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Private Enterprises and Small and Medium Enterprise Policy in Viet Nam

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I. Preface

Seven years have elapsed since Viet Nam decided to make the transition from a centrally-planned to a market economy and, as part of that transition, to officially permit private economic activities. Though the country still lacks much of the legal framework required to support private economic activities, has underdeveloped markets for goods, property, labor, and capital, and at best only inadequate government support, a large number of private and self-employed businesses have sprung up in a short period of time, and they have grown with such dynamism as can hardly fail to be noticed. Viewing this, one is led to believe that there is enormous energy stored in the depths of Vietnamese society that only waiting for the opportunity to push the economy higher. But most private and self-employed businesses are small in scale, backwards both in terms of managerial skills and technology, and operating in an economic environment that is far from conducive to their growth. It is of vital importance to the development of the Vietnamese economy that policies be put in place which will appropriately tap the latent energy of the private sector, and particularly of small and medium enterprises (including self-employed businesses).

This paper begins by describing the conditions in which small and medium enterprises in Viet Nam, including rural industries, find themselves, and moves from there to make several policy recommendations for small-business promotion. Due to the lack of comprehensive information on small and medium enterprises and rural industry, we have had to string together past, piecemeal research on the topic, combining it with a bit of field research to gain an impression of the state of affairs in small and medium enterprises and rural industry. Macro-statistics have recently been made available on non-state enterprises (mostly small and medium enterprises) in Viet Nam, so we have used this opportunity to attempt to analyze and put together a general picture of small business in the country. This has provided a base from which to identify problems and make policy recommendations.

II. The changing role of the non-state sector

Viet Nam's economic actors can be broken down by form of ownership into three broad categories: the state economic sector, the collective economic sector, and the private economic sector. The collective and private sectors are often handled as the non-state economic sector and referred to as the civilian(private) economic sector . The process of marketization has, however, led to the quick dismantling of the collective sector, most of which has been taken over by the private sector. Today, it is the private sector that accounts for the majority of the non-state sector, and as a result, the non-state sector is turning it into a private sector in the truest meaning of the word.

The role of the non-state sector in Viet Nam's economy is increasing as marketization progresses. It plays a particularly important role in employment; in 1993, the non-state sector produced 91% of all jobs. True, with 72% of all jobs (1993) in agriculture, it is only right that the non-state sector have a high share of employment, but even in non-agricultural industrial fields non-state sector employment continues to grow. The state sector accounts for about 70% of industrial production, but the non-state sector provides about 80% of industrial jobs (see Table 1, Labor Force by Industrial and Economic Sectors).

Though the non-state sector still plays only a small role in tax revenues, one can nonetheless observe a relative decline in the share of state enterprises and a corresponding increase in that of the non-state sector. The share of tax revenues coming from the non-agricultural non-state sector rose from 12.4% in 1991 to 13.9% in 1994. Meanwhile, the share from state enterprises declined from 65.3% to 48% over the same period (IMF, Viet Nam Statistical Table, July 20, 1995). The gap in tax revenues between the two (state enterprises and the non-agricultural non-state sector) closed from 5.3-fold in 1991 to 3.5-fold in 1994.

But in production, the share of the state sector continues to expand, rising from 32.5% GDP in 1990 to 40.2% in 1994 (1989 prices). The weight of the state sector in services declined from 49.4% to 48.1% between 1989 and 1994, primarily because of a sharp contraction in the state's role in commerce. In industrial production (including construction), however, the share of the state sector rose over the same period from 62.8% to 65.2% (see Table 2, "GDP Proportions by Sector and Industry").

In the countries of the former-Soviet Union and Eastern Europe, and even in China, the role of the state sector in production has sharply contracted during the transition to market economics, but in Viet Nam, the opposite phenomenon is being observed. One of the reasons for this is the large increase in petroleum production, is owned virtually 100% by the state. In fact, when petroleum is excluded, the state sector's share of industrial production actually declined from 49.7% in 1990 to 45.4% in 1994 (IMF, ibid.). The second reason for the expansion of the state sector is that production by joint ventures between state enterprises and foreign capital are handled for statistical purposes as part of the state sector. Joint ventures with foreign capital have brought on a rapid expansion in production in such industries as cement, chemical fertilizers, steel, chemical products, sugar, and consumer electronics, and this is fueling state sector expansion. The third reason is that the non-state sector lacks both capital and access to financing, so that it is unable to make any large expansions in its production base. The state enterprises are given favorable treatment in financing and have an easier time upgrading mechanical equipment than does the non-state sector. They have also been rationalizing in order to adapt the new market environment, which has enabled them to achieve a surge in labor productivity (see Table 3, Gross Output of Manufacturing by Industry and Sector , and Table 4, Labor and Capital Productivity in Industry by Sector and Region).

Table 5 contains a breakdown of gross industrial production by form of ownership. It shows that the expansion in the share of the state enterprises sector was the result almost entirely of expanding production at enterprises run by the central government; the share of those run by local governments has tended to decline. The number of state enterprises involved in industrial production declined from 3,050 in 1985 to 2,030 in 1993, but only 189 of these cuts came from central government enterprises. In the non-state sector, the chief actor in industrial production is the household sector (cottage industries not registered as enterprises; referred to as self-employed hereafter). While there are some doubts as to the accuracy of the statistics, the self-employed are said to account for about 78% of all industrial production in the non-state sector (1993). The size of registered private enterprises may be small, but their share began to expand rapidly around 1992, and as a result, the share of production accounted for by industrial cooperatives (cooperative unions), the largest portion of the non-state sector in pre-Doi Moi days, has been rapidly declining. The number of industrial cooperatives was 35,629 in 1985, but most of them have been disbanded or transformed into private enterprises. By 1993, only 5,267 remained (see Table 6, Number of Industrial Establishments by Sector). In 1985, most industrial cooperatives were in foods, construction materials, food processing, lumber and woodworking, and metal working. Much of this business has been taken over by the household sector (self-employed).

Thus, while the state sector has expanded its weight of production, it would be wrong to see this phenomenon as a sign that the old socialist sector is growing in Viet Nam. As already discussed, we must take note of the major changes that are occurring in the nature of the non-state sector—the sector that has traditionally been treated as a de facto civilian sector . Agriculture has already changed from traditional collective ownership (agricultural collectives) to individual management, and become a purely private sector. In industry and services as well, private enterprises and self-employed businesses are supplanting the cooperatives. In other words, the civilian sector has gone from being civilian in the sense of not the state to the truer sense of private.

The nature of the state enterprises is also moving closer to that of private enterprises thanks to the elimination of subsidies, joint ventures with foreign capital, and the rise of what for all purposes is consignment management . Though they are still officially state enterprises with equity owned by the state and the employees, there are some firms overseen by local governments that are run like private enterprises by what amounts to a handful of managers. The Constitution of 1992 postulated a multi-sector economy comprised of five actors: the state sector, the collective sector, the private individual sector, the private capitalist sector, and the state capitalist sector. It does, however, recognize the existence of state enterprises like joint ventures with foreign capital or the domestic private sector in which the state owns part or most of the shares, In other words, companies are permitted within the range of the state capitalist sector and they are handled for statistical purposes as part of the state sector.

III. The formation of private enterprises in Viet Nam

Viet Nam gave official recognition to private-sector economic activities with Cabinet Decision No. 27/HDBT of March 9, 1988, which sets forth regulations and policies for the private sector. Soon afterwards, the Party also issued a Politburo Decision (No. 16 of July 15, 1988) entitled "Reform of Managerial Mechanisms and Policies for the Non-state Sector" (No. 16/NQTW) in which the non-state sector was 1) allowed to operate outside of state plans; 2) not to be discriminated against vis a vis state enterprises in the supply of raw materials, parts, and mechanical equipment; 3) allowed to use foreign exchange earnings to import mechanical equipment (if an export industry); 4) allowed to negotiate and sign contracts with foreign entities (if an export enterprise); and 5) given protection for patents and trademarks.

Prior to that time there had been limited permission for free markets in agricultural, forestry, and fishing products and, at one point, joint public-private enterprises and private stores, but regulations were soon reimposed as Party policy towards private economic activities wavered. In a socialist economy the only permitted economic activities are basically by state enterprises and collectives. Even if the existence of a non-state sector is permitted in some cases it is only as a temporary expedient taken in order to make it through the current economic crisis. In addition, the economy of Viet Nam was still operating within the framework of central planning. Raw materials were allocated and not available on a free, commercial basis; products were assigned official prices by the state; and absolutely no credit was forthcoming from state banks.

Given these facts, there was little private sector reaction to post-1987 calls by the Party and government for private investment—the risks were too great. Even the Politburo decision of 1988 was greeted with an extremely muted reaction from the private sector side. The Party had to therefore marshal terminal organizations to convince people that the new policies were permanent and they could invest with confidence.

What really changed the situation were the fundamental reforms that were embarked on in 1989, primarily the liberalization of prices, foreign exchange rates, and trade. These reforms opened the way for private enterprises to freely procure raw materials and sell and export products, all at market prices. The legislature then approved a Companies Law and Private Enterprise Law in December 1990, both effective April 15, 1991, which put in place the legal basis for economic activities by private enterprises.

In the Economic and Social Development Strategy to 2000 adopted by the 7th Party Congress in June 1991 it states that 1) all citizens may enjoy the freedom to engage in business activities under the law and property rights and justifiable incomes will be protected; 2) unless banned by law, there will be no restrictions on the size, location, or trading activities of the private capitalist sector; and 3) all economic units will be treated equally before the law, with no discrimination by the state, and no mandatory asset allocations, production means, or collectivization. These private-sector rights approved by the Party Congress were enshrined in the New Constitution of April 1992.

Not surprisingly, it was around 1992 that private enterprises, and private shops and businesses began to spring up all across Viet Nam. Almost all the houses fronting major roads in Hanoi have stores or shops. In 1989, shops and restaurants were still rare, but change has occurred with amazing speed. People who raised funds from relatives and friends to start businesses did so very quietly and carefully, fearing a change in policy, but business turned out to be better than expected, convincing many to expand into something more full-fledged, which in turn spurred further development in the private sector.

IV. The status of non-state enterprises

For all this activity, it is still extremely hard to produce a general picture of non-state sector economic activities (including those of the self-employed in industrial and service sectors) in Viet Nam. In the first place, there are no measures or statistics on the funding and sales of self-employed businesses, which are said to number well over a million businesses. Secondly, the pace of change is so fast and the situation so fluid that in the space of just two years the entire picture can be changed, which makes it all the more difficult to survey and analyze this sector.

There are, however, some statistics available on the businesses licensed as joint-stock companies, limited companies, or privately owned enterprises under the Companies Law and Private Enterprise Law. While not a picture of the non-state sector as a whole, these statistics do enable some analysis of non-state sector activities in Viet Nam. The Statistical Yearbook 1994 notes a total of 26,282 enterprises in Viet Nam, including 6,042 state enterprises, 936 representative offices (of foreign firms), and 279 miscellaneous enterprises (which are not state enterprises but government agency service providers and the like). Some 18,854 of these enterprises were registered between April 1991 and the end of 1993 (including re-registration of existing enterprises). In 1994 there were 7,428 newly registered enterprises, which works out to 28% of all enterprises (see Table 7, Number of Enterprises and Registered Capital by Form of Management and Industry).

Table 8, Number of Enterprises in the Non-state Sector by Industry, was created from a different set of statistics found in Non-State Economy 1991-1995. These statistics eliminate state enterprises and representative offices, but include collectives that have obtained business licenses. They are relevant as of November 1. However, both sets of statistics share the fact that they cover only licensed businesses. What can be seen from them is that between November 1 1994 and the end of December that year, the number of non-state enterprises, excluding collectives, rose from 15,892 to 19,029. That is a gain of 3,132 businesses (of which 1,771 were privately owned enterprises, 14 joint stock companies, and 1,347 limited companies) in just two months. That is how fast-paced recent change has been.

Though there are no statistics available, change is probably occurring at a similar pace among the self-employed and unlicensed businesses. As can seen from Table 6, the number of self-employed businesses involved in industrial production saw a significant decline between 1991 and 1992. This decline was probably a result of the loss of the COMECON market. In 1993, however, it surged back to 452,800 units and given the robustness of the Vietnamese economy, even stronger growth was probably seen between 1994 and 1995. According to an official in the Ministry of Labor in charge of the survey of small and medium enterprises, there are a number of self-employed businesses in industry that have higher production and sales than do registered enterprises. The reason they do not obtain licenses as enterprises is that

government tax checks and regulations are a bit less stringent for self-employed businesses.

1. Numbers and registered capital of non-state enterprises

According to Non-State Economy 1994[1], there were 17,442 registered non-state enterprises (including collectives that had obtained business licenses) in Viet Nam as of November 1, 1994. The overwhelming majority of these, at 68.8%, were private enterprises, followed by limited companies at 21.6%. Between the two, these forms of management account for 90% of the total. The largest industrial sector was commerce at 38.6%, followed by manufacturing at 35.2%, and fishing at 10%. In all cases, privately owned enterprises were the majority, though there were large numbers of joint-stock companies in the financial sector (see Table 8).

About a half of the 6,142 companies in manufacturing were in food and food processing, followed by 10.4% in lumber and woodworking, 5.7% in metal working, 3.6% in textiles, 3.4% in clothing, and 3.0% in furniture. Most of the enterprises in food, food processing, lumber and woodworking, and metal working were privately owned enterprises, while those in clothing and textiles tended to be somewhat larger limited companies (see Table 9, Breakdown of Non-State Enterprises in Manufacturing by Industry and Form of Management).

Statistics on the year of establishment for enterprises in existence as of November 1, 1994 show 93% of the total to have been established since 1992. The number of non-state enterprises (excluding collectives) established prior to 1990 was a mere 289[2]. (See Table 10, Breakdown of Non-State Enterprises by year of Establishment and Form of Management).

Ho Chi Minh is home to 14% of all non-state enterprises, followed by Hanoi at 7%. The majority of non-state enterprises in both Hanoi and Ho Chi Minh take the form of limited companies, but in Da Nang and other provinces, the majority are registered as privately owned enterprises. There are also large numbers of collectives in Hanoi, Hai Phong, Ho Chi Minh, and Da Nang (see Table 11, Breakdown of Non-State Enterprises by Province and Form of Management).

Breakdowns by legal capital produce little change in the industrial mix, though by form of management, limited companies and joint stock companies have higher capital and together account for about 62% of the total. The average legal capital for all enterprises is extremely small at 340 million Dong (about 34,000 dollars). Average capital in the manufacturing sector is only 330 million Dong per enterprise; for privately owned enterprises, which account for the majority of enterprises in the manufacturing sector, it is a mere 170 million Dong. The average capitalization of limited companies in the manufacturing sector is 930 million Dong; for joint stock companies, 3,590 million Dong (see table 12, Legal Capital of Non-State Enterprises by Industry and Form of Management).

A regional breakdown of legal capital shows no great differences between per-enterprise capital in Hanoi, Hai Phong, Ho Chi Minh, and Song Be province. All are about 600 million Dong. For Da Nang and

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1) These statistics are based on a survey of non-state enterprises that had obtained business licenses (collectives included). The 1994 figures are the results of a through survey of all non-state enterprises in the twelve provinces and cities. According to the person in charge at the Statistics Bureau, the national statistics included in the report were created by supplementing results from the twelve provinces and cities with reports from other provinces.

2) According to a survey by the ILO in 1991, when 507 urban small and medium enterprises (117 self-employed household and 51 state enterprises included) are broken down by year of establishment, 42.8% of the total had been establish prior to 1985, 56.4% between 1986 and 1990, and only 0.8% in 1991. The Mekong Delta Survey referred to later in this paper also showed 54% of non-state enterprises to have been established prior total of 1989. This casts doubt on the figure of only 1,000 enterprises established prior to 1990. According to the person in charge at the Statistics Bureau, regardless of what there may have been prior to that point, any time there is a change in name, form of ownership, or the like, it is registered as a new enterprise established in that year. Enterprises that registered prior to 1990 and had no substantial changes are considered to have been established in the year of registration. It appears therefore that in the ILO and Mekong Delta surveys, the answers given refer to the time of original establishment in a different form or as a collective or state enterprise. Therefore, many of the enterprises listed in these statistics as having been established since 1991 may actually have had a predecessor originally established earlier.

other rural provinces, it is smaller at 100-300 million Dong (see Table 13, Legal Capital of Non-State Enterprises by Region and Form of Management).

