

Vietnam: Asia's New Player



Did anybody imagine that Vietnam would become a significant player in this industry? Where do you plant trees? How many unexploded mines and pieces of ammunition lie in the ground? Asian investors and European machinery suppliers seem undeterred by these “unknowns.”

By David Price

Some of my summer reading is spent catching up on annual reports, forecasts and analyses. In doing so, I learned that China is becoming a relatively expensive place to make things, and investors and manufacturers are now looking south to its neighbor—Vietnam. PricewaterhouseCoopers, McKinsey, Poyry, and The Economist, have identified it as an emerging market. Metso is already there.

Vietnam is nowhere near the industrial scale of Brazil or China, but the steady flow of investment into that country must be taken seriously. Cisco Systems, which has a presence in Hanoi; Hon Tai (Taiwan), and assembles Ipods and Nintendo games, is investing \$5 billion there. And Intel will invest \$1 billion to establish its biggest assembly and test site in Ho Chi Minh City (formerly Saigon).

Data published by Poyry and Metso have identified 13 new pulp and paper projects decided or planned for 2007-2011. They include the installation of seven new paper machines and six used machines. It's not big stuff by modern standards. The current national production capacity is about 1.3 million tpy, but no one is really sure as reliable figures are not yet available. But the best guess by Poyry and Metso is that the new capacity will add 1.6 million tpy, making a total of 2.9 million tpy by 2011. I imagine, though, that some of the older capacity may be shut down.

Of the identified projects, three are tissue, three are kraftliner, and the rest a mixture of fluting and testliner. The tissue projects suggest that the standard of living in Vietnam's major cities is rising, considering the consumption of tissue is directly linked to this. The focus on packaging grades is also linked to the rising manufacture of white goods.



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Asian Investors

What is really interesting is that all the investors are Asian. Seven of the projects are by Saigon Paper Co. (6) and Vietnam Paper Co. (1); Lee & Man of Hong Kong have two; Siam Cement with two; An Hoa of Vietnam has one; and New Toyo Pulp of Japan has one.

Lee & Man is the biggest investor at the moment. The company has invested \$1.2 billion in a pulp and paper project in the Mekong Delta. A ground-breaking ceremony for the kraftliner board mill was held on August 6 and completion is expected in 16 months. The board mill has a design capacity of 400,000 tpy and up to 90% of the output will be for domestic

consumption and the remainder for export around the region. According to Metso, the 3-ply board machine is the largest board machine ever installed in Vietnam. It has a wire width of 7.2mm and design speed of 1150 m/min. It is a greenfield site about 200 kms south of Ho Chi Minh City. At a later date, a 1.5 million tpy pulp mill is planned adjacent to the board mill.

But fiber will be a problem. Vietnam has no industrial plantations like Brazil or Chile, so Lee & Man has factored into their investment 120,000 hectares of cajuput—a species I'd never heard of until last month. In fact, I wonder how much forest is off-limits due to unexploded mines or contamination. Poyry didn't know.

Lee & Man said the first stages of the board and pulp mills will include \$280 million for the board mill and \$348 million for the pulp mill. Initial production will be 420,000tpy and 300,000 tpy respectively. When both mills reach capacity they are expected to offer nearly 6,000 jobs to local people and a further 100,000 people will be involved in forest development.

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Rice or Forests?

But there's a problem. The region's economy is based on rice cultivation by small family groups. Somehow, the government has to persuade the rice farmers to move to afforestation, which it says, pays more. This will be hard to sell. I have seen similar experiments in neighboring Thailand where traditional rice farming communities were not convinced that fast-growing trees were a better bet than rice, which provides them with two crops a year and two payments.

The other problem is China. If Vietnam does successfully grow plantation forests, will China, in its relentless pursuit of raw materials, surge across the border and buy all available fiber supplies? There is already tension along the border where Vietnamese timber is illegally logged by Chinese operators. In addition, the Chinese government has decided to suspend its plan of converting 1.07 million hectares of farmland into forest to meet its pledge of reserving a minimum of 120 million hectares of land for farming during the 11th Five-Year Plan (2006 - 2010).

I don't think Vietnam will be another Brazil, Russia, India or China, but it may be one to watch. ■

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