gown plantation wood resources. Invest more in production and control of seedling production and distribution.	MARD, MOF, MOIT, Local authorities, Forest Science Institutions	• 80% of forest smallholders organized in groups. And 50% of the smallholders' groups succeeded to get SFM certificates (FSC or PEFC). • State budget for wood processing industry innovation and green-based solutions, and seedling production technology increased by 20%. • All forest tree seedling nurseries are quality controlled by competent agencies.
	This activity aims to strengthen the sourcing and supply chain of environmentally sustainable materials, which will also ensure a sustainable supply of resources used in the wooden furniture sector. Environment-friendly products will be attractive to the new generation environment-conscious consumer. There are links with Activity 1.1.1.		

Strategic Objective 1: Ensure legal, environmental and sustainability compliance to increase market share globally			
Operational objective	Activities	Executing agency	Timeframe & Targets
1.2. Improve efficiency, transparency and compliance of all wood entering in Vietnam	1.2.1. Provide necessary technical infrastructure and capacity for customs to ensure effective and efficient performance		Medium term
	• Provide technical knowledge related to WF and timber control and legality assurance systems through trainings to customs officers on a regular basis. • Create a robust physical inspection mechanism for suspected high-risk imports and exports, using digital tools for wood identification.	MOF, MOIT, MARD	All custom officers are trained on technical knowledge on WF and timber control and legality. assurance systems. All related customs offices are equipped sufficiently with required IT systems.
	This aims to ensure customs offices have sufficient capacity and equipment to improve their performance against the wooden furniture and timber import and export. There are links to Activity 1.2.2.		
	1.2.2. Improve efficiency and transparency of customs by streamlining procedures		Short and Medium term
	• Identify all the trade-related transactions that can take place online and implement an electronic single window/platform for all export, import, transit, and other formalities. Set up 24/7 online system that handles transactions. To create a one-stop centre to facilitate streamlining of all procedures. • Identify the export and import formalities which cannot be implemented online in a straightforward manner. Develop plan to streamline their paperwork, minimize physical inspections (unless they pose high legal sustainability risk), etc. • Develop an incentive scheme for customs about the specialized inspection that enhances its productivity.	MOIT, MARD, TA	A streamlined procedure for all trade-related transactions is available, shared to all related parties, and applied smoothly. An effective incentive scheme for customs specialized inspection is applied.
	This activity aims to reduce the time SMEs spend in dealing with custom procedures, thereby reducing the cost of export products, and encouraging more firms to enter the export business. There are links with Activity 1.1.1. and 1.1.2.		

Strategic Objective 2: Build the industrial base and expand the innovative capacity to foster greater SMEs participation in the global value chain			
Operational objective	Activities	Executing agency	Timeframe & Targets
2.1. Enhance attractiveness and quality of furniture made in Viet Nam	2.1.1. Ensure high quality, high-value and fashion-sensitive wooden furniture is produced and exported		Short term
	• Conduct market research on new-generation customers and their needs, to understand better on market trend. Promote production of WF based on the demands of the market and consumers. Regular market updates should be disseminated to trade associations and manufacturers. • Reduce the rate of processing-only production and increase the value-adding processes into wooden products by investing more in deep processing and self-product design and increasing investment and training of skilled workers in product design, product finishing, production chain, line improvement and machinery. • Strengthen the linkage of small-scale processing households/enterprises into larger-scale production units, forming highly specialized production chains. • Improve technology application in the furniture sector and ease the provision of soft loans for technology acquisition. • Strengthen regional cooperation between furniture associations to obtain information on international benchmarks and learn from best practices observed across the region, especially through the ASEAN platform.	TA, MOF, Local authorities, MARD, RI	Information on trend and needs of global customers has transmitted to all WF processors and exporters. Linkages amongst small-scale processors and to establish specialized production chains is introduced to all processors 20% of the small-scale processors agreed to set up a linkage to produce specialized products.
	This activity aims to meet the needs of today's new market which comprises of more young consumers, who value space, durability, compactness, and aesthetics furniture. There are links with Activities 2.1.2. and 2.2.3.		