2. Detailed analysis of non-state enterprises in the 12 major provinces and cities

There are no national figures from which to gauge by size (number of employees and capitalization) and industry the number of workers, sales, labor productivity, and capital efficiency of non-state enterprises. One must instead rely on the Survey of Non-State Enterprises for the twelve major provinces and cities (cities of Hanoi, Ho Chi Minh, and Hai Phong; provinces of Bac Thai, Hai Hung, Nam Ha, Tua Thien Hue, Quang Nam Da Nang, Khanh Hoa, Dong Nai, An Giang, and Can Tho: North Mountain and Midland 1, Red River Delta 3, North Central Coast 1, South Central Coast 2, Central Highland 0, Northeast South 2, Mekong River Delta 2). These twelve provinces and cities contained 52% of all non-state enterprises and 60% of legal capital according to Statistical Yearbook 1994 . The distribution of industries for non-state enterprises in the twelve provinces and cities will be biased slightly towards commerce, manufacturing, and services because major urban areas are included, while the weight of privately owned enterprises will decline and that of limited companies rise for the same reason. Among manufacturing sectors, there is significantly less weight on food and food processing than there would be in national statistics, and correspondingly more on industrial goods processing, metal processing, clothing, and rubber and plastics. Note also the greater diversity of industrial sectors. (See Table 14, Number of Non-State Enterprises by Industry and Form of Management, and Table 15, Breakdown of Manufacturing Enterprises by Industrial Sector and Form of Management).

(1) Distribution of non-state enterprises by industry and size

Table 16 contains a breakdown of non-state enterprises in the twelve provinces and cities by industry . Enterprises with 10 employees or less account for 48.8% of the total; those with between 10 and 50 for 38%. In other words, 87% of the total are small businesses with less than 50 employees. Larger enterprises with more than 200 employees account for a mere 3.2%. This trend is particularly pronounced because 77.2% of the non-state enterprises involved in commerce are extremely small businesses with less than 10 employees.

The picture is a bit different when the focus is narrowed to manufacturing, where enterprises with less than 10 employees account for about 20% of the total and those with between 10 and 50 for about 58%. Enterprises with 100 or more employees make up about 11% of the total.

By manufacturing sector, about 40% of the enterprises involved in food and food processing (which account for most manufacturing enterprises) are extremely small businesses with 10 employees or less, which tends to highlight the small size of manufacturing enterprises. However, in all sectors, the bulk of enterprises have between 10 and 50 employees, though those in textiles, clothing, and leather tend to be larger (See Table 17, Distribution of Non-State Manufacturing Enterprises by Industrial Sector and Number of Employees).

(2) Distribution of non-state enterprises by industrial sector and operating capital

Besides legal capital, Non-State Economy 1994, uses the terms business capital and using capital. This would be equivalent to what we in Japan would call operating capital, that is, capital plus statutory reserves plus surpluses. The statistics show that operating capital as of November 1, 1994 was 3.94-times the size of legal capital on an all-industries average. In other words, Vietnamese non-state enterprises are actually engaged in economic activities with about four-times the amount of their statutory capital. While the average legal capital for the twelve provinces and cities (all industries) is 490 million Dong, average operating capital is 1,936 million Dong.

Breakdowns of non-state enterprises by operating capital show that about 53% of the total have less than 250 million Dong (about 25,000 dollars), though 19% have more than 1,000 million Dong (about 100,000 dollars). While it is natural that financial enterprises have operating capital in excess of 1,000 million Dong, one should note the large numbers of enterprises in transportation, communications,

construction, hotel and restaurant management, and mining that also have operating capital at that level.

About 53% of the enterprises in manufacturing are extremely small entities with operating capital of 250 million Dong or less. About 19% of all limited companies have operating capital of 1,000 million Dong or more. Obviously, sectors like food processing and beverages will have more small enterprises, so this trend is more pronounced. In textiles, clothing, leather, woodworking, chemical products, rubber and plastics, machinery, and electrical equipment, there are more enterprises with operating capital of 500 million Dong or more (see Table 18, Distribution of Non-State Enterprises by Industrial Sector and Amount of Operating Capital, and Table 19, Distribution of Non-State Manufacturing Enterprises by Industrial Sector and Amount of Operating Capital).

(3) Breakdown by industry of non-state enterprise employment

Non-State enterprises in the twelve provinces and cities employed 286,000 people as of November 1, 1994, of which 48% were employed in manufacturing, followed by 18% in transportation and communications, 11% in construction, and 10% in commerce and repairs. By form of management, 54% of manufacturing jobs were with limited companies; 24% with collectives. Indeed, collectives play a major role in employment, providing 37% of jobs in all industries. Some 90% of the jobs in transportation and virtually all of the jobs in mining are with collectives (see Table 20, Breakdown of Non-State Enterprise Employment by Industrial Sector and Form of Management).

By sector, 28% of the jobs in manufacturing were in clothing, 14% in food and food processing, 12% in lumber and woodworking, and 10% in mineral products. By form of management, limited companies played a central role, although collectives provided more jobs in textiles, paper, chemical products, mineral products, medical equipment, and vehicles (see Table 21, Breakdown of Non-State Enterprise Employment by Manufacturing Sector and Form of Management).

(4) Sales at non-state enterprises

The retail and repair sectors produce 68% of all sales at non-state enterprises. Manufacturing-sector sales account for 22%. Per-enterprise sales are 15,600 million Dong in finance, 4,500 million Dong in retail, and 2,100 million Dong in manufacturing. By form of management, sales at limited companies account for 61% of the total. Sales at collectives account for a mere 4% (see Table 22, Breakdown of Non-State Enterprise Sales by Industrial Sector and Form of Management).

(5) Contributions of non-state enterprises to state revenues

Table 23 provides a breakdown by industrial sector and form of management of contributions to state revenues (tax payments) as a percentage of sales. In terms of industrial sectors, the highest ratio of taxes to sales is for miscellaneous services (computer services, real estate, and similar services) at 13.5%, followed by hotel and restaurant management at 8.8%, finance at 7.3%, construction at 4.9%, and transportation and communication at 3.4%.

By form of management, the highest ratio of taxes to sales is paid by joint stock companies (4.3%), followed by limited companies at 3.6%. Joint stock companies in the miscellaneous services sector paid taxes as high as 39% of their sales. The lowest taxation rate is for privately owned enterprises at 1.2%. The reason for this is the low 0.9% ratio of taxes to sales for privately owned enterprises in retail. The ratio of taxes to sales is a function of the tax rate for the industry in question, its profitability, and its tax apprehension rate. The reason the ratio is low for retail is due both to low profit margins and to insufficient tax apprehension.

(6) Per-employee operating capital, sales, and contributions to state revenues

Table 24 contains a breakdown by industry of per-employee operating capital, sales, and contributions to state revenues. The average for all industries is to use 51 million Dong (about 5,100 dollars) of capital per employee to produce 83 million Dong in sales, of which 2.4% is paid as taxes. On a per-employee basis, operating capital, sales, and tax contributions are extremely high in finance and retail.

(7) Average using capital, sales, tax contributions, and productivity of manufacturing enterprises by size of operating capital and number of employees

Table 25 looks at the manufacturing sector in the twelve provinces and cities in terms of capital and number of employees. The average are responsible for 39% of the taxes paid by enterprises manufacturing enterprise has 57 employees, uses operating capital of 1,413 million Dong (about 1.41 million dollars), generates 2,080 million Dong in sales, and pays 54 million Dong in taxes. Per-employee sales are 37 million Dong (about 3,700 dollars), for a ratio of 1.47-fold "using capital." The turnover rate for capital is higher the smaller the capitalization of the enterprise, but per-employee sales are generally low. Note, however, that enterprises with operating capital of between 100 million Dong and 250 million Dong have higher per-employee sales than those with operating capital of between 250 million Dong and 1,000 million Dong, and therefore have better capital turnover rates.

The breakdown by number of employees shows enterprises with between 10 and 50 employees to be notably strong performers with much better per-employee sales and capital efficiency than enterprises of other sizes. In fact, 58% of the non-state manufacturing enterprises are in this size group. By contrast, enterprises with 200 or more employees have significantly lower productivity. This may be a problem in management after the enterprise exceeds a certain size.

(8) Comparison of non-state enterprises in Hanoi and Ho Chi Minh

Tables 26 and 27 contain breakdowns by size of the major measures of non-state enterprises (all industries) for Hanoi and Ho Chi Minh respectively. Ho Chi Minh contains about twice the number of non-state enterprises as Hanoi, but a higher percentage of its enterprises are also in the higher-operating-capital groups. While only 17% of Hanoi's enterprises have operating capital of 1,000 million Dong or more, 36% of Ho Chi Minh's are at that level.

The average Hanoi enterprise has 24 employees, "using capital" of 1,400 million Dong, sales of 1,574 million Dong, taxes of 48 million Dong, per-employee sales of 660 million Dong, and a ratio of sales to using capital of 1.2-fold. In Ho Chi Minh, the average enterprise has 54 employees, using capital of 4,570 million Dong, sales of 6,000 million Dong, taxes of 1,100 million Dong, and a ratio of sales to using capital of 1.31-fold. Not only is it bigger in size, it also has better per-employee sales, capital efficiency, and tax payments than its Hanoi counterpart.

Even when this is broken down by size of operating capital, Ho Chi Minh enterprises are far above Hanoi enterprises in terms of per-enterprise average sales and tax contributions. In per-employee labor productivity and capital efficiency as well, there are large gaps between Ho Chi Minh and Hanoi.

However, the breakdown by number of employees shows that it is the enterprises in Ho Chi Minh with between 10 and 50 employees that are the excellent performers in terms of sales, tax contributions, and productivity, while results for enterprises of other sizes are not especially good. For Ho Chi Minh enterprises with 10 employees or less, per-employee sales and capital turnover rates are both below those of their Hanoi counterparts. Nonetheless, tax payments are about 6-fold those of Hanoi enterprises of similar size. While in Ho Chi Minh per-employee sales and capital efficiency tend to decline the larger the enterprise becomes, in Hanoi, capital efficiency is higher for enterprises with 200 or more employees than it is for those with less. Whether these differences are due to managerial techniques or systemic differences is an extremely interesting topic deserving of further study.

The overall conclusion, however, is that the best performers in Vietnamese manufacturing are smaller enterprises with 10–50 employees and operating capital of between 100 million Dong and 500 million Dong.

(9) The average Vietnamese enterpriser

A survey of 10,735 managers in the twelve provinces and cities shows 39.3% of business managers to be less than 40 years of age, 32.3% between 40 and 50, and 28.4% 50 or older. Managers in manufacturing are slightly older, with only 32.2% below 40. Prior to managing a non-state enterprise, 42.7% were officials at state enterprises or in the government; 0.7% still are, and the remaining 56.6% were in the non-state

sector. Given the low overall weight of the state sector in Vietnamese employment (9% as of 1993), this is an extremely high proportion of managers to have been former state enterprise and government officials. There are probably many reasons for this high percentage of former state sector workers, among them the fact that at state enterprises they could learn technology and gain experience in things like purchasing and sales. However, it may also be a reflection of one characteristic of the business climate in Viet Nam that rather than being a free competition of managerial effort and technical innovation, it is a market where personal connections and the access that they bring to the government, state enterprises, and banks are more important.

An ILO survey (which will be discussed in greater detail later on in this paper) found that 78% of non-state enterprise managers (including the self-employed) in Hanoi, Hai Phong, and Ho Chi Minh were male; their median age as 44.9; and 41.4% were either former officials at state enterprises or in the government, or were retired military personnel. In Hai Phong, 74% came from the state sector, while in Ho Chi Minh only 17.7% did so. In terms of academic training, 25.2% had 10 years or more of formal education (had entered university), 35% had between 8 and 10 years (high school graduates), and the remaining 39.8% had something less than that.

V. Small and medium-sized enterprises in Viet Nam

There is no fixed definition of "small and medium enterprises" in Viet Nam, but the following are some of the leading opinions on the subject[3]:

1) Viet Nam Industrial and Commercial Bank

Lending standards define enterprises with capital of between 5,000 million Dong and 10,000 million Dong (about 500,000-1,000,000 dollars) and between 500 and 1,000 employees as medium enterprises. Those with less than 5,000 million Dong and less than 500 employees they define as small enterprises.

2) City of Ho Chi Minh

The city of Ho Chi Minh defines enterprises with less than 1,000 million Dong (about 100,000 dollars) in capital and less than 100 employees as small enterprises; enterprises with between 1,000 million Dong and 10,000 million Dong and between 100 and 500 employees as medium enterprises. Most economists support this definition.

3) Opinions of other researchers

There are some who define small and medium enterprises as enterprises with less than 1,000 million Dong in capital and no more than 100 employees.

The definition of small and medium enterprises in Viet Nam is more than just a question of size. There is much debate over whether the definition should vary from industry to industry, whether it should include state enterprises and the self-employed, whether, given the fluidity of conditions and the dynamic rate of change among non-state enterprises, it should not be changed frequently as conditions demand. No consensus on these issues has been formed, but it seems that any definition that merely looks at the stage of development that the Vietnamese economy has reached or the raw size of enterprises will be inadequate. Ultimately, it must take into account government policies—how the government views the role of small and medium enterprises in Viet Nam, what kind of support it provides them, how it plans to foster them.

Most of Viet Nam's neighbors in Asia, Japan included, have adopted policies to promote small and medium enterprises. The reasons that governments support small and medium enterprises are because they play an important role in employment and exports, are instrumental in modernizing rural areas, rectifying

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3) Nguyen Dinh Phan, Development of Small and Medium Businesses on the process of Industrialization and Modernization in Viet Nam , Paper for the MPI Workshop, March 1, 1996; and Nguyen Thi Anh Thu, Small and Medium Industrial Enterprises in Viet Nam, March 1996.

gaps between regions and alleviating poverty, and provide the supporting industries for modern industrial production. In addition, small and medium enterprises are valued for their ability to versatilely adapt to changes in demand with small amounts of capital, and for their high capital efficiency. Governments therefore find it advisable to actively foster small and medium enterprises, but realize that if left to the market alone they would probably not grow because small and medium enterprises are economically weak compared to large companies. Government support is therefore provided as a means of supplementing the market.

In Viet Nam's case, its products, labor force, and capital markets are still underdeveloped in comparison with those of its Asian neighbors, it has only a short history of private enterprise, and its legal system is not yet fully in place. State enterprises still dominate industry, and private enterprises are not treated equally with them on many points. That is why it would seem advisable for Viet Nam to provide stronger supports for small and medium enterprises, but it is uncertain whether the government recognizes this. Even if it does, there are still the questions of what criteria an enterprise must meet in order to be judged weak, and which industrial sectors should be supported. The definition of small and medium enterprises is therefore closely related to how the government views these questions. Part of the reason why there is an inconclusive debate within Viet Nam on the definition is that the government attitude towards private small and medium enterprise support has yet to be consolidated.

Were the definition of the Viet Nam Industrial and Commercial Bank to be applied to manufacturing enterprises, almost all of the private enterprises in the country would have to be classified as small and medium. Even among state sector, only 252 of the 6,264 total have 1,000 employees or more-a mere 4% (Statistical Yearbook 1994 , p. 58). In other words, the Viet Nam Industrial and Commercial Banks definition would put the major of Vietnamese businesses in the small and medium enterprise category, which would mean that small and medium enterprise promotion policies would have to cover almost every enterprise in the country. Thus, the Viet Nam Industrial and Commercial Bank's standards of less than 10,000 million Dong (about 100 million dollars) in capital and less than 1,000 employees does not fit conditions in Viet Nam. What is probably happening is that the bank is trying to keep the range of large enterprises extremely narrow in order to tighten its standards for prime-rate loans.

Even using the definition of the City of Ho Chi Minh, which is accepted by most economists and researchers, almost all non-state enterprises would end up in the small and medium category. Table 25 shows that even when operating capital (which averages about 4-times legal capital) is used, only about 19% of Viet Nams non-state manufacturing enterprises exceed the 1,000 million Dong mark and only about 5% of them have 200 or more employees. It is an extremely small number of non-state enterprises that have more than 10,000 million Dong (about 100 million yen) in capital and 500 or more employees.

In Japan, the Small and Medium-sized Enterprise Basic Law contains a definition of less than 10 million yen in capital (or invested funds and so throughout) and 50 or less employees for the retail sector, less than 30 million yen in capital and 100 or less employees for the wholesale sector, and less than 100 million yen in capital and 300 or less employees for the manufacturing and other sectors. None of these definitions has been changed since 1963. The question for Viet Nam is how it will define enterprises as being economically weak and what kind of support the government will give to them. Given the size breakdown of enterprises in Viet Nam, I think a reasonable definition of small and medium enterprises in the manufacturing sector would be less than 3,000 million Dong (about 30 million yen) in capital and 200 or less employees.

There is a division of opinion on whether state enterprises should be included among small and medium enterprises. Some argue that state enterprises or not, the role of small and medium enterprises in the Vietnamese economy demands that policy treat all alike. But even thought state enterprises may no longer receive subsidies, the fact that they are run by the state opens up the door to a wide variety of assistance from their overseeing agencies (including their provinces and cities). Therefore, until further progress has been made in privatization and reorganization as joint-stock companies so that they are managed according

to the same mechanisms as civilian enterprises, it may be more appropriate to exclude state enterprises from small and medium enterprise programs.

Next is the question of whether to treat the self-employed who have not obtained business licenses as small and medium enterprises. We have already seen that the self-employed play an extremely important role, accounting for about 22% of industrial production and about 78% of non-state sector industrial production (1993). Given their place in employment, exports, and regional promotion, the self-employed, at least in manufacturing, should be eligible for small and medium enterprise promotion programs. Nonetheless, many are run in a pre-modern fashion, often with no books kept. An effort should be made to modernize this sector by, at the very least, obligating it to perform simple bookkeeping and providing it with management guidance.

1. Surveys and data on small and medium enterprises in Viet Nam

There have been several studies made of small and medium enterprises in Viet Nam. The main ones are summarized below.

1) Study by the ILO and the ILSSA (Institute of Labor Science and Social Affairs; part of the Ministry of Labor, Invalid and Social Affairs, Viet Nam)
   - Time : Early 1991
   - Sample : 1,008 businesses in Hanoi, Hai Phong, Ho Chi Minh, and five provinces, including 434 were family-run business units, 51 state enterprises, and 100 collectives.
   - Source : ILO–ARTEP, Small Enterprises in Viet Nam, September 1992.
2) ILSSA study
   - Time : May–August 1992
   - Sample : 369 businesses in the Red River Delta, including farms and ranches.
   - Unpublished
3) ILSSA study
   - Time : May–August 1993
   - Sample : 300 businesses in Hai Phong, Da Nang, and Ho Chi Minh (including construction). Joint study with the Japan Labor Organization.
   - Unpublished
4) ILSSA study
   - Time : August 1994
   - Sample : Random survey of 423 manufacturing businesses from around the country
   - Unpublished
5) ILSSA study
   - Time : October–November 1994
   - Sample : 552 businesses in the Mekong Delta. Manufacturing only.
   - Source : Vung Dong Bang Song Cuu Long 1994–1995, Vien Khoa Hoc Lao Dong Va Cac Van De Xa Hoi, Hanoi 1995.
6) ILSSA study
   - Time : August 1995
   - Sample : 781 businesses in Hanoi, Hai Phong, Da Nang, and Ho Chi Minh.
   - Unpublished
7) German Small and Medium Enterprise Association and Technonet Asia Organization study
   - Time : December 1994
   - Sample : 36 small enterprises in Hanoi and 50 in Ho Chi Minh.
   - Not yet obtained.
8) Central Institute for Economic Management (CIEM) study
   - Time : October 1992

- Sample : 100 small and medium manufacturing enterprises in Hanoi and 200 in Ho Chi Minh
- Source : CEIM's Research Report on Private Enterprises, Sponsored by Fredrich-Entert-Stiptung, vert, October 1992. Part of this report can be found in Le Dang Doanh, "Private Sector Development and Public Support in Viet Nam," Viet Nam Economic Review, December 1994, pp. 7-17.

The ILO survey studied the broadest range of issues and is the most useful in developing an image of small and medium enterprises in Viet Nam. In all cases, however, samples are limited and insufficient to provide a general picture. Nor have any on-going studies been made tracking the same sample, so there is no picture of the dynamic movement that is taking place.

In this regard, the statistics in Non-State Economy 1994, provide broad coverage and can reasonably be termed the only statistics which are useful in developing a general picture of small and medium enterprises in Viet Nam as at a fairly recent date. Our analysis of non-state enterprises in Viet Nam has so far been based primarily on these statistics, and given the fact that the majority of enterprises in Viet Nam fall into the small and medium category, this statistical analysis can be used almost intact as an analysis of the countrys small and medium enterprises. The problem is that these statistics are for only one year, so they show the state of Viet Nams small and medium enterprises on November 1, 1994, but provide no picture of the changes that are taking place. There are also gaps in the information. For instance, there is nothing on motivation for establishment, sources of capital and outstanding borrowings, where deposits are kept, business relationships with other enterprises, status of facilities and equipment, sources of technology, exports as a percentage of total sales, rent payments, or problems encountered. It would therefore be difficult to extrapolate a small and medium enterprise policy from this statistical analysis alone. To develop small and medium enterprise policy that is appropriate for Viet Nam requires a fairly detailed survey on the order of the basic industrial surveys done in Japan.

VI.Rural Industry

Even though Viet Nam has experienced relatively high growth in the nineties, the percentage of total jobs in agriculture has actually risen. Agriculture provided 71.5% of total employment in 1990, increasing to 72.4% in 1993. In other words, the modern industrial sector is not absorbing excess agricultural labor with the speed envisioned, and that being the case, it would seem necessary to make a concerted effort to expand rural employment during the off-season and diversify rural economies, though such efforts should build on a base of rural modernization, improvements in employment and poverty problems, rectification of regional economic gaps, and expansion and diversification of exports. The development of rural industry shows particular promise, and in that sense, it is appropriate that the next Five-year plan for Viet Nam places priority on rural modernization and industrialization.

1. Definition of rural industry

Like small and medium enterprises, the definition of rural industry is still much debated in Viet Nam. Obviously, this debate is fostered by assumptions that rural industry will be given new priority and be eligible for government assistance. Some are of the opinion that from the perspectives of rural modernization and alleviation of joblessness and poverty, rural industry should including not only industry proper, but a broader range beginning with primary industries (cash-crop plantations, fishing, and livestock), and extending to construction, transport, retail, and other services. Certainly, rural industry is dependent on agriculture and other primary industries for its growth. They are what provides its raw materials and are the biggest markets for the industrial products. Rural industry is also supported by the development of transportat : on, distribution system and the other intrestrueture. But it is industry that is at the core of rural modernization. Only when high-productivity industries develop will raw materials suppliers have markets and funding, and only then will it be possible to boost productivity in and

modernize the raw materials sector.

However, even if the definition of rural industry is limited to industry proper, there is still the question of how to handle the many different forms of businesses, including state enterprises, that may be located in rural communities, not to mention such questions as how to define rural, how to handle enterprises located in regional cities and their suburbs, whether or not to include rural industry among non-state enterprises, how to handle overlaps with the definition of small and medium enterprises, or whether, as some argue, the focus in rural industry should be on villages practicing traditional handicrafts like ceramics, furniture, and rush mats (the traditional profession villages).

Probably the most realistic policy for rural industry would be to treat it as a part of small and medium enterprise policy but take into account the special circumstances of rural communities, providing certain benefits to non-state enterprises and the self-employed located there when they meet certain conditions.

2. The current state of rural industry in Viet Nam

If rural industry is defined broadly as non-state businesses (including collectives and the self-employed) involved in industry in provinces (including regional cities) outside the major urban areas (Hanoi, Hai Phong, Da Nang, and Ho Chi Minh), it includes 86% of non-state industrial businesses in Viet Nam as of 1993 (57% of collectives, 59% of private enterprises, 87% of the self-employed) and accounts for 63% of non-state industrial production by value (1992). In other words, majority of non-state industry in Viet Nam would have to be classified as rural.

Using a more narrow definition that sees rural industry as non-state businesses (including industrial collectives and the self-employed) involved in industry and located in rural villages (excluding regional cities), most of Viet Nam's rural industry is either in "traditional profession villages" (furniture, woodworking, ceramics, tiles, silk, silk weaving, embroidery, bamboo crafts, rush mats, carpets, stone working, metal processing etc.) or in sectors like rice milling and food processing and most are either collectives or the professions of the self-employed.

Lack of data makes it difficult to develop a general picture of Vietnamese rural industry in the narrow sense. The description in this paper is based on three sources:

1) World Bank, Red River Delta Master Plan, Background Report 26 (Village Crafts);

2) Interview survey of 24 rural businesses (7 in Ninh Binh Province, 7 in Thanh Hoa Province, and 10 in Dong Nai Province) recommissioned by us to the National Institute for Science and Technological Forecasting and Strategy Studies (NISTPASS); and

3) My study of the provinces of Ninh Binh, Thanh Hoa, and Nghe An, and of Bat Tran Village (ceramics, Hanoi Province) and Dong Ky Village (furniture, Ha Bac Province).

(1) Rural industry in the Red River Delta

According to the World Bank Master Plan, there are about 60,000 households and 300,000 people engaged full-time in handicrafts in the Red River Delta. Some 50% of households (about 1 million) in the Delta area are involved in handicrafts on a part-time basis. At the businesses interviewed, the average shipping value per full-time worker was 20 million Dong (about 2,000 dollars) in 1993. Handicraft production in the Delta is estimated to be worth about 6 trillion Dong (600 million dollars, bricks and flooring tiles are excluded) a year.

Sales and employment in Delta handicraft industries peaked in 1989 and have since been declining. This is because other COMECON countries have in effect suspended imports. Exports of major products have dropped to about 25% of 1989 levels. With the suspension of exports to COMECON countries, the domestic market is now the largest market for products, followed by exports and tourist demand. Major export markets are currently Asian neighbors: Taiwan, South Korea, Japan, China, and Hong Kong. There is also some re-exporting to the United States and Europe via Taiwan, Hong Kong, and China. Major export products are mother-of-pearl furniture, decorative ceramics, rattan furniture, lacquerware, rush mats, bamboo crafts, and carpets.

Prior to 1978, all craftsmen and laborers belonged to collectives, but the collapse of the COMECON market and the liberalization of the Vietnamese economy have caused most collectives to be disbanded. Their numbers have therefore greatly declined. Currently, most of the work is done by self-employed families.

Most operating funds come from funds on hand or borrowings from friends and relatives. There is little borrowing from banks. Bank loans are limited to collectives and are only short-term. There are large gaps between individual businesses. Fixed assets range anywhere from 750,000 Dong (about 75 dollars) to 300 million Dong (about 30,000 dollars); operating funds are anywhere from 500,000 Dong to 1,000 million Dong.

There are about 1 million households in the Delta engaged in handicrafts on a part-time basis. Women account for about 60% of the labor in handicrafts. Skill levels are generally high, but the demands of the domestic market are low, so quality is not necessary good. Some products have encountered difficulties because of competition from imports, but certain modifications in quality and design could open up promising export markets.

As incomes rise, the domestic market will probably become more important. Demand should rise for furniture and construction ceramics in particular. The market for tourist souvenirs will also become more important as tourism grows, but in addition to developing new products and improving designs, there will need to be more emphasis on sales promotion. The export markets for these sorts of handicrafts are not large, but Viet Nam has a price advantage in labor-intensive products like ceramic dolls, wooden toys, metal working, silk weaves, embroidery and lace, reproductions of antique ceramics, and furniture. The Delta production areas have a plentiful supply of skilled labor, and productivity is high. Additionally, it has the experience of having exported fairly large amounts to the COMECON market. If new products and designs were developed and quality improved, it has the potential to develop into an export industry of considerable size. In fact, given the chance, the Delta handicrafts producers have the capacity to adapt to new products and new quality requirements.

There are, however, some constraints on the development of the Delta handicrafts industry:

1) Lack of knowledge of international buyers and foreign markets.

2) Barriers to free entry into the export business. Private exporters are permitted, but the funding levels required to obtain export licenses and export quotas are too high. Export procedures are also too complex. There is no competition in the area of service between private exporters and state trading companies. The private sector only operates in areas where it will not be in competition with the state companies, which means there is no pressure on state companies to cut their costs.

3) The government does not recognize how large the latent potential of the handicrafts industry is to produce jobs and exports.

4) There is no medium-term credit available to handicraft producers and exporters. Not even short-term credit is available to the self-employed.

5) No effort is made to promote sales of Delta handicrafts to tourists.

(2) Ba Trang Commune: ceramics village

The village of Ba Trang is located about 30 minutes by car from Hanoi along a navigable river. Since the immigration of people with ceramic technology from Thanh Hoa Province about 500 years ago, it has been a famous center of ceramics production. The local clay used to produce ceramics was depleted about 10 years ago, so raw materials are now brought in from other provinces in the Delta. Obviously, a major reason why Ba Trang was able to develop into a ceramics center was—in addition to its endowment of clay, population of skilled workers, and availability of large supplies of cheap labor-its access to the Hanoi market and ability to use rivers for transportation.

There are 2,000 households in the village, of which 1,400 are engaged in ceramics production (this includes all forms of ceramics: building tiles, vases, tableware, dolls, pots etc.). From the surrounding area the village hires about 5,000 people as day-laborers or on monthly contracts.

There were 17 ceramics companies in the village, but they were confiscated and transformed into state enterprises and collectives in 1959. The enterprises tried to overhaul their management in 1982, but the results were not what was hoped for. Beginning around 1990, an influx of cheap products from China put the industry in crisis, a crisis to which the state enterprises and collectives were unable to adapt. It was at roughly this time that the liberalization of the economy began, so the state enterprises and collectives were disbanded in favor of private enterprises and self-employment. The private enterprises and self-employed craftsmen reevaluated their costs and quality, developed the competitiveness to be able to adapt to changing environments, and have become strong enough to compete with Chinese products.

In 1996 Ba Trang had 4 state enterprises (of which 2 were uncompetitive ceramics producers), 2 joint-stock companies, 11 limited companies, and 1,400 self-employed businesses. Together they produced 50 million sets a year. All of the businesses have their own kilns, and 2/3 of production is for export. Major markets include Taiwan, South Korea, Hong Kong, and Southeast Asia, although exports have recently started to Australia, Canada, the United States, and Germany as well. Little is exported to Japan. Most exports go through a domestic state trading company (Artexport), though there are cases of Taiwanese buyers making direct purchases. Ba Trang's sales peaked in 1994; exports declined in 1995. The drop off was because the United States had lifted the ban on imports from Viet Nam, and Taiwanese importers, which had re-exported the ceramics to the United States as Taiwanese products, feared that Viet Nam would begin exporting directly and thus refrained from buying. Another factor was the rise in domestic trade in services caused by the New Transport Regulations that took effect in August 1995. However, from 1990 to 1995, sales achieved an average annual growth rate of about 15% in real figures.

Since moving to private forms of management, living standards in Ba Trang have improved greatly. About 20% of the self-employed households have annual sales of between 80 million Dong (about 8,000 dollars) and 200 million Dong (about 20,000 dollars); 40% between 50 and 80 million Dong; and the remaining 40% between 30 and 50 million Dong. Average sales for households producing for export are about 200 million Dong (about 20,000 dollars) a year. There are only 2 poverty-stricken households in Ba Trang, and that is because they do not have anyone able to work. About 60% of all households have block-built homes; 50% own motorbikes; and 80% own color televisions. The villagers have worked together to build new elementary and junior high schools. All children go to school and though their families are busy, there are none who drop out.

The first problem in Ba Trang is that technology improvements are limited to a few leading households and have not been transferred to the village at large. While producers would like to switch from coal-fired kilns to electricity and gas out of concern for both quality and the environment, they are conservative at heart and lack the ambition to prevail in competition.

The second problem is that of pollution. The coal burned in kilns has produced serious air pollution. Sulphur dioxide and carbon dioxide levels are about 6-times those of the surrounding area and average temperatures are 3 degrees higher. Of 600 people given physical examinations, 49% were found to have lung disease. The water is also polluted from the thirty varieties of chemicals that are used. In addition, land is crowded and there are problems finding the land for factories and roads. A master plan has been created with outside help in which certain older sections would be preserved for tourism while the rest is redeveloped. The People's Committee in Hanoi and relevant government agencies have been asked to review the plan.

The third problem is that the managerial skills of the enterprises and the self-employed craftsmen are weak. There are many businesses that do not know how to use the profits they have earned. They lack knowledge both of domestic and foreign markets and also of production technology. Nor do they have enough capital to invest in technology upgrades. There is an idea afloat to create a village credit system to remedy this. Before money can be borrowed from banks, businesses must notify and receive permission from the village People's Committee. The average household borrows about 30% of its invested amount from banks. The village says it wants to encourage joint ventures with foreign capital in the future.

(3) Dong Ky Commune, Ha Bac Province: furniture village

The village of Dong Ky is located a little over an hour by car from Hanoi. It has been famous for several hundred years as a village of temple carpenters. Under central planning, there was no demand for expensive mother-of-pearl furniture either within Viet Nam or from other countries, and while there were several collectives that made furniture from cheap materials, most of the village was assigned to full-time farming. Craftsmen with traditional skills were dispersed to various areas of the country. Around 1987 they began to return to Dong Ky and manufacture furniture either as self-employed craftsmen or private enterprises. Thanks to their having been scattered across the country, the craftsmen gained a knowledge of markets as well as of places and methods for securing materials. Those who went to the south learned business management and how to develop tie-ups with southerners skilled in marketing.

The village currently has 1,998 households, of which 80% are engaged in woodworking. Only about 300 hectares (0.15 hectares per household) of the village is farmed. Not only is farming inadequate as a means of making a living, agricultural taxes can no longer be paid in rice. Wood working brings in about 80% of the village's income, with the remaining 20% coming from agriculture. A total of 6,000 people are employed in woodworking, of which about 1,000 are day laborers from outside.

In 1994, 50% of production was for export, and production reached a new peak. The major markets are Hong Kong and Taiwan. In both cases, products are exported unpainted and unfinished. This is done so that buyers can judge whether or not the highest quality materials have been used. The sharp rise in exports in 1994 was mainly because of increases for the Chinese market. In 1995, exports experienced a significant decline. This too was because of declines for the Chinese market, though why this should be so is not clear. Competition with Chinese products is not a problem because Chinese materials are inferior.