	2.1.2. Improve innovative capacity of the furniture sector		Medium term
	• Formulate policy on design and innovation enhancement of the furniture sector. • Create a national incubation programme that provides necessary support to entrepreneurs at different stages of development of their ideas. The incubation centre should also be government funded to attract new start-ups. • Establish an innovation and incubation centre conforming to international best practices. Provide incentives to private sector to establish the facility. • Provide new product design and prototyping facility, like establishing prototyping centres at regional scale. Ensure affordable access to testing facilities for start-ups, small-scale entrepreneurs, and SMEs. • Provide access to relevant and reliable innovation-related information to SMEs, by collaborating with local technical and universities.	MOIT, MARD, TA, RI	• An increased production capacity of at least 20% in the first year, while gradually increasing to 50% over the next 3 years. Also, to create at least ten new home-grown designers for the furniture industry, to provide new products for the manufacturers.
	This activity aims to achieve product diversification and specialisation in wooden furniture through a successful innovation and business incubation system. This activity is linked to Activities 2.1.1. and 2.1.3.		
	2.1.3. Develop export supporting clusters for the furniture industry		Medium term
	• Conduct a feasibility study for the implementation of incubation system for export-oriented companies. Identify and develop clusters around areas where innovation will lead to greater export sales and profits. Collaboration and engaging with FDIs should be explored to facilitate this effort, through the initiative of the relevant Ministry. • Create a cooperative mechanism that allow students/trainees to use the enterprise facilities and manufacturing workshops as a place to practice and experiment. The role of universities and technical institutes are important as important partners. • Regularly organize contests on creative design of wooden furniture. The new designs could be show-cased at the Viet Nam's International Furniture Fair, and the winners provided a reward. • Improve IT, conduct R&D and develop collaborations necessary to achieve product diversification and specialisation in wooden furniture. Seek assistance from industry-specific support organisations. • Seek financial assistance (e.g., grants and donations) for successful implementation and sustenance of the incubation system.	MOIT, MARD, TA, RI, International parterns	• Establish smart partnership between FDIs and local SMEs for export activity. Possibly, 5 such partnerships in the first year, with a gradual increase over the years.
	This activity aims to achieve product diversification and specialisation in wooden furniture by developing an ecosystem of innovative firms through a successful innovation and business incubation system. This activity is linked to Activities 2.1.1. and 2.1.2.		

Strategic Objective 2: Build the industrial base and expand the innovative capacity to foster greater SMEs participation in the global value chain			
Operational objective	Activities	Executing agency	Timeframe & Targets
2.2. Increase export potential by building up the industrial base	2.2.1. Empower local SMEs to move up the supply and global value chain of wooden furniture		Medium term
	• Reduce bureaucratic hurdles and administrative workload for innovators in SMEs. Reduce the number of procedures and time that SMEs spend fulfilling their tax obligations. Guarantee that all undertakings can be done online.	MOIT, MOF, VCCI, TA	• Work to empower at least 10 SMEs in the first year to move up the value chain by taking them on trade mission, facilitating their promotion activities, etc.
	• Provide training on innovation and entrepreneurship among SME owners and entrepreneurs in the furniture sector, in collaboration with universities and technical institutes.		
	• Organise regional consultations where traders and shippers can identify ways in which shipping can be made more efficient and less costly. To avoid road traffic, consider increasing in use of an inland waterway system for internal transportation.		
	• Ensure SMEs have access to high-quality business development services by establishing a helpdesk with a hotline staffed with adequately trained personnel who can assist trading SMEs to support their businesses.		
	This activity aims to make SMEs more competitive by reducing cost of logistics, time of transportation, provide awareness on currently underused export promotion services, promote linkages and specialization in production among the SMEs..		
	2.2.2. Promote collaboration with FDI and spill over effects on the wooden furniture industry		Long term
	• Promote tight collaboration and strengthen linkage between local SMEs and FDI enterprises in WF production and trading.	VCCI, MOIT, TA, FDI	• Ensure SMEs are capable of meeting the manufacturing standards of FDI, to foster collaboration. At least 10 smart partnerships between FDIs and local SMEs in the first year and a gradual increase in such partnerships.