The limited company interviewed by the author had 50 full-time employees and a branch office in Hanoi. It also used several self-employed households as subcontractors. Its major problem was unstable supplies of raw materials. The government regulates lumber distribution, and materials are not available unless one goes through the military or the state enterprises. Expensive lumber materials account for about 80% of product costs, and prices are soaring. Skilled workers are paid 2 dollars a day and wages have not changed. The company sought improvements in the government lumber distribution system and greater transparency in government policies.

(4) Kim Son District, Ninh Binh Province: rush mat district

Ninh Binh Province has a population of 870,000 and is divided into two towns and eight districts. The center of the Province, the town of Ninh Binh, is about 90 kilometers south of Hanoi along Highway 1. The town enjoys good transportation infrastructure, with access to and from the city by rail, sea, and navigable river. It is a "traditional profession village" and its specialities are rush mats, embroideries, and stone working.

The Kim Son District is 44% Christian. It is located on the coast, and 1,200 hectares of its total 11,400 hectares are coastal lands not suited to rice cultivation. Instead, rush is grown. The population of 158,000 contains 80,000 laborers, over 80% of whom are engaged in agriculture. Some 7,800 hectares are under rice cultivation, producing 70,000 tons of food, or an average of 9 tons harvested per hectare twice a year. At 500 kilograms, per-capita food production is well above the national average of 350 kilograms. In the seventies, the district introduced rice seedling bed from Japan that have enabled it to produce crops that are less subject to weather influences.

The history of rush cultivation and processing goes back more than a century, having been transmitted to the area by the Japanese and Chinese. The 9,000–9,500 involved in rush processing are almost all part-time farmers. For those in the industry, rush processing brings in about 30–35% of household income.

In the past, work was done by collectives and large amounts were exported to the former-Soviet Union and Eastern Europe. The peak was between 1985 and 1987, when 1,000 hectares were under cultivation and 14,000 tons a year produced. The collapse of the COMECON market and economic liberalization caused most of the collectives to be disbanded. Their business has been taken over by three new

cooperative unions, and by private enterprises and self-employed craftsmen. There are 8 or 9 large businesses, and they employ many households as subcontractors.

In 1995, industrial production brought in 23% of the Kim Son District's gross production (on an added-value basis), of which about 70% was from handicrafts industries like rush processing and embroidery. About 25% of rush products are exported. Profits are much larger on exports than on sales to the domestic market. A hectare of rush production for the domestic market earns about 1.5-times what a hectare of rice production would; for the export market, about 5-times.

The major export market used to be the Soviet Union, but since 1989 new markets have been found in Taiwan, Hong Kong, and China. Shipments to China are transported directly from the river by boat. China appears to reexport to the United States and Canada almost all of what it imports. The country seems to be interested only in raw materials and has said that it would like to import materials only, though some materials are exported in the form of mats and sets.

Exports are handled by a state export company (Artexport). There are no direct contacts with foreign buyers, nor is there any information about foreign markets, so no new designs or products are developed. People expressed a desire to learn Japanese rush processing techniques.

A private enterprise set up in 1992 on the former site of a state enterprise now employs 40 people full-time and 2,000 people part-time. A Taiwanese company has proposed establishing a joint venture, but a permit has not yet come from the Ministry of Foreign Trade (commerce ministry). A company organized in 1992 as a cooperative union to take over for a disbanded industrial collective now employs 20 people full-time and 1,500 part-time. About 30 people own shares in the new cooperative union. The manager and other officials own 5–7-times the shares that ordinary members hold. All important decisions are taken before the general membership. Though there is some slowness and lack of flexibility in its adaptation to changing environments, it is still far better than the old industrial collective. It appears to be a transitional form of management.

A Japanese company has, through Artexport, commissioned the experimental planting of Japanese rush. The results from a 1-hectare trial were encouraging. There have been requests to expand the area under cultivation, but these have not been complied with because there are no guarantees that the product will be bought. The biggest technical problem is in drying the rush, particularly during the winter when there is little sun. The rush yellows and is unable to maintain the natural colors favored in Japan.

(5) Small and medium enterprises and rural industry in Dong Nai Province

With an area of 5,860 square kilometers and a population of about 2 million, Dong Nai Province is in an especially good location, right between Ho Chi Minh City, the center of economic development in the south, and the Province of Ba Ria-Vung Tau. Waterways and roadways are highly developed, as are electric power and telecommunications facilities. The center of the province, Bien Hoa, is about 30 minutes from Ho Chi Minh City by car, and is more or less a suburb of the city.

Since Doi Moi began, and especially since 1991, the province's industrial production activities have taken on new energy and achieved startling growth. Its statistics show the establishment of 44 joint stock companies and limited companies, and 295 privately owned enterprises during the years 1990-1994. Registered capital in these enterprises is 200,000 million Dong. In addition, it also has 3,400 self-employed household in rural industry. The old collectives have been reorganized and are now operating as about 20 cooperative unions.

One of the things that sets Dong Nai apart is the influx of foreign investment. By 1995, 143 deals worth 2,300 million dollars had been approved. In 1995 alone, approvals were granted for 43 deals worth 1,400 million dollars. This influx of foreign investment has sparked a boom in construction investments, which were up 44% during 1995. Industry has gone from 30.5% of Dong Nai's gross product in 1994 to 37% in 1995. Large domestic enterprises are also expanding their investment in the province, attracted by its proximity to Ho Chi Minh, its significantly cheaper land prices than the city, and its large supply of cheap labor. These investments have expanded from relatively urban areas like Bien Hoa to more rural industries.

There are several industrial parks, but as yet almost no subcontracting arrangements with the companies that have moved into them.

(6) Characteristics of Viet Nam's rural industries

Rural industries in Viet Nam, and particularly handicrafts industries, generally have histories that predate socialism. There are some that were able to maintain production as state enterprises and industrial collectives under central planning; others for which demand dried up and production came to a halt. In the process of marketization, most state enterprises and industrial collectives were disbanded, with privately owned enterprises and self-employment taking their place as the mainstays of production. Most of the remaining industrial collectives have changed their form of management and are now operating as new cooperative unions, a kind of joint-stock company. In some cases the self-employed and privately owned enterprises have used traditional technologies to revive production activities that had come to a halt under central planning. Other areas, like Dong Nai Province, have virtually no history of handicraft production, but are seeing new rural industries grow up thanks to the stimulus provided by incoming foreign investment and the expansion in the markets of neighboring cities. In either case, it has only been a few short years since new forms of management were embarked on, but they have flourished nonetheless, and often in spite of less than favorable business conditions. This indicates a large potential for future development.

An analysis of areas in which rural industry has flourished turns up several common factors:

1) Access to markets in large cities and foreign countries, including transportation infrastructure;
2) A pool of manufacturing technology and skilled labor;
3) Available raw materials; and
4) Active support by local governments on the provincial and district level for the development of the non-state sector.

The following characteristics can generally be observed in Viet Nam's rural industries:

1) The form of business is mostly self-employment, though there are also some cooperative unions and privately owned enterprises. In all cases, managers generally know little about management or technology when they begin and learn about them as they go. They are not well versed in tax law, domestic investment law, civil law, or corporate law either. Most self-employed businesses keep little in the way of books.

2) Most of the product is sold on the domestic market, though some is exported and there are even some industries that export the majority of their product. Domestic sales are handled by brokers. The domestic market is limited because incomes are low. Competition is becoming more fierce. Almost all exports go through state trading companies. There is little if any direct contact with foreign buyers and so no opportunity to learn about new technologies or the requirements of foreign markets.

3) Production technology is backwards; most is done manually. Some progress has been made in mechanization, but most of the machinery is ancient-vintage castoffs from the state enterprises. The results are low labor-productivity and uneven quality.

4) Electric power is available, but rates are high compared to incomes. Telephone service is inadequate, and facsimiles are rare. Most roads other than the main trunk lines are unpaved and transportation is difficult. Lack of automobiles or other means of transportation forces most to rely on bicycles, motorcycles, and carts. Some locations are already experiencing air and water pollution.

5) Almost all needed funding must be raised on one's own. Bank lending is extremely limited. However, there are signs that banks are gradually changing their attitudes.

VII. Problems encountered by small and medium enterprises and policy recommendations

1. Problems encountered by small and medium enterprises and rural industries

Viet Nam's infant small and medium enterprises (including rural industry) face a plethora of problems at both the macro and the micro-economic levels. Below are some of the major ones.

(1) Overvalued exchange rate

During the 4th quarter 1991, the Dong traded at 12,330 to the dollar, but as of this writing at the end of March 1996 it was stuck at about 11,000. When the inflation rates of the two countries are factored in, the Dong is vastly overvalued. Small and medium enterprises engaged in export production find exports more attractive than sales on the domestic market and may appear to be relatively unaffected by the overvalued exchange rate, but clearly the incentives to export are dwindling. If the trend continues, it could impair the development of the export side of the manufacturing sector.

(2) Taxation

Taxes are seen only as a means of securing revenue for the state budget, not as a way of encouraging economic activity. High profit taxes, overlaps with sales and other taxes, and additional fees charged by government agencies impair the economic activities of the private sector. The government responded to this situation by changing the profit tax (done by the legislature in July 1993) to provide tax-side incentives. This was followed by passage of the Domestic Investment Law on June 22, 1994 (effective January 1, 1995) and the publication of administrative rules for the law on May 12, 1995, under which tax breaks will be provided for investments in priority areas, including job creation and poverty relief, technological modernization, and underdeveloped regions. While some improvements have been seen, the administration of the laws has not made its way down to the general public and most enterprises do not appear to be taking advantage of the incentives offered.

(3) The legal system and business environment

Viet Nam is making rapid progress with its legal system, but even when new laws are made they tend to be too general to be enforceable. This is made up for on the administrative side with ministerial ordinances and guidance, but they are in turn criticized for being applied in an opaque and arbitrary manner. Most private enterprises are of the opinion that the future of government programs is opaque and uncertain. The CIEM survey showed that 27% of the private enterprises surveyed in Hanoi and 55% of those in Ho Chi Minh thought the future of government policy towards the private sector to be unreadable. There is talk that successful southern entrepreneurs purposely scatter their factories and live in ramshackle houses so as not to be too conspicuous, and this is not necessarily just a tax ploy.

Some 15% of the private enterprises in Hanoi and 12% of those in Ho Chi Minh expressed dissatisfaction with mediation by state institutions. There is also dissatisfaction with the lack of an agency to oversee the administration of laws related to private businesses and with the difference in treatment depending on the ministry involved. Trade regulations allow several agencies to arbitrarily issue and cancel import permits. Tariff rebates and waivers of duties on imported capital goods are also applied arbitrarily and opaquely.

(4) Land acquisition

It is extremely difficult to acquire land for factories. The CIEM study shows that 55% of private enterprises surveyed operate in less than 100 square meters of space; 29% in 101-500 square meters. Problems with noise and pollution have many wanting to move to new locations, but they are difficult to obtain. The difficulty in acquiring land is the same in regional cities. A marble tile processor in Thanh Hoa is operating on the former site of a military-related state enterprise under a five year contract, but would like to upgrade its equipment and expand its factory in order to meet growing foreign demand. Unfortunately, an alternative site cannot be secured.Local governments should create industrial parks not just for foreign companies but for smaller domestic enterprises, using bond issues to make them commercially viable, and providing long-term leases at reasonable prices. This is indispensable from the perspective of pollution control as well.

(5) Difficulty in making direct exports

The CIEM study found 27% of the enterprises surveyed in Hanoi and 46% of those in Ho Chi Minh to be involved in export production. However, only 13% of the Hanoi and 37% of the Ho Chi Minh enterprises engaged in export production exported directly. The vast majority went through state companies. The marble

tile factory in Thanh Hoa mentioned above is a case in point. Having no export quota of its own, it must purchase a quota from a state enterprise that has one. There are reportedly many cases of idle state enterprises that make their money entirely from selling quotas.

The trade regulations state that for enterprises to export directly they must have at least 200,000 dollars in liquid funds, which effectively closes the door on direct exports by small and medium enterprises. Unable to come in direct contact with foreign buyers, export producers have little if any information on the requirements of and conditions in foreign markets or the technology needed to compete. This inability to reap the many benefits of direct contact is a serious problem for them. It is understandable that a country short of foreign currency would want to impose import quotas, and it is also understandable that it would want to impose export quotas to protect its forests and natural resources, or in cases where importing countries impose quotas of their own (for example, clothing exports to Europe and North America), but the rationale behind imposing quotas on exports of other products is unclear. It could be interpreted as a means of protecting the interests of state trading companies and state enterprises in the industries in question. Explanations that smaller enterprises have no one that understands English or trade procedures are unconvincing. They could hire them, or producers in rural areas could band together to set up their own private trading companies. For state trading companies as well, competition with these sorts of private enterprises would lead to more efficiency in their services.

(6) Credit

Though bank lending to non-state enterprises has been on the increase, 80% of their loans are still made to state enterprises. Medium- and long-term financing still only share about 15% of the total credit. The CIEM study found that only 8% of the Hanoi and 18% of the Ho Chi Minh enterprises surveyed had ever borrowed money from a bank, but 72% of the Hanoi and 89% of the Ho Chi Minh enterprises wanted to do so. Because it is still difficult to borrow money from banks, private enterprises planning to expand their capacity and upgrade their equipment find it very hard to achieve those plans. To promote domestic investment, the Ministry of Finance established in September 1995 a State Investment Promotion Fund to provide medium- and long-term loans, and all enterprises can now make foreign borrowings with the approval of the central bank and Ministry of Finance. While this is good news, its effects have yet to be manifest.

(Then again, given the short-term nature of bank lending and the high interest rates charged, there is in reality probably not that much demand for financing from the private sector. Most of the small and medium enterprises that the author talked to had enough in retained earnings that funding was not much of a problem.)

(7) Managerial guidance and training

Most small and medium enterprise managers go into business with little experience or knowledge of management. The CIEM study showed that only 18% of the managers of the Hanoi enterprises surveyed and 22% of those in Ho Chi Minh had ever taken any sort of management course or training, but 26% of the Hanoi enterprises and 37% of the Ho Chi Minh enterprises had used management consultants. Guidance for small and medium enterprise managers will be vital in modernizing their management and improving productivity.

2. Small and medium enterprise policy recommendations

This paper has already shown the potential for development that is lying latent in Viet Nam's small and medium enterprises and rural industries. But up to now, small and medium enterprises and rural industries have been frail and faced with many problems. Government programs for small and medium enterprises have been insufficient and in many cases severely flawed. As the legal system comes into place, the environment for private businesses is gradually improving, but the opaque administration and application of the law serves as an impediment to private enterprise. It is also a fact that their are still differences in the way private enterprises are treated vis a vis state enterprises, particularly in the realm of credit.

What is necessary first is that the government, in light of the importance of small and medium enterprises and rural industries, confirms its policy of actively supporting these sectors. That having been done, Viet Nam will need to establish the legal basis for government promotion of small and medium enterprises, probably by passing a law similar to Japan's Small and Medium-sized Enterprise Basic Law. It will also need to designate an agency to take overall responsibility for small and medium enterprise administration. Currently, the agency that is most active in small and medium enterprise promotion appears to be Ministry of Labor, Invalid and Social Affairs. The Ministry of Science, Technology and Environment also provides active support for small and medium enterprises and rural industry at the level of its local branch institutions.

The specific content of small and medium enterprise promotion policies will need to be determined in the process of a more detailed study of conditions for small and medium enterprises and rural industries, but urgent consideration should be given to the problems described above. Of particular importance are the following:

1) Prepare the legal environment for private commercial activities.
   - In addition to formulating a commercial code, organize the enforcement rules & regulations of the existing laws and promote correct enforcement.
   - Review the entrenched interests of state enterprises that are impeding the growth of private enterprises, eliminate monopolies and oligopolies.
   - Simplify approval and licensing procedures and clarify approval and licensing standards.
2) Review taxation
   - Consider tax breaks for small and medium enterprises.
   - Reduce or eliminate non-tax fees.
3) Supply industrial land and prevent pollution
   - Encourage local governments to create industrial parks for domestic enterprises.
   - Make land acquisition procedures more flexible.
4) Relax export regulations and promote exports
   - Relax standards for licensing direct exports by private export producers and trading companies.
   - Establish an export finance system.
   - Establish or expand institutions to gather information on foreign markets and technologies and mediate services and deals.
   - Encourage private enterprises and individuals to set up joint ventures with foreign capital.
5) Expand bank lending
   - Expand bank lending to private enterprises and self-employed households (including consideration of credit guarantee systems and measures to encourage banks to lend to small and medium enterprises).
   - Expand the funding available from the State Investment Promotion Fund.
6) Establish an institution to take charge of managerial guidance, productivity improvement, and quality control.
7) Encourage the establishment of industry associations and other organizations for private enterprises.

Table1 Labor force by industry and economic sectors (1990-1993)

	1990	%	1991	%	1992	%	1993	%	Share%
Total	30294	100	30974	100	31819	100	32716	100	100
State	3418	11.3	3144	10.2	2975	9.3	2960	9.0	9.0
Non-State	26876	88.7	27830	89.8	28844	90.7	29756	91.0	91.0
Industry	3392	100	3394	100	3450	100	3522	100	10.8
State	808	23.8	704	20.7	686	19.9	703	20.0	2.1
Non-State	2584	76.2	2690	79.3	2764	80.1	2819	80.0	8.6
Construction	818	100	820	100	825	100	848	100	2.6
State	383	46.8	302	36.8	278	33.7	294	34.7	0.9
Non-State	435	53.2	518	63.2	547	66.3	554	65.3	1.7
Agriculture	21396	100	22063	100	22726	100	23419	100	71.6
State	342	1.6	305	1.4	275	1.2	289	1.2	0.9
Non-State	21054	98.4	21758	98.6	22451	98.8	23130	98.8	70.7
Forestry	206	100	207	100	191	100	191	100	0.6
State	88	42.7	79	38.2	63	33.0	44	23.0	0.1
Non-State	118	57.3	128	61.8	128	67.0	147	77.0	0.4
Transport	475	100	480	100	484	100	496	100	1.5
State	159	33.5	144	30.0	124	25.6	118	23.8	0.4
Non-State	316	66.5	336	70.0	360	74.4	378	76.2	1.2
Communication	36	100	46	100	51	100	56	100	0.2
State	36	100	46	100	51	100	56	100	0.2
Non-State	0	0	0	0	0	0	0	0	0.0
Trade	1681	100	1719	100	1735	100	1776	100	5.4
State	350	20.8	321	18.7	294	16.9	244	13.7	0.7
Non-State	1331	79.2	1398	81.3	1441	83.1	1532	86.3	4.7
Others	30	100	30	100	30	100	31	100	0.1
State	13	43.3	14	46.7	12	40.0	13	41.9	0.0
Non-State	17	56.7	16	53.3	18	60.0	18	58.1	0.1
Non-Material Production	1965	100	2002	100	2036	100	2094	100	6.4
State	1241	63.2	1228	61.3	1193	58.6	1201	57.4	3.7
Non-State	724	36.8	774	38.7	843	41.4	893	42.6	2.7

Source:Statistical Data on Labor and Social Affairs 1993. Statistical Publishing House

Table2 Structure of GDP by industry and economic sectors

	1990	1991	1992	1993	1994
Total	100	100	100	100	100
State	32.5	33.3	36.2	39.2	40.2
Non-State	67.5	66.7	63.8	60.8	59.8
Agriculture	38.7	40.5	33.9	29.9	28.7
State	2.9	2.9	2.8	2.8	2.9
Non-State	97.1	97.1	97.2	97.2	97.1
Industry	22.7	23.8	27.3	28.9	29.6
State	62.8	63.5	64.7	65.7	65.2
Non-State	37.2	36.5	35.3	34.3	34.8
Services	38.6	35.7	38.8	41.2	41.6
State	44.2	47.5	48.1	46.9	48.1
Non-State	55.8	52.5	54.5	53.1	51.9

Source: Statistical Yearbook 1994, Statistical Publishing House

Table 3 Gross output of manufacturing by industry and Sector

(At constant price of 1989) (unit : Billion Dong)

	1990						1994					
	Total	%	State	%	Non-State	%	Total	%	State	%	Non-State	%
Electricity	1046	100	1046	100.0	0	0.0	1515	100	1514	99.9	1	0.1
Fuels	1551	100	1549	99.9	2	0.1	3675	100	3668	99.8	7	0.2
Forrous Metal	120	100	111	92.5	9	7.5	332	100	307	92.5	25	7.5
Non-Forrous Metel	99	100	86	86.9	13	13.1	183	100	148	80.9	35	19.1
Equipment/Machinery	598	100	322	53.8	276	46.2	819	100	461	56.3	358	43.7
Electric/Electronics	272	100	208	76.5	64	23.5	491	100	393	80.0	98	20.0
Other Metallic Prod.	325	100	80	24.6	245	75.4	382	100	80	20.9	302	79.1
Chemicals/Fertilizer	921	100	659	71.6	262	28.4	1937	100	1459	75.3	478	24.7
Construction Materia	1000	100	609	60.9	391	39.1	1793	100	1211	67.5	582	32.5
Wood/Wood Products	573	100	146	25.5	427	74.5	668	100	137	20.5	531	79.5
Cellulose/Paper	311	100	258	83.0	53	17.0	407	100	293	72.0	114	28.0
Glass/Ceramics	146	100	62	42.5	84	57.5	235	100	115	48.9	120	51.1
Food	469	100	118	25.2	351	74.8	619	100	98	15.8	521	84.2
Foodstuff	4571	100	2969	65.0	1602	35.0	7290	100	5032	69.0	2258	31.0
Textile Products	1259	100	850	67.5	409	32.5	1593	100	1073	67.4	520	32.6
Sewing Products	202	100	124	61.4	78	38.6	441	100	308	69.8	133	30.2
Tanning/Leather Prod	94	100	57	60.6	37	39.4	155	100	91	58.7	64	41.3
Printing	97	100	79	81.4	18	18.6	180	100	173	96.1	7	3.9
Others	357	100	144	40.3	213	59.7	455	100	194	42.6	261	57.4
Total	14011	100	9477	67.6	4534	32.4	23170	100	16755	72.3	6415	27.7

Source: Statistical Yearbook 1994, General Statistics Office

Table 4 Productivity of capital & labor in industry by economic sectors and regions (at 1989 Prices)

	1990					1991					1992				
	Gr.Prod Bil.Don	Capital Bil.Don	Y/K	Labor 1000ps	Y/L Mil.D	Gr.Prd. Bil.Don	Capital Bil.Don	Y/K	Labor 1000ps	Y/L Mil.D	Gr.Prod Bil.Don	Capital Bil.Don	Y/K	Labor 1000ps	Y/L Mil.D
(by Economic Sectors)															
State	9476	7439	1.27	744	12.74	10599	14667	0.72	697	15.21	12779	16662	0.77	668	19.13
Non-State	4535	1468	3.09	1507	3.01	4871	3254	1.50	1529	3.19	5338	3560	1.50	1383	3.86
Cooperative	1279	439	2.91	458	2.79	747	606	1.23	288	2.59	515	348	1.48	207	2.49
Private	137	101	1.36	19	7.21	228	320	0.71	25	9.12	513	497	1.03	47	10.91
Household	3119	928	3.36	1030	3.03	3896	2328	1.67	1216	3.20	4310	2715	1.59	1129	3.82
Total	14011	8907	1.57	2251	6.22	15470	17921	0.86	2226	6.95	18117	20222	0.90	2052	8.83
(by Regions)															
North Mountain & Midland	1038	991	1.05	265	3.92	998	1031	0.97	261	3.82	1150	1544	0.74	247	4.66
Red River Delta	2692	1137	2.37	731	3.68	2108	1429	1.48	646	3.26	2377	1895	1.25	575	4.13
Central Coast of Northland	682	389	1.75	296	2.30	706	724	0.98	297	2.38	811	920	0.88	261	3.11
Central Coast of Southland	1102	450	2.45	278	3.96	1047	477	2.19	278	3.77	1146	729	1.57	249	4.60
Central Highland	146	49	2.98	27	5.41	156	53	2.94	28	5.57	221	60	3.68	30	7.37
Northeast of Southland	6144	1901	3.23	360	17.07	6988	4135	1.69	384	18.20	8712	4461	1.95	380	22.93
Mekong River Delta	2208	336	6.57	294	7.51	2370	1318	1.80	299	7.93	2543	982	2.59	268	9.49

Source:Cong Nghiep Viet Nam 1989-1993
Notes: 1. Y/K:Capital Productivity= Gross Production / Fixed.Capital at 1989 Prices
2. Y/L:Labor Productivity= Gross Production/ Labor at 1989 Prices

Table 5 Gross Output of industry by sectors (At constant price of 1989) (Unit : Billion Dong)

	Total	%	State Total	%	State Central	%	State Local	%	Non-State Total	%	Non-State Coop.	%	Non-State Private	%	Non-State Household	%
1990	14011	100	9746	69.6	6438	45.9	3038	21.7	4535	32.4	1279	9.13	137	1.0	3120	22.3
1991	15471	100	10560	68.3	7435	48.1	3164	20.5	4872	31.5	747	4.83	229	1.5	3896	25.2
1992	18117	100	12779	70.5	9155	50.5	3624	20.0	5338	29.5	515	2.84	513	2.8	4310	23.8
1993	20412	100	14642	71.7	10602	51.9	4041	19.8	5769	28.3	434	2.13	825	4.0	4509	22.1
1994	23170	100	16755	72.3	12086	52.2	4669	20.2	6415	27.7						

Source: Statistical Yearbook 1994, SPO

Table 6 Number of Industrial establishments by sector (At January 1st of each year)

	Total	%	State Central	%	Local	%	Non-State Cooperative	Private Enterprises	Private Household
1985	3050	100	711	23.3	2339	76.7	35629	902	
1986	3141	100	687	21.9	2454	78.1	37649	567	
1987	3157	100	682	21.6	2457	77.8	33962	490	
1988	3111	100	681	21.9	2430	78.1	32034	318	318557
1989	3020	100	666	22.1	2354	77.9	21901	1248	333337
1990	2672	100	589	22.0	2173	81.3	13065	770	376900
1991	2599	100	546	21.0	2053	79.0	8829	959	446771
1992	2268	100	537	23.7	1731	76.3	5723	1114	368000
1993	2030	100	522	25.7	1508	74.3	5287	3322	452866

Source:Statistical Yearbook 1994, Statistical Publishing House

Table 7 Number and average capital of licensed business by type of manegement and by industry

	Total as of the end of 1994 No. of Enterprises	Average Capital (Bill. Dong)	Newly Licensed in 1994 No. of Enterprises	Average Capital (Bill. Dong)
Total	26282	2.14	7426	2.19
(by Type of Management)				
Private Business	13772	0.15	5088	0.13
Company Limited	5120	0.7	1730	0.59
Stock Company	133	7.68	27	8.6
State Business	6042	8.06	338	41.72
Central Management	1771	18.66	96	131.35
Local Management	4271	3.67	242	6.16
Representative Bureau	936		180	
Other Business	279	3.57	65	228.9
(by Industry)				
Agriculture/Forestry	1004	2.80	84	3.18
Fishery	2183	0.28	1179	0.14
Mining	84	19.40	11	60.61
Manufacturing	8866	2.07	2683	0.81
Electricity	239	70.14	33	324.20
Construction	2407	1.22	514	0.84
Trade service	5535	1.13	1742	0.58
Hotels	437	1.25	227	1.02
Finance/Credit	4210	0.40	1731	0.14
Total	24965	2.06	8204	1.93

Source: Statistical Yearbook 1994, Statistical Publishi Publishing House
Note: Total sum of the number of enterprises by industry in 1994 exceeds whole total

Table 8 Number of non-state enterprises in Viet Nam

(as of No.1, 1994, Whole Country)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Agriculture/Forestry	125	0.7	100	45	36.0	4	3.2	69	55.2	7	5.6
Fishery	1736	10.0	100	29	1.7	2	0.1	1680	96.8	25	1.4
Mining	77	0.4	100	16	20.8		0.0	22	28.6	39	50.6
Manufacturing	6142	35.2	100	1108	18.0	39	0.6	4114	67.0	881	14.3
Construction	1478	8.5	100	520	35.2	4	0.3	892	60.4	62	4.2
Commerce	6730	38.6	100	1733	25.8	15	0.2	4778	71.0	204	3.0
Hotel/Restraunts	293	1.7	100	68	23.2	2	0.7	217	74.1	6	2.0
Transport/Communication	622	3.6	100	138	22.2	2	0.3	169	27.2	313	50.3
Finance	66	0.4	100	2	3.0	45	68.2	12	18.2	7	10.6
Other Services	173	1.0	100	114	65.9	6	3.5	48	27.7	5	2.9
Total	17442	100.0	100	3773	21.6	119	0.7	12001	68.8	1549	8.9

Source: Non-State Economy, 1991-1995, Statistical Publishers

Tabel 9 Number of non-state enterprises in manufacturing by industries

(as of Nov.1 1994, Whole Country)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Foodstuff/Drinks	3064	49.9	100	299	9.8	9	0.3	2678	87.4	78	2.5
Tobacco	2	0.0	100	1	50.0	1	50.0	0	0.0	0	0.0
Textile	224	3.6	100	47	21.0	3	1.3	59	26.3	115	51.3
Garments/Dyeing	206	3.4	100	122	59.2	4	1.9	42	20.4	38	18.4
Leather Products	39	0.6	100	27	69.2	0	0.0	4	10.3	8	20.5
Wood Products	640	10.4	100	174	27.2	7	1.1	357	55.8	102	15.9
Cellose/Paper	106	1.7	100	44	41.5	2	1.9	25	23.6	35	33.0
Publishing/Printing	9	0.1	100	5	55.6	0	0.0	1	11.1	3	33.3
Petroleum Products	2	0.0	100	1	50.0	0	0.0	1	50.0	0	0.0
Chemicals	102	1.7	100	45	44.1	1	1.0	37	36.3	19	18.6
Rubber/Plastic	134	2.2	100	54	40.3	1	0.7	43	32.1	36	26.9
Mineral Products	857	14.0	100	92	10.7	2	0.2	565	65.9	198	23.1
Metal Products	352	5.7	100	60	17.0	0	0.0	130	36.9	162	46.0
Machine/Equipment	29	0.5	100	13	44.8	1	3.4	12	41.4	3	10.3
Computors/Office Eqp.	2	0.0	100	1	50.0	0	0.0	1	50.0	0	0.0
Electric Equipment	40	0.7	100	21	52.5	2	5.0	13	32.5	4	10.0
Radio/TV	15	0.2	100	14	93.3	0	0.0	1	6.7	0	0.0
Medical/Laboratory Eqp	3	0.0	100	1	33.3	0	0.0	0	0.0	2	66.7
Cars/Lorries	54	0.9	100	6	11.1	1	1.9	21	38.9	26	48.1
Other Transport Eqp.	79	1.3	100	17	21.5	2	2.5	41	51.9	19	24.1
Furniture	183	3.0	100	64	35.0	3	1.6	83	45.4	33	18.0
Total	6142	100	100	1108	18.0	39	0.6	4114	67.0	881	14.3

Source: Non-State Economy, 1991-1995, Statistical Publishers

Tabel 10 Number of non-state enterprises by years of establishment (Whole Country)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Before 1990	1000	5.7	100	65	6.5	2	0.2	222	22.2	711	71.1
1991	259	1.5	100	52	20.1	6	2.3	128	49.4	73	28.2
1992	3700	21.2	100	815	22.0	48	1.3	2609	70.5	228	6.2
1993	8065	46.2	100	1945	24.1	47	0.6	5635	69.9	438	5.4
1994	4418	25.3	100	896	20.3	16	0.4	3407	77.1	99	2.2
Total	17442	100	100	3773	21.6	119	0.7	12001	68.8	1549	8.9

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 11 Number of enterprises by provinces (as of Nov.1, 1994, Whole Country)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Hanoi	1221	7.0	100	696	57.0	16	1.3	291	23.8	218	17.9
Hai Phong	418	2.4	100	163	39.0	13	3.1	95	22.7	147	35.2
Ho Chi Minh	2438	14.0	100	1480	60.7	41	1.7	659	27.0	258	10.6
Da Nang	555	3.2	100	122	22.0	3	0.5	327	58.9	103	18.6
Song Be	617	3.5	100	87	14.1	6	1.0	506	82.0	18	2.9
Binh Thuan	964	5.5	100	28	2.9	0	0.0	910	94.4	26	2.7
Dong Nai	740	4.2	100	76	10.3	4	0.5	622	84.1	38	5.1
Tien Giang	962	5.5	100	16	1.7	0	0.0	916	95.2	30	3.1
Others	9527	54.6	100	1105	11.6	36	0.4	7675	80.6	711	7.5
Total	17442	100	100	3773	21.6	119	0.7	12001	68.8	1549	8.9

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 12 Legal capital of non-state enterprises by industry (Whole Country) (Unit : Billion Dong)

	No.of Enterprises	Average Capital	Total Capital	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Agriculture/Forestry	125	0.58	73.0	1.2	100	25.3	34.7	3.1	4.2	15.0	20.5	29.6	40.5
Fishery	1763	0.14	238.3	4.0	100	26.2	11.0	8.4	3.5	195.3	82.0	8.3	3.5
Mining	77	0.35	27.2	0.5	100	15.6	57.4	0	0.0	7.5	27.6	4.1	15.1
Manufacturing	6142	0.33	2033.2	34.0	100	1028.2	50.6	140.0	6.9	679.0	33.4	186.0	9.1
Construction	1478	0.47	692.9	11.6	100	422.1	60.9	12.1	1.7	236.7	34.2	22.0	3.2
Commerce	6730	0.31	2068.4	34.5	100	970.7	46.9	599.6	29.0	478.3	23.1	19.8	1.0
Hotel/Restraunts	293	0.47	137.2	2.3	100	53.6	39.1	15.0	10.9	68.2	49.7	0.4	0.3
Transport/Communication	622	0.68	423.8	7.1	100	117.2	27.7	1.6	0.4	31.1	7.3	273.9	64.6
Finance	66	1.37	90.3	1.5	100	20.4	22.6	68.6	76.0	0.9	1.0	0.4	0.4
Other Services	173	1.18	204.5	3.4	100	29.9	14.6	165.2	80.8	9.3	4.5	0.1	0.0
Total	17442	0.34	5988.8	100	100	2709.2	45.2	1013.6	16.9	1721.3	28.7	544.6	9.1