	• Set up a platform and create incentives for FDI firms, processors, and exporters to share with local SMEs their experiences and skills in WF production, business governance, marketing, etc.		
	• Encourage furniture FDI firms to develop capabilities of local suppliers. Develop a joint program with FDIs to establish specific furniture components to be supplied locally and provide technical support to SMEs to meet the supply needs.		
	• Establish programs with leading FDI firms to develop and support incubators and clusters. And to linked to localisation rates, with due regard to FTA provisions.		
	This activity aims to make the domestic WF industry more efficient by promoting collaboration with FDI firms. Such collaboration will promote sharing of technical know-how and make domestic WF firms more competitive.		
	2.2.3. Reduce the cost and time that it takes managers to fulfil all the mandatory requirements to operate a formal business		Medium term
	• Ensure that the payments involved in operating the business can be done online. This includes payments to all levels of government.	MOIT, MOF, TA, International Organizations	• A 24/7 online payment system that integrates e-commerce international payment services is established. • A anti-bureaucratic task force is established. A public-private dialogue platform is formed. A fund to support furniture exporters is established and assisted to at least 20 exporters in need.
	• Ensure that the most common e-commerce international payment services (e.g., PayPal) are available at affordable prices. Ease restrictions to widely used international online payment systems.		
	• Set up a task force to eliminate unnecessary bureaucratic practices. Simplify the legal framework to operate a business.		
	• Use donor assistance to set up a special fund for wooden furniture exporters.		
	This activity aims to reduce the main costs of operating a business. Efficient and low-cost business operation promotes export competitiveness. There are links with Activity 2.2.3.		

Strategic Objective 2: Build the industrial base and expand the innovative capacity to foster greater SMEs participation in the global value chain			
Operational objective	Activities	Executing agency	Timeframe & Targets
2.3. Increase export potential by focusing on labour productivity and skills	2.3.1. Improve labour productivity for value-creation in the wooden furniture industry		Short and Medium term
	• Conduct a comprehensive needs assessment on labour demand and supply in the industry. Assess labour quantity and labour skills based on actual requirements of the furniture processing enterprises and export markets.	TA, TI, RI, MOIT, MARD	Boost workers training and conduct regular re-skilling of workers in the industry. A fund should be created to facilitate such trainings, so as to encourage the workers, to take up trainings. Infuse the use of automation and technologies to boost productivity, through the provision of financial assistance to manufacturers.
	• Conduct awareness campaigns and advertisements about the wood processing industry to attract skilled workforce to the industry.		
	• Organize appropriate workshops/training courses to improve processing and design skills, work ethics/discipline among employees and inculcate work related responsibility.		
	• Develop an attractive reward-punishment mechanism and diversify benefits to improve productivity of employees.		
	• Improve and upgrade production facilities, production lines, and further specialization in production steps.		
	• This activity aims to make the existing workforce productive and efficient. High labour productivity will result in low cost of products produced and exported. There are links with Activity 2.3.2.		
	• 2.3.2. Increase number of skilled workers through improving quality of training institutions and training programs		Medium and Long term
	• Upgrade the training facilities of educational institutions in accordance with actual training requirements. Provide support in terms of facilities, training equipment's, machinery, etc.	MOET, TI, MOF, TA	Facilitate regular conduct of trainings and industrial placements for young workers. The curriculum at the training institutes must also involve manufacturers and exporters to ensure relevance. At least 5 such trainings on an annual basis.
	• Develop training programs based on actual needs suitable for each group of trainees (WF processing, WF design, machinery, equipment engineering, etc.), focusing on the application of information technology, high technology, and diversification of materials.		
	• Establish a cooperation mechanism between wood processing enterprises and training institutions to develop appropriate training programs with a practical training environment for the trainees.		
	• Establish a regular exchange mechanism to share information and hold consultations for developing appropriate training programs.		