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 13 Legal capital of non-state enterprises by region (Whole Country) (Unit : Billion Dong)

	No. of Enterprises	Average Capital	Total Capital	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Hanoi	1221	0.60	729.8	12.2	100	365.4	50.1	269.6	36.9	43.7	6.0	51.1	7.0
Hai Phong	418	0.65	274.3	4.6	100	99.3	36.2	119.4	43.5	22.7	8.3	32.9	12.0
Ho Chi Minh	2438	0.57	1413.3	23.6	100	1125	79.6	35.5	2.5	166.4	11.8	86.4	6.1
Da Nang	555	0.24	136.1	2.3	100	81.1	59.6	4.6	3.4	9.9	7.3	40.5	29.8
Song Be	617	0.60	368.2	6.1	100	163.4	44.4	72	19.6	132.8	36.1	0.1	0.0
Binh Thuan	964	0.12	116.2	1.9	100	15.3	13.2	0	0.0	94.2	81.1	6.7	5.8
Dong Nai	740	0.27	198.6	3.3	100	75.7	38.1	5	2.5	103.8	52.3	14.1	7.1
Tien Giang	962	0.13	129.5	2.2	100	10.2	7.9	0	0.0	96.4	74.4	22.9	17.7
Others	9527	0.28	2622.8	43.8	100	773.9	29.5	507.5	19.3	1051.5	40.1	289.9	11.1
Total	17442	0.34	5988.8	100	100	2709.3	45.2	1013.6	16.9	1721.4	28.7	544.6	9.1

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 14 Number of actually operated non-state enterprises by type of manegement

(as of Nov. 1994, 12 Provinces)

	Total	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Agriculture/Forestry	40	0.5	100	15	37.5	3	7.5	22	55.0	0	0.0
Fishery	322	4.1	100	11	3.4	2	0.6	300	93.2	9	2.8
Mining	39	0.5	100	6	15.4	0	0.0	6	15.4	27	69.2
Manufacturing	2466	31.7	100	777	31.5	30	1.2	1085	44.0	574	23.3
Construction	525	6.8	100	314	59.8	3	0.6	169	32.2	39	7.4
Commerce	3582	46.1	100	1440	40.2	14	0.4	1989	55.5	139	3.9
Hotel/Restraunts	148	1.9	100	35	23.6	2	1.4	108	73.0	3	2.0
Transport/Communication	331	4.3	100	100	30.2	1	0.3	34	10.3	196	59.2
Finance	39	0.5	100	0	0.0	39	100.0	0	0.0	0	0.0
Other Services	423	5.4	100	167	39.5	8	1.9	237	56.0	11	2.6
Total	7767	100.0	100	2830	36.4	100	1.3	3842	49.5	995	12.8

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 15 Number of actually operated manufacturing non-state enterprises

(as of Nov.1 1994, 12 Provinces only)

	Total	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%
Foodstuff/Drinks	636	25.8	100	162	25.5	6	0.9	423	66.5	45	7.1
Tobacco	2	0.1	100	1	50.0	1	50.0	0	0.0	0	0.0
Textile	137	5.6	100	35	25.5	3	2.2	23	16.8	76	55.5
Garments/Dyeing	182	7.4	100	116	63.7	4	2.2	30	16.5	32	17.6
Leather Products	32	1.3	100	22	68.8	0	0.0	2	6.3	8	25.0
Wood Products	301	12.2	100	115	38.2	4	1.3	125	41.5	57	18.9
Cellfose/Paper	72	2.9	100	32	44.4	2	2.8	9	12.5	29	40.3
Publishing/Printing	8	0.3	100	5	62.5	0	0.0	1	12.5	2	25.0
Petroleum Products	2	0.1	100	1	50.0	0	0.0	1	50.0	0	0.0
Chemicals	70	2.8	100	36	51.4	1	1.4	18	25.7	15	21.4
Rubber/Plastic	110	4.5	100	52	47.3	1	0.9	27	24.5	30	27.3
Mineral Products	417	16.9	100	61	14.6	0	0.0	276	66.2	80	19.2
Metal Products	255	10.3	100	51	20.0	0	0.0	77	30.2	127	49.8
Machine/Equipment	26	1.1	100	12	46.2	1	3.8	10	38.5	3	11.5
Computors/Office Eqp.	1	0.0	100	0	0.0	0	0.0	1	100.0	0	0.0
Electric Equipment	29	1.2	100	17	58.6	2	6.9	8	27.6	2	6.9
Radio/TV	15	0.6	100	14	93.3	0	0.0	1	6.7	0	0.0
Medical/Laboratory Eqp	3	0.1	100	1	33.3	0	0.0	0	0.0	2	66.7
Cars/Lorries	40	1.6	100	2	5.0	1	2.5	13	32.5	24	60.0
Other Transport Eqp.	44	1.8	100	11	25.0	2	4.5	16	36.4	15	34.1
Furniture	84	3.4	100	31	36.9	2	2.4	24	28.6	27	32.1
Total	2466	100	100	777	31.5	30	1.2	1085	44.0	574	23.3

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 16 Number of non-state enterprises classified by number of employee (as of Nov.1 1994, 12 Provinces only)

	Total	%	<10	%	10-<50	%	50-<100	%	100-<200	%	200-	%
Agriculture/Forestry	40	0.5	17	0.5	21	0.7	2	0.4	0	0.0	0	0.0
%	*100*		*32.3*		*54.8*		*5.0*					
Fishery	322	4.2	189	5.1	124	4.3	7	1.4	1	0.4	1	0.4
%	*100*		*58.2*		*39.4*		*2.2*		*0.3*		*0.3*	
Mining	39	0.5	0	0.0	14	0.5	4	0.8	2	0.8	19	7.9
%	*100*		*3.0*		*30.3*		*10.3*		*5.1*		*48.7*	
Manufacturing	2466	32.4	488	13.1	1428	49.4	275	54.6	147	55.3	128	53.1
%	*100*		*19.8*		*57.9*		*11.2*		*6.0*		*5.2*	
Construction	525	6.9	57	1.5	272	9.4	128	25.4	41	15.4	27	11.2
%	*100*		*12.3*		*54.3*		*24.4*		*7.8*		*5.1*	
Commerce	3582	47.0	2764	74.4	776	26.8	26	5.2	11	4.1	5	2.1
%	*100*		*77.5*		*21.4*		*0.7*		*0.3*		*0.1*	
Hotels/Restaurants	148	1.9	75	2.0	67	2.3	4	0.8	2	0.8	0	0.0
%	*100*		*40.9*		*53.9*		*2.7*		*1.4*			
Transport/Communicati	331	4.3	51	1.4	120	4.1	48	9.5	57	21.4	55	22.8
%	*100*		*12.5*		*32.8*		*14.5*		*17.2*		*16.6*	
Finance	39	0.5	0	0.0	21	0.7	9	1.8	5	1.9	4	1.7
%	*100*		*3.2*		*61.3*		*23.1*		*12.8*		*10.3*	
Other Services	127	1.7	74	2.0	50	1.7	1	0.2	0	0.0	2	0.8
%	*100*						*0.8*		*0.0*		*1.6*	
Total	7619	100	3715	100	2893	100	504	100	268	100	241	100
%	*100*		*48.8*		*38.0*		*6.6*		*3.5*		*3.2*	

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 17 Number of non-state enterprises in manufacturing classified by number of employee (as of Nov.1 1994, 12 Provinces only)

	Total	%	<10	%	10-<50	%	50-<100	%	100-<200	%	200-	%
Foodstuff/Drinks	636	25.8	250	51.2	311	21.8	31	11.3	26	17.7	18	14.1
%	*100*		*39.3*		*48.9*		*4.9*		*4.1*		*2.8*	
Tobacco	2	0.1	0	0.0	1	0.1	0	0.0	0	0.0	1	0.8
%	*100*		*0.0*		*50.0*		*0.0*		*0.0*		*50.0*	
Textile	137	5.6	9	1.8	60	4.2	28	10.2	27	18.4	13	10.2
%	*100*		*6.6*		*43.8*		*20.4*		*19.7*		*9.5*	
Clothes/Dyeing	182	7.4	16	3.3	51	3.6	34	12.4	31	21.1	50	39.1
%	*100*		*8.8*		*28.0*		*18.7*		*17.0*		*27.5*	
Leather Products	32	1.3	2	0.4	15	1.1	2	0.7	4	2.7	9	7.0
%	*100*		*6.3*		*46.9*		*6.3*		*12.5*		*28.1*	
Wood/Wood Products	301	12.2	65	13.3	154	10.8	46	16.7	22	15.0	14	10.9
%	*100*		*21.6*		*51.2*		*15.3*		*7.3*		*4.7*	
Cellulose/Paper	72	2.9	8	1.6	48	3.4	12	4.4	2	1.4	2	1.6
%	*100*		*11.1*		*66.7*		*16.7*		*2.8*		*2.8*	
Publishing/Printing	8	0.3	2	0.4	3	0.2	0	0.0	3	2.0	0	0.0
%	*100*		*25.0*		*37.5*		*0.0*		*37.5*		*0.0*	
Petroleum	2	0.1	1	0.2	0	0	1	0.4	0	0	0	0
%	*100*		*50.0*		*0.0*		*50.0*		*0.0*		*0.0*	
Chemicals	70	2.8	10	2.0	44	3.1	9	3.3	3	2.0	4	3.1
%	*100*		*14.3*		*62.9*		*12.9*		*4.3*		*5.7*	
Rubber/Plastics	110	4.5	13	2.7	73	5.1	20	7.3	2	1.4	2	1.6
%	*100*		*11.8*		*66.4*		*18.2*		*1.8*		*1.8*	
Mineral Products	411	16.9	28	5.7	329	23.0	41	14.9	13	8.8	6	4.7
%	*100*		*6.7*		*78.9*		*9.8*		*3.1*		*1.4*	
Metal Products	255	10.3	43	8.8	181	12.7	24	8.7	4	2.7	3	2.3
%	*100*		*16.9*		*71.0*		*9.4*		*1.6*		*1.2*	
Computer/Office Eqp.	1	0.0	0	0.0	1	0.1	0	0	0	0	0	0
%	*100*		*0.0*		*100.0*		*0.0*		*0.0*		*0.0*	
Machine/ Equipment	26	1.1	5	1.0	16	1.1	3	1.1	2	1.4	0	0.0
%	*100*		*19.2*		*61.5*		*11.5*		*7.7*		*0.0*	
Electric Equipment	29	1.2	8	1.6	18	1.3	2	0.7	0	0.0	1	0.8
%	*100*		*27.6*		*62.1*		*6.9*		*0.0*		*3.4*	
Radio/TV/Communicatic	15	0.6	2	0.4	7	0.5	3	1.1	0	0.0	3	2.3
%	*100*		*13.3*		*46.7*		*20.0*		*0.0*		*20.0*	
Medical Equipment	3	0.1	0	0.0	2	0.1	0	0.0	0	0.0	1	0.8
%	*100*		*0.0*		*66.7*		*0.0*		*0.0*		*33.3*	
Cars/Lorries	40	1.6	6	1.2	31	2.2	2	0.7	1	0.7	0	0.0
%	*100*		*15.0*		*77.5*		*5.0*		*2.5*		*0.0*	
Other Transport Equip.	44	1.8	5	1.0	30	2.1	8	2.9	1	0.7	0	0.0
%	*100*		*11.4*		*68.2*		*18.2*		*2.3*		*0.0*	
Furniture	84	3.4	15	3.1	53	3.7	9	3.3	6	4.1	1	0.8
%	*100*		*17.9*		*63.1*		*10.7*		*7.1*		*1.2*	
Total	2466	100	488	100	1428	100	275	100	147	100	128	100
%	*100*		*19.8*		*57.9*		*11.2*		*6.0*		*5.2*	

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 18 Number of non-state enterprises classified by business capital

(as of Nov.1, 1994, 12 Provinces)

	Total	%	<100 Mil.D	%	100-<250 Mil.D	%	250-<500 Mil.D	%	500-<1000 Mil.D	%	1000< Mil.D	%
Agriculture/Forestry	40	0.5	7	0.4	13	0.6	6	0.5	6	0.6	8	0.6
%	*100.0*		*17.5*		*32.5*		*15.0*		*15.0*		*20.0*	
Fishery	322	4.2	128	6.5	158	7.7	21	1.8	7	0.7	10	0.7
%	*100.0*		*39.1*		*49.1*		*6.5*		*2.2*		*3.1*	
Mining	39	0.5	8	0.4	8	0.4	10	0.8	3	0.3	10	0.7
%	*100.0*		*20.5*		*20.5*		*25.6*		*7.7*		*25.6*	
Manufacturing	2466	32.4	556	28.6	722	35.0	401	33.5	323	33.1	464	32.1
%	*100.0*		*22.5*		*29.3*		*16.3*		*13.1*		*18.8*	
Construction	525	6.9	48	2.5	80	3.9	109	9.1	133	13.5	155	10.7
%	*100.0*		*9.1*		*15.2*		*20.8*		*25.3*		*29.5*	
Commerce	3582	47.0	1102	56.8	949	46.0	550	45.9	409	41.9	572	39.6
%	*100.0*		*30.8*		*26.5*		*15.4*		*11.4*		*16.0*	
Hotels/Restaurants	148	1.9	24	1.2	38	1.8	25	2.1	18	1.8	43	3.0
%	*100.0*		*16.2*		*25.7*		*16.9*		*12.2*		*29.1*	
Transport/Communicatk	331	4.3	29	1.5	48	2.3	61	5.1	64	6.6	129	8.9
%	*100.0*		*8.8*		*14.5*		*18.4*		*19.3*		*39.0*	
Finance	39	0.5	0	0.0	0	0.0	0	0.0	1	0.1	38	2.6
%	*100.0*		*0.0*		*0.0*		*0.0*		*2.6*		*97.4*	
Other Services	127	1.7	41	2.1	45	2.1	14	2.2	12	1.2	15	1.2
%	*100.0*		*32.3*		*35.4*		*11.0*		*9.4*		*11.8*	
Total	7619	100.0	1941	100.0	2061	100.0	1197	100.0	976	100.0	1444	100.0
%	*100.0*		*25.5*		*27.1*		*15.7*		*12.8*		*19.0*	

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 19 Number of non-state enterprises in manufacturing classified by business capital

(as of Nov.1, 1994, 12 Provinces)

	Total	<100 Mil.D	100-<250 Mil.D	250-<500 Mil.D	500-<1000 Mil.D	1000< Mil.D
Foodstuff/Drinks	636	145	238	94	67	92
%	*100.0*	*25.1*	*37.4*	*14.8*	*10.5*	*14.5*
Tobacco	2	0	0	0	1	1
%	*100.0*	*0.0*	*0.0*	*0.0*	*50.0*	*50.0*
Textile	137	40	32	18	23	24
%	*100.0*	*32.1*	*23.4*	*13.1*	*16.8*	*17.5*
Clothes/Dyeing	182	22	17	26	32	85
%	*100.0*	*13.3*	*9.3*	*14.3*	*17.6*	*46.7*
Leather Products	32	4	3	3	10	12
%	*100.0*	*13.8*	*9.4*	*9.4*	*31.3*	*37.5*
Wood/Wood Products	301	69	76	52	40	64
%	*100.0*	*25.2*	*25.2*	*17.3*	*13.3*	*21.3*
Cellulose/Paper	72	14	14	16	16	12
%	*100.0*	*21.4*	*19.4*	*22.2*	*22.2*	*16.7*
Publishing/Printing	8	4	0	1	1	2
%	*100.0*	*55.0*	*0.0*	*12.5*	*12.5*	*25.0*
Petroleum	2	0	0	0	0	2
%	*100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*100.0*
Chemicals	70	6	19	10	14	21
%	*100.0*	*8.4*	*27.1*	*14.3*	*20.0*	*30.0*
Rubber/Plastics	110	18	20	17	18	37
%	*100.0*	*16.0*	*18.2*	*15.5*	*16.4*	*33.6*
Mineral Products	411	102	188	60	30	32
%	*100.0*	*28.8*	*45.7*	*14.6*	*7.3*	*7.7*
Metal Products	255	73	61	45	35	41
%	*100.0*	*31.5*	*23.9*	*17.6*	*13.7*	*16.1*
Machine/ Equipment	26	2	2	7	5	10
%	*100.0*	*8.5*	*7.7*	*26.9*	*19.2*	*38.5*
Computer/Office Eqp.	1	0	1	0	0	0
%	*100.0*	*0.0*	*100.0*	*0.0*	*0.0*	*0.0*
Electric Equipment	29	4	3	8	7	7
%	*100.0*	*13.8*	*10.3*	*27.6*	*24.1*	*24.1*
Radio/TV/Communicati	15	0	0	3	3	9
%	*100.0*	*0.0*	*0.0*	*20.0*	*20.0*	*60.0*
Medical Equipment	3	0	2	0	0	1
%	*100.0*	*0.0*	*66.7*	*0.0*	*0.0*	*33.3*
Cars/Lorries	40	11	12	10	3	1
%	*100.0*	*38.5*	*30.0*	*25.0*	*7.5*	*2.5*
Other Transport Equip.	44	10	8	14	4	7
%	*100.0*	*25.0*	*20.5*	*31.8*	*9.1*	*15.9*
Furniture	84	24	25	17	14	4
%	*100.0*	*31.4*	*29.8*	*20.2*	*16.7*	*4.8*
Total	2466	550	722	401	323	464
%	*100.0*	*24.8*	*29.3*	*16.3*	*13.1*	*18.8*