	• Create a mechanism to encourage processing enterprises to invest in training activities at relevant training institutions, including those in the fields of architecture and construction.		
	• Diversify financial and technical support in training activities/projects from domestic and international organizations, high-quality training institutes and wood processing enterprises.		
	This activity aims increase skilled workforce in wooden furniture sector who can then produce products that are specialised, innovative and of high value in the export market. There are links with Activity 2.3.1.		
	2.3.3. Mainstream innovation and entrepreneurship attitude in the industry		Short and Medium term
	• Encourage interest among young graduates to participate in the wood industry. Organize annual business fairs at schools and university. Innovative products can be displayed in these fairs. Create program for student attachments or internships, or placements to the industry.	MOET, MOIT, social media	Career talk at universities, colleges, and schools by the industry associations to attract the young school leavers. Organize regular engagement between young school leavers with successful entrepreneurs.
	• Create mentorship programmes on entrepreneurship, creative thinking, innovation, developing business models, international trade, financial planning, and leadership.		
	• Mainstream training on innovation and entrepreneurship at the school, university, middle & higher education level. Include topics on innovation and entrepreneurship in the TVET educational curricula for furniture.		
	• Develop education and training programmes with focus on innovation management and entrepreneurship for successful export of innovative furniture products and services.		
	• Set up an entrepreneurship award for entrepreneurs who have successfully developed innovative business ideas.		
	• Organize entrepreneurship events for entrepreneurs to showcase their ideas, inventions, and business plans, where they can also connect with financers, investors, exporters, and industry giants.		
	• Change risk averse social attitudes towards innovation and entrepreneurship by running campaigns, performing street plays, announcements on radio & TV, etc.		
	This activity aims to stimulate entrepreneurial mind-set in the industry by mainstreaming topics on innovation and entrepreneurship in the education curriculum, on social media, and at local platforms. This activity is linked to Activity 2.1.2.		

Strategic Objective 3: Reinforce export diversification considering emerging market trends to ensure long-term competitiveness of the sector			
Operational objective	Activities	Executing agency	Timeframe & Targets
3.1. Expand scope of exports to new and emerging markets	3.1.1. Strengthen support to exporters to connect with customers		Short and Medium term
	• Raise awareness among SME managers, through information campaigns, training workshops, regular newsletters, events, social media platforms, media outlets, information briefs/articles etc., of the trade-related support services at their disposal. Market information dissemination is important. • Create for exporters and SMEs a focal point of contact for all export promotion and expansion related information and services. • Establish a system of financial support for SMEs to help them with costs associated with necessary certifications to enter new markets. • Create and regularly update database on export markets. Share market intelligence data with exporters, SMEs, and wider business community, for them to tailor their services according to strategic export markets and opportunities. • Establish a regular exchange/communication mechanism between exporters, SMEs, and foreign trading representatives/chambers to expand opportunities of collaboration and trading. • Provide information to SMEs on quality standards and technical regulations for entering foreign markets like the EU.	MOIT, TA, VCCI	Engage SMEs to participate in trade missions and overseas trade fairs on a regular basis, to expose them to different market requirements. At least 3 such fairs or trade missions per year. Provide regular dialogue with SMEs to expose them to market requirements and to ensure they are fully equipped with information on markets/product types desired in particular market. This could be achieved through invited buyers' delegation to Vietnam.
	This activity aims to connect businesses with customers, to raise awareness among exporters regarding available trade opportunities, and share technical requirements to enter new markets. There are links with Activities 2.2.1. and 3.1.2.		
	3.1.2. Create enabling conditions for exporters and processors to expand and diversity export markets		Medium term
	• Promote fairs and exhibitions to connect SMEs to new customers and markets. • Circulate regular updates on various trade agreements and the trade/export opportunities they offer. • Develop a pilot project with wooden furniture SMEs to obtain certification to export to new potential markets, like the EU. Cater to the demands of new market. This may be carried out as a pilot project to get the support of the stakeholders. • Support online presence of SMEs and increase utilization of digital marketing to reach to overseas markets. Establish an online networking platform for wooden furniture exporters. • Reference exporting enterprises on match-making business platforms. Explore international e-commerce platforms such as Amazon, Alibaba, E-Bay, Magento, Shopify, etc.	MOIT, TA, VCCI	With the assistance of trade associations identify potential SMEs for market diversification activities, through focused trade missions.