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 20 Labor force of non-state enterprises

(as of Nov.1, 1994, 12 Provinces Only) (Unit : Person)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%	No. of Enterprises	Workers/ Enterprise
Agriculture/Forestry	789	0.3	100	304	38.5	99	12.5	386	48.9	0	0.0	40	19.7
Fishery	3750	1.3	100	196	5.2	87	2.3	2506	66.8	961	25.6	322	11.6
Mining	22001	7.7	100	192	0.9	0	0.0	205	0.9	21604	98.2	39	564.1
Manufacturing	139697	48.8	100	74706	53.5	2865	2.1	28265	20.2	33861	24.2	2466	56.6
Construction	31112	10.9	100	21121	67.9	129	0.4	8345	26.8	1517	4.9	525	59.3
Commerce/Repairing	29724	10.4	100	18052	60.7	927	3.1	8836	29.7	1909	6.4	3582	8.3
Hotel/Restraunts	2391	0.8	100	820	34.3	204	8.5	1326	55.5	41	1.7	148	16.2
Transport/Communicatio	51587	18.0	100	4676	9.1	21	0.0	438	0.8	46452	90.0	331	155.9
Finance	2801	1.0	100	0	0.0	2801	100.0	0	0.0	0	0.0	39	71.8
Other Services	1973	0.7	100	1373	69.6	442	22.4	145	7.3	13	0.7	423	4.7
Total	286159	100	100	121598	42.5	7575	2.6	50551	17.7	106435	37.2	7767	36.8
(Ave. No. of Workers)	(16.4)			(32.2)		(63.7)		(4.2)		(70.1)			

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 21 Labor force of non-state enterprises in manufacturing by industry groups

(as of Nov.1, 1994, 12 Provinces Only)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%	No of Enterprise	Labor/ Enterises
Foodstuff/Drinks	20171	14	100	8939	44.3	658	3.3	6553	32.5	4021	19.9	638	31.7
Tobacco	345	0.2	100	21	6.1	324	93.9	0	0	0	0.0	2	172.5
Textile	13430	9.6	100	3329	24.8	269	2.0	1873	13.9	7965	59.3	137	98.0
Garments/Dyeing	38968	28	100	32765	84.0	538	1.4	3773	9.7	1912	4.9	182	214.2
Leather Products	5803	4.2	100	5412	93.3	0	0.0	165	2.8	226	3.9	32	181.3
Wood Products	18189	13	100	8149	50.3	255	1.6	4614	28.5	3171	19.6	301	53.8
Cellose/Paper	2797	2.0	100	1443	51.6	27	1.0	375	13.4	952	34.0	72	38.8
Publishing/Printing	410	0.3	100	381	92.9	0	0.0	12	2.9	17	4.1	8	51.3
Petroleum Products	58	0.0	100	4	6.9	0	0.0	54	93.1	0	0.0	2	29.0
Chemicals	7862	5.6	100	1762	22.4	183	2.3	327	4.2	5590	71.1	70	112.3
Rubber/Plastic	4099	2.9	100	2458	60.0	15	0.4	704	17.2	922	22.5	110	37.3
Mineral Products	13923	10.0	100	4181	30.0	6523	46.9	0	0	3215	23.1	417	33.4
Metal Products	7094	5.1	100	1947	27.4	0	0.0	1650	26.2	3287	46.3	255	27.8
Machine/Equipment	785	0.6	100	398	50.7	145	18.5	177	22.5	65	8.3	26	30.2
Computers/Office Eqp.	14	0.0	100	0	0.0	0	0.0	14	100.0	0	0.0	1	14.0
Electric Equipment	850	0.6	100	351	41.3	297	34.9	157	18.5	45	5.3	29	29.3
Radio/TV	1142	0.8	100	1139	99.7	0	0.0	3	0.3	0	0.0	15	76.1
Medical/Laboratory Eqp	659	0.5	100	14	2.1	0	0.0	0	0.0	645	97.9	3	219.7
Cars/Lorries	948	0.7	100	38	4.0	13	1.4	223	23.5	674	71.1	40	23.7
Other Transport Eqp.	1418	1.0	100	370	26.1	126	8.9	311	21.9	611	43.1	44	32.2
Furniture	2312	1.9	100	1605	59.2	21	0.8	543	20.0	543	20.0	84	32.3
Total	139697	100	100	74706	53.5	9392	6.7	21738	15.6	33861	24.2	2466	56.6

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 22 Turnover of non-state enterprises by industry

(12 Provinces Only) (Unit : Billion Dong)

	Total	%	%	Limited Company	%	Joint Stock	%	Private	%	Coop.	%	No. of Enterprise	Turnover/ Enterprise
Agriculture/Forestry	21.6	0.1	100	12.2	56.5	4.1	19.0	5.3	24.5	0	0.0	40	0.54
Fishery	116.4	0.5	100	2.9	2.5	42.2	36.3	59.2	50.9	0.1	0.1	322	0.36
Mining	24	0.1	100	5.1	21.3	0	0.0	4.2	17.5	14.7	61.3	39	0.62
Manufacturing	5138.1	21.6	100	3932.6	76.5	269.8	5.3	637.4	12.4	298.3	5.8	2466	2.08
Construction	969.3	4.1	100	749.3	77.3	12.4	1.3	159.6	16.5	48	5.0	525	1.85
Commerce/Repairing	16257.6	68.3	100	9343.3	57.5	965.9	5.9	5573.6	34.3	374.8	2.3	3582	4.54
Hotel/Restraunts	67.1	0.3	100	19.6	29.2	15.6	23.2	30.9	46.1	1	1.5	148	0.45
Transport/Communication	391.1	1.6	100	180.7	46.2	0.1	0.0	9.6	2.5	200.7	51.3	331	1.18
Finance	607.5	2.6	100	0	0.0	607.5	100.0	0	0.0	0	0.0	39	15.58
Other Services	197.3	0.8	100	149.7	75.9	42.8	21.7	4.5	2.3	12.2	6.2	423	0.47
Total	23789.8	100.0	100	14395.4	60.5	1950.3	8.2	6484.2	27.3	949.8	4.0	7767	3.06

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 23 Contribution to the state budget of non-state enterprises

(12 Provinces Only) (As Percentage to the Turnover)

	Total	Limited Company	Joint Stock	Private	Coop.
Agriculture/Forestry	2.98	2.03	2.63	5.45	
Fishery	1.07	2.14	0.03	1.31	3.26
Mining	1.96	4.27		0.86	1.47
Manufacturing	2.58	2.42	4.29	2.84	2.71
Construction	4.91	5.68	0.77	2.76	1.43
Commerce	2.70	3.86	2.50	0.92	0.71
Hotel/Restraunts	8.82	6.99	5.40	11.95	1.30
Transport/Communication	3.45	2.87	2.68	3.26	4.07
Finance	7.35	–	7.35	–	–
Other Services	13.50	6.23	39.01	3.30	2.86
Total	2.93	3.57	4.26	1.22	2.11

Source: Non-State Economy, 1991-1995, Statistical Publishers

Table 24 Average indicators per one employee in 1994

(12 Provinces Only)

	Employee Total (Person)	Using Capital (Mil. Dong)	Turnover (Mil. Dong)	Contribution to Budget (Mil. Dong)
Agriculture/Forestry	789	30.1	21.4	0.82
Fishery	3150	22.8	31	0.33
Mining	22881	1.1	1.1	0.02
Manufacturing	139693	24.9	36.8	1.95
Construction	81812	22.8	31.2	1.53
Commerce/Repairing	29724	111.8	567.1	14.75
Hotels/Restaurants	2391	60.1	28.1	2.48
Transport/Communication	51587	16.6	7.6	0.26
Finance	2881	2128.3	216.9	15.93
Other Services	2307	00	85.5	5.12
Total	288159	51.6	83.1	2.48

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 25 Major indicators of non-state enterprises in manufacturing in 1994 classified by business capital and No. of employee

(12 Privinces)

	Total No.of Enterprises	%	Average Employee (Person)	Av.Using Capital (Mil Dong)	Average Turnover (Mil Dong)	Av.Budget Contribution (Mil Dong)	Turnover per Empl. (Mil Dong)	Turnover per Capital
(By Capital)								
Under 100 Mil.Dong	556	22.5	22	49	152	5	7	3.10
100-250 Mil.Dong	722	29.3	15	155	386	14	26	2.49
250-500 Mil.Dong	401	16.3	51	353	676	21	13	1.92
500-1000 Mil.Dong	323	13.1	53	683	1095	29	21	1.60
Over 1000 Mil.Dong	464	18.8	155	6429	8943	220	58	1.39
(By Employee)								
Under 10 Employee	488	19.8.	5	431	241	10	48	0.56
10-50	1428	57.9	22	577	1369	26	62	2.37
50-100	275	11.2	66	1422	2121	77	32	1.49
100-200	147	6.0	134	2281	4420	85	33	1.94
Over 200	128	5.2	528	13418	14120	444	27	1.05
(Whole Enterprises)	2466	100.0	57	1413	2084	54	37	1.47

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 26 Major indicators of non-state enterprises in whole industry in 1994
classified by business capital and No. of employee (Hanoi)

	Total No.of Enterprises	%	Average Employee (Person)	Av.Using Capital (Mil Dong)	Average Turnover (Mil Dong)	Av.Budget Contribution (Mil Dong)	Turnover per Empl. (Mil Dong)	Turnover per Capital
(By Capital)								
Under 100 Mil.Dong	190	15.7	13	38	109	4	8	2.87
100-250 Mil.Dong	404	33.5	11	161	603	12	55	3.75
250-500 Mil.Dong	244	20.2	16	345	1130	16	71	3.28
500-1000 Mil.Dong	160	13.3	32	674	1335	24	42	1.98
Over 1000 Mil.Dong	209	17.3	64	6817	5488	212	86	0.81
(By Employee)								
Under 10 Employee	546	45.2	5	449	729	11	146	1.62
10-50	525	43.5	22	1699	1746	57	79	1.03
50-100	82	6.8	65	1523	2011	70	31	1.32
100-200	39	3.2	138	8065	3886	130	28	0.48
Over 200	15	1.2	330	7524	17939	740	54	2.38
(Whole Enterprises)	1207	100	24	1400	1574	48	66	1.12

Source: Non-State Economy 1991-1995, Statistical Publishers

Table 27 Major indicators of non-state enterprises in whole industry in 1994
classified by business capital and No. of employee (Ho Chi Minh))

	Total No.of Enterprises	%	Average Employee (Person)	Av.Using Capital (Mil Dong)	Average Turnover (Mil Dong)	Av.Budget Contribution (Mil Dong)	Turnover per Empl. (Mil Dong)	Turnover per Capital
(By Capital)								
Under 100 Mil.Dong	316	13.0	16	46	415	11	26	9.02
100-250 Mil.Dong	360	14.8	14	166	1344	24	96	8.10
250-500 Mil.Dong	432	17.8	17	361	1254	36	74	3.47
500-1000 Mil.Dong	445	18.3	31	703	2625	73	85	3.73
Over 1000 Mil.Dong	879	36.1	115	12023	13971	558	121	1.16
(By Employee)								
Under 10 Employee	1104	45.4	5	735	245	69	49	0.33
10-50	904	37.2	21	2922	9089	356	433	3.11
50-100	183	7.5	69	5660	4062	283	59	0.72
100-200	108	4.4	137	10139	5914	202	43	0.58
Over 200	133	5.5	605	41568	16345	587	27	0.39
(Whole Enterprises)	2432	100.0	54	4569	6005	226	111	1.31

Source: Non-State Economy 1991-1995, Statistical Publishers

6

Some Comments on the Impact of the Participation in AFTA: About the Effects of Economic Integration on FDI Inflows

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I. Introduction

During the recent decade, the economic interdependence between countries in the region of East Asia or Pacific Asia —— Japan, Asian NIEs, ASEAN, and China, has been significantly deepening, while these countries have experienced rapid economic growth and trade expansion. Both the volume and share of intra-regional trade, together with the overall trade, have been increasing in the region. Also, in the latter half of the decade, the intra-regional foreign direct investment (FDI) flows began to expand dramatically.

The role of foreign direct investment (FDI) in the economic development process of developing countries is drawing more attention. Although the possible negative effects of FDI on economic development have been posed, there seems to be no doubt that the massive flows of FDI into ASEAN countries in the late 1980s contributed a great deal to rapid economic growth in these countries. Naturally, it is a great concern how FDI could play an important role in the economic reforms in some Latin American countries and the former socialist countries in Asia and Europe.

In the context of economic integration, "government-led" or institutional regional economic integration, such as EU and NAFTA, is said to place a considerable impact, not only on the flows of international trade, but also on the flows of FDI. Thus, it will be of great concern to examine how and to what extent the FDI inflows to Viet Nam will be influenced by participating in AFTA.

II. Background of AFTA: economic interdependence in East Asian region

1. Intra-regional trade

During the period of 1970s and 1980s, the rates of economic growth in most countries in the region of East Asia are significantly higher than in other regions in the world (Table 1). During the same period, these countries experienced drastic changes in their export ratios (Table 2).

The trade structure of East Asia changed drastically, in the process of rapid expansion of overall trade in the region. Both the volume and the share of intra-regional trade increased. The rate of expansion of the intra-regional trade in East Asia, since the early 1970s, is two times higher than that of the world (Table 3). Especially, after 1987, intra-regional trade in the region began to increase to surpass that of North America and to be approaching the level of EC (Table 4). The rate of expansion of intra-regional trade within ASEAN, however, is slightly higher than of the world trade.

In general, the degree of East Asia's trade dependence on U.S. has declined and Japan's and also ANIES's trade with East Asia has expanded tremendously since 1987. However, considering the trade

structure of the region by industry and also by type of goods (industrial materials, capital and parts, consumer durables, non-durables), the export of ASEAN is still highly dependent on U.S. and EC market, especially final goods export is so (Table 5).

As for the structure of intra-regional trade in the region, while Japan's import of consumer goods and industrial parts from ASEAN increased and China's export to ASEAN expanded rapidly, intra-ASEAN trade did not change substantialy (Tables 6-8).

The trade complementarity in terms of comparative advantage and disadvantage specialization within the region is an important factor. The structure of East Asian intra-regional trade can be characterized as the mixture of vertical and horizontal division of labor, while the importance of intra-industry trade is emphasized in explaining the intra-regional trade structure of EC. It could be considered that the unique feature of trade interdependence in East Asia is attributed to the unilateral trade liberalization and the deregulation toward foreign direct investment in the region, so-called the outward-lookinng strategy.

2. FDI flows in the region

The countries in the region of East Asia also experienced a significant structural change in capital flows in 1980s. The degree of their interdependece in capital flows has deepened and the capital market integration has proceede through the decade. The changes in capital flows within the region are basically attributable to the changes in macroeconomic balance of the regional economies through the process of their rapid economic growth in th 1980s. Foreign direct investment (FDI) has become more significant as a new form of international capital transfer in the region.

Most remarkable feature in the latter half of the 1980's is the growing importance of Asian NIES. ANIEs' share as capital suppliers expanded significantly, especially toward ASEAN and China. Japan's role as the supplier of the capital flows was not increasing overall and the relative role of the US and EC has reduced steadily. Also, Japan's role as a main supplier of FDI to ASEAN unchanged, while the shares of USA and EC have been declining (Table 9). The share of intra-regional FDI among the total components of capital flows increased to about 50 pre cent by the end of 1990.

III. Experiences of Spain, Portugal and Greece in participation in EC

The three Mediterranean countries were late-comers of EC. Greece entered EC in 1981, and Spain and Portugal entered in 1986. They had to face two simultaneous challenges of EC integration: to adjust their national external protection to the lower level of EC; to deregulate and liberalize domestic goods and factor markets in order to meet the requirement of EC-1992.

Portugal and Spain responded positively to both external and internal adjustment challenges. GDP growth rates of Spain (4.5% for the 1986-1990) and Portugal (4.6%) were top among EC members. On the contrary, Greece remained subject to political distubances and severe macro economic imbalances. As a result, Greece did not achieve more than the lowest GDP growth rate of all EC members during the 1980s (Fig. 1).

While EC membership may have helped to attract FDI for Spain and Portugal, Greece failed to attract investment (Fig. 2). This suggests that credible and sustained policy reforms are necessary prerequisites to attract investment.