	This activity aims to connect businesses with customers, to raise awareness among exporters regarding available trade opportunities, and share technical requirements to enter new markets. There are links with Activities 2.2.1. and 3.1.1.		

Strategic Objective 3: Reinforce export diversification considering emerging market trends to ensure long-term competitiveness of the sector			
Operational objective	**Activities**	**Executing agency**	**Timeframe & Targets**
3.2. Ensure long term competitiveness of the wooden furniture sector	3.2.1. Strengthen statistical capacity related to furniture industry and export		Medium and Long term
	Strengthen statistical capacity of Statistics Office and MOIT to collect, analyse, and disseminate data that enhances their understanding of SMEs' needs and competitiveness.	Statistic Office, MOIT, TA	Train and expand market data analysis at the relevant Ministry, which can be transformed into guides for the local SMEs to expand market diversification. This is a regular exercise and must be carried out to gather and disseminate relevant market information.
	Regularly collect and analyse relevant firm-level data. Ensure that Central Statistics Office has the necessary resources to collect and compile data.		
	Designate a dedicated agency to export market research and intelligence and create and regularly update databases on export markets. This trade data should be published on a government site and updated regularly		
	Design a data collection system covering all the aspects of trade data with strategic value. Establish a system for collecting the data (e.g., by phone, online template etc.).		
	This activity intends to enhance the understanding of policymakers of the strengths, weakness, and export readiness of domestic enterprises. With statistical evidence, policymakers will be able to better design their export promotion and SME support programmes. It can be used to select FTA partners and strategic export markets. There are links with Activity 2.2.1 and 3.2.3.		
	3.2.2. Strengthen evidence-based policy decision making related to furniture industry and export		Medium and Long term
	Organise a yearly conference to present the results of the analysis on SMEs' needs to all concerned stakeholders and discuss evidence-based policies to address the needs.	MOIT, MARD, TA	At least 2 workshops per year in collaboration with other relevant agencies and institutes to foster cooperation among the many stakeholders.
	Raise awareness among the SMEs on the importance of providing statistical data in time and the type of statistics required by sending monthly newsletters to enterprises.		
	Create incentives for the relevant agencies to provide the data in a timely manner.		
	This activity intends to enhance the understanding of policymakers of the strengths, weakness, and export readiness of domestic enterprises. With statistical evidence, policymakers will be able to better design their export promotion and SME support programmes. It can be used to select FTA partners and strategic export markets. There are links with Activities 2.2.1. and 3.2.3.		
	3.2.3. Promote linkages, cooperation, and fast-track implementation of the strategy		Medium term
	Improve linkages among actors in the supply chain, and cooperation among the agencies by holding regular consultations to develop joint initiatives and, joint proposals, and prioritise fundings that are ready for government action. The purpose should be to reach common understanding on the real needs of all sides involved.	MOIT, MARD, MOF	Establish a coordination unit to oversee the development of the furniture industry, to foster cooperation among the various agencies and to promote competitiveness.
	Develop a platform with a coordination mechanism to ensure timber associations' participation in trade-related negotiations to allow negotiators to use inputs from the industry.		
	Establish a working group involving private and public sector institutions to advocate for the implementation of laws and policies related to the development of the wood, furniture, and wooden furniture sector.		
	This activity aims to ensure long term competitiveness, sustainability, and viability of the wooden furniture sector of Viet Nam, to the effect that it provides export gains and contributes to overall development of the economy of Viet Nam.		
Notes: TA: Timber Associations (including national and local associations); TI: Training Institutions; MOET: Ministry of Education and Training; MOF: Ministry of Finance; RI: Research Institution; MARD: Ministry of Agriculture and Rural Development; VCCI: Viet Nam Chamber of Commerce and Industry			

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