IV. Expected effects on trade and FDI

1. Trade and production

- trade creation effect; trade diversion effect;
- cheaper imported inputs;
- increase of import and reduction in domestic production;

- competetion effect on domestic markets;
- income growth effect;
- competition between countries in the region.

2. Regional liberalization and FDI inflows

We can expect that removal of barriers to FDI in the AFTA region will directly cause to the increase in FDI inflows from outside the region. Moreover, regional trade liberalization by AFTA will have the following effects on FDI inflows:

- FDI for production to export to AFTA region will increase;
- FDI for production to the domestic market will decrease;
- FDI for production to export to markets other than AFTA will increase.

V. Factors to determine the location of FDI

The host countries which have "location advantages" could attract FDI and utilize their potential comparative advantage.

1. Location advantages
   - accessibility to output markets (domestic and foreign)
   - accessibility to inputs (intermediate goods and raw materials)
   - labor (wage, productivity, skills/education level)
   - infrastructure (transportation, communications, utilities)
   - tariff, tax and subsidies
   - regulations by the host country(import, ownership, local contents)
   - stability and credibility of economic conditions and policies

2. Factors to be possibly supplemented by FDI: "knowledge-based assets"
   - technological knowledge and capability (production and R&D)
   - managerial skills and know-how
   - marketing skils and know-how (distribution channels)
   - availability of key parts
   - accessibilities to financial markets

VI.Initial conditions of Viet Nam and AFTA

AFTA member countries except Viet Nam, the former ASEAN4 countries, have already experienced the rapid economic growth through their efforts of unilateral liberalization and deregulation to FDI. As a result, they have closely linked to the world economy, especially to the East Asian countries.

To enjoy the benefits of AFTA, the country should respond positively to the requirement of AFTA, liberalization and deregulation, and enter the competition with other member countries of AFTA in trade and FDI. Especilly, it is desirable to attract FDI and to utilize her potential comparative advantage. However, starting point of Viet Nam is very different from these countries: transition period to market-led economy; lower stage of economic development; larger reduction of tariff; larger share of intra-ASEAN trade (20% of export, 40% of import).

Thus, some adjustment of the speed and timing of trade liberalization will be called for. Also, it will be necessary to make efforts to provide favorable conditions for FDI: development in infrastructure, credible and sustained policies, stable economic conditions.

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Table 1 Growth rates of GDP and exports (%)

	Real GDP		Exports	
	1965-80	1980-90	1965-80	1980-90
Indonesia	7.0	5.5	9.6	2.8
Philippines	5.7	0.9	4.6	2.5
Thailand	7.3	7.6	8.6	13.2
Malaysia	7.4	5.2	4.6	10.3
Singapore	10.0	6.4	4.7	8.6
Hongkong	8.6	7.1	9.1	6.2
China	6.8	9.5	4.8	11.0
Korea	9.9	9.7	27.2	12.8
Japan	6.4	4.1	11.4	4.2
U.S.A.	2.7	3.4	6.4	3.3
Canada	4.8	3.4	5.4	5.9
Maxico	6.5	1.0	7.7	3.4
U.K.	2.3	3.1	5.1	2.7
France	4.0	2.2	8.5	3.4
Italy	4.3	2.4	7.7	3.5
Germany	3.3	2.1	7.2	4.2
Netherland	3.9	1.9	8.0	4.4
Belgium	3.9	2:0	7.8	4.7
Low-income Economies	4.9	6.1	5.1	5.4
Middle-income Economies	6.3	2.5	3.9	3.8
High-income Economies	3.7	3.1	7.3	4.3
World	4.0	3.2	6.6	4.3

Source : The World Bank, World Development Report 1992.

Table 2 Changes in export ratio

	Export/GDP	
	1965	1990
Indonesia	5	28
Philippines	17	28
Thailand	16	38
Malaysia	42	79
Singapore	123	190
Hongkong	71	137
China	4	18
Korea	9	32
Japan	11	11
U.S.A.	6	10
Canada	19	25
Mexico	8	16
U.K.	19	25
France	13	23
Italy	15	21
Germany	18	32
Netherland	43	57
Belgium	43	74
Argentina	8	14
Venezuela	26	39
Uruguay	18	27
Brazil	8	7
Chile	14	37

Source : The World Bank, World Development Report 1992.

Table 3 Regional and inter-regional trade

		Asia					USA	EC12	World
			Japan	NIEs4 *1	ASEAN 4*1	China			
Asia		25.2	25.6	26.3	16.7	48.3	20.9	22.3	20.3
	Japan	16.8		19.8	11.9	14.9	15.6	20.6	14.2
	NIEs4	50.5	41.4	56.1	28.7	606.5	36.4	33.4	38.8
	ASEAN4	18.0	14.4	17.7	13.2	74.6	17.0	15.2	16.6
	China	38.7	35.9	44.3	14.4			15.4	30.8
U.S.A.		14.1	9.8	25.9	10.2			7.2	8.5
EC12		16.1	16.5	21.7	9.5	15.2	8.8	11.0	9.8
World		18.5	12.3	29.1	17.5	30.8	13.7	10.4	10.3

Source : IDE UN/OECD Trade Data Search System (AIDEX),
IMF, Direction of Trade.

Notes : ALL figures are defined as $X^{89}_{ij} / X^{70}_{ij}$,
where X_{ij}s mean the value of export from country i to country j for each year of 1970 and 89.
*1 : ANIEs4 is composed of Korea, Taiwan, Singapore and HongKong.
*2 : ASEAN4 is composed of Indonesia, Malaysia, the Philippines and Thailand.

Table 4 Trade matrix in share for total trade

(Unit: %)

For \ To		EAST ASIA	JAPAN	ANIES	ASEAN	CHINA	AMERICAS	EC12	WORLD
EAST ASIA	1981	35.74	10.13	15.14	7.75	2.66	23.05	13.04	100
	1982	36.72	9.68	15.63	8.02	2.76	21.25	12.60	100
	1983	36.25	9.32	15.05	8.56	4.33	20.92	11.53	100
	1984	33.93	8.20	16.12	6.81	4.86	23.03	13.06	100
	1985	36.47	8.83	17.90	5.08	4.65	20.68	12.45	100
	1986	39.77	9.30	19.46	5.72	5.27	23.99	16.20	100
	1987	41.83	9.66	20.22	6.69	5.06	23.36	15.19	100
	1988	43.67	8.43	21.76	7.93	4.56	20.67	13.01	100
	1989	45.83	8.08	23.36	8.58	5.34	20.31	12.11	100
	1990	46.84	8.63	24.11	7.78	6.57	20.19	11.54	100
JAPAN	1981	24.10		13.69	7.06	3.35	28.86	13.88	100
	1982	24.69		14.15	7.20	3.95	32.85	13.22	100
	1983	22.06		12.19	6.18	7.13	40.73	11.99	100
	1984	22.64		14.35	5.58	6.73	42.00	14.17	100
	1985	24.92		17.16	6.16	5.60	33.83	16.51	100
	1986	27.26		18.73	6.91	5.58	32.16	12.81	100
	1987	28.28		18.83	6.65	5.30	32.24	12.52	100
	1988	29.57		19.10	7.13	5.14	30.83	10.76	100
	1989	32.04		21.25	8.08	5.73	32.47	10.92	100
	1990	33.03		21.31	8.32	5.52	31.85	10.50	100
ANIES	1981	33.51	10.55	10.07	10.45	2.46	26.87	13.14	100
	1982	33.94	9.51	8.83	12.63	2.92	25.27	12.23	100
	1983	33.61	10.05	8.91	9.48	7.36	27.66	10.33	100
	1984	31.78	10.26	8.91	6.46	8.14	40.06	12.47	100
	1985	32.91	11.48	9.55	6.10	6.78	31.74	14.17	100
	1986	36.24	12.45	10.97	6.69	8.13	33.73	14.51	100
	1987	39.94	12.59	11.62	7.96	8.13	32.58	14.08	100
	1988	40.73	11.92	12.72	8.73	7.93	29.46	15.81	100
	1989	42.20	10.48	13.66	9.01	9.05	28.90	15.60	100
	1990	42.36	9.09	14.60	7.86	11.24	26.98	14.69	100
ASEAN	1981	52.90	32.68	17.80	3.65	0.77	18.24	11.64	100
	1982	56.82	30.85	21.04	3.33	0.69	18.74	11.42	100
	1983	56.65	30.15	20.09	4.51	1.30	20.58	12.02	100
	1984	52.62	28.05	19.20	3.76	1.61	21.03	14.68	100
	1985	52.62	26.14	20.63	3.77	2.06	21.32	14.25	100
	1986	51.30	24.56	21.19	3.66	2.29	20.17	15.41	100
	1987	51.06	24.47	20.93	4.08	2.16	21.87	15.05	100
	1988	52.84	24.68	22.04	4.98	2.04	20.55	15.14	100
	1989	52.32	22.88	23.15	4.02	2.27	19.56	16.45	100
	1990	50.82	21.08	22.85	4.40	2.45	21.60	16.16	100
CHINA	1981	56.05	26.43	28.10	3.51		8.59	10.19	100
	1982	57.03	23.32	30.93	2.78		7.50	8.35	100
	1983	58.64	22.22	33.73	2.68		9.48	8.35	100
	1984	57.60	18.57	36.45	2.58		8.89	9.28	100
	1985	56.83	18.21	38.21	2.51		8.50	9.88	100
	1986	61.02	18.63	41.74	2.65		7.82	9.98	100
	1987	64.28	15.98	45.80	2.48		9.25	9.28	100
	1988	65.39	14.51	48.10	2.78		9.23	9.14	100
	1989	69.09	14.57	53.53	2.99		9.70	9.69	100
	1990	69.35	14.52	52.03	2.76		11.43	10.33	100
AMERICAS	1981	18.58	8.41	8.92	1.89	1.47	35.46	20.51	100
	1982	18.35	9.08	5.88	2.17	1.21	38.85	19.11	100
	1983	17.19	8.68	5.45	1.52	1.53	41.56	17.56	100
	1984	18.28	9.10	6.16	1.71	1.91	42.25	19.08	100
	1985	18.98	9.27	6.65	1.15	1.91	43.41	18.70	100
	1986	20.98	10.13	7.49	1.63	1.87	41.66	18.85	100
	1989	22.14	10.62	8.19	1.83	1.41	41.16	18.52	100
	1990	21.88	10.51	7.96	2.21	1.20	41.41	20.26	100
	1991	21.57	9.52	8.47	2.21	1.36	41.81	19.82	100
	1992	21.05	8.82	8.32	2.61	1.50	42.31	18.52	100
EC	1981	3.53	1.04	1.29	0.93	0.35	8.16	59.02	100
	1982	3.93	1.14	1.31	0.93	0.43	8.83	58.72	100
	1983	4.36	1.23	1.54	0.92	0.85	11.56	56.67	100
	1984	4.45	1.42	1.56	0.66	0.81	10.61	57.02	100
	1985	4.76	1.64	1.81	0.63	0.63	9.88	58.74	100
	1986	5.23	1.83	2.02	0.68	0.64	8.15	59.52	100
	1989	5.50	2.04	2.11	0.76	0.81	8.72	59.70	100
	1990	5.61	2.11	2.11	0.30	0.83	8.17	60.72	100
	1991	5.78	1.99	2.30	0.99	0.51	7.66	61.82	100
	1992	5.88	1.82	2.32	1.09	0.53	7.28	61.43	100
WORLD	1981	10.61	6.82	6.81	2.09	0.88	11.48	32.92	100
	1982	15.67	6.67	5.26	2.55	0.91	10.11	33.31	100
	1983	15.53	6.35	5.33	1.87	1.98	22.45	32.92	100
	1984	14.05	5.35	5.32	1.62	1.88	21.08	30.19	100
	1985	14.91	5.57	5.91	1.72	1.85	19.32	30.23	100
	1986	16.91	6.32	6.98	1.96	1.84	19.53	33.86	100
	1989	17.87	6.43	7.28	2.34	1.83	19.42	35.86	100
	1990	17.61	6.26	7.28	2.61	1.45	23.93	38.03	100
	1991	17.13	6.09	6.42	2.82	1.69	28.04	40.61	100
	1992	16.56	5.83	6.27	2.85	2.23	28.93	39.88	100

Table 5 Intra-regional trade shares

(Unit: %)

Category	Year	EAST ASIA	AMERICAS	EC12	APEC
Food	1981	63.00	15.79	61.19	49.29
	1983	65.12	17.66	65.90	53.46
	1985	67.70	21.28	65.20	58.66
	1986	67.75	23.76	70.09	62.52
	1987	71.43	24.06	71.92	65.31
	1988	75.01	21.58	71.92	66.62
	1989	75.25	23.06	70.55	67.51
	1990	77.45	28.54	71.70	71.14
Industrial Materials	1981	55.39	40.29	57.04	65.61
	1983	61.37	43.18	58.28	69.92
	1985	62.04	45.31	58.93	72.11
	1986	62.27	41.64	60.26	71.32
	1987	63.84	42.25	60.85	72.75
	1988	68.40	40.06	61.28	74.58
	1989	69.24	39.15	61.72	74.24
	1990	71.52	42.43	63.24	75.19
Capital Goods	1981	25.68	35.28	43.20	49.27
	1983	24.60	37.22	45.48	55.44
	1985	25.70	42.61	46.49	61.46
	1986	24.49	39.37	49.44	61.36
	1987	27.64	40.57	52.58	62.77
	1988	31.95	38.87	53.11	63.55
	1989	33.27	37.60	54.09	64.79
	1990	35.97	39.61	54.26	65.06
Consumer Non-Durable Goods	1981	13.70	27.41	58.89	52.28
	1983	12.99	33.85	59.07	61.68
	1985	14.13	39.11	56.40	69.36
	1986	16.35	34.19	59.74	68.81
	1987	19.04	32.25	61.81	67.55
	1988	28.90	30.64	61.51	72.29
	1989	32.97	26.50	60.20	75.20
	1990	34.20	28.11	61.82	73.68
Consumer Durable Goods	1981	13.43	61.81	56.54	59.60
	1983	12.27	74.99	56.85	67.01
	1985	13.96	83.97	52.49	75.43
	1986	10.59	82.40	56.48	73.22
	1987	12.57	76.39	58.39	70.06
	1988	18.95	72.02	60.93	70.53
	1989	21.18	67.10	61.83	70.84
	1990	23.08	66.65	63.77	69.44
Total	1981	35.74	35.46	53.02	57.22
	1983	36.71	38.85	54.71	62.53
	1985	36.25	44.54	54.67	67.63
	1986	33.99	42.25	57.02	67.51
	1987	36.47	43.41	58.74	68.56
	1988	39.77	41.66	59.32	68.82
	1989	41.62	41.16	59.70	69.76
	1990	43.67	41.41	60.72	69.39
	1991	45.93	41.81	61.82	69.37
	1992	46.84	43.31	61.43	70.30

Here, APEC does not include data for Australia and New Zealand.

Table 6 Changing export structure of Japan in each destination by commodity (Unit: %)

		EAST A.	ANIES	ASEAN	CHINA	AMERICAS	EC12	WORLD
Food	1981	2.03	2.94	1.14	0.14	0.61	0.51	1.16
	1983	1.24	1.63	0.88	0.38	0.76	0.50	0.96
	1985	1.07	1.59	0.97	0.20	0.65	0.39	0.76
	1986	1.13	1.40	1.20	0.25	0.60	0.41	0.71
	1987	1.13	1.31	0.95	0.45	0.51	0.42	0.68
	1988	1.16	1.29	1.32	0.27	0.42	0.32	0.63
	1989	1.11	1.31	0.91	0.30	0.35	0.31	0.60
	1990	1.02	1.23	0.64	0.42	0.33	0.26	0.55
Industrial Materials	1981	40.00	39.17	37.18	49.30	19.05	11.62	25.81
	1983	41.75	38.76	35.01	68.87	13.40	12.21	23.82
	1985	37.21	35.47	37.21	40.35	11.37	12.26	20.48
	1986	37.56	34.39	38.45	46.55	9.12	11.60	18.55
	1987	35.31	32.84	34.72	47.78	9.60	10.89	18.29
	1988	33.54	31.03	32.72	47.81	10.20	10.84	18.48
	1989	33.10	31.33	30.41	49.26	9.93	11.00	18.26
	1990	30.83	30.35	27.37	47.84	10.01	11.58	17.66
Capital Goods	1981	43.69	42.34	46.76	42.76	38.11	52.14	45.11
	1983	43.74	45.09	49.67	25.25	44.24	53.98	47.53
	1985	46.30	48.47	47.98	41.43	48.97	55.83	50.23
	1986	49.39	50.90	47.18	46.47	51.06	54.58	52.13
	1987	51.96	52.92	54.69	44.22	53.16	55.20	53.65
	1988	52.51	53.56	55.53	42.85	53.53	55.06	53.44
	1989	53.08	53.60	57.94	40.41	55.80	56.44	54.84
	1990	54.34	53.31	61.05	39.46	54.34	56.30	54.67
Consumer Non-Durable Goods	1981	0.82	1.12	0.50	0.24	1.23	1.10	1.02
	1983	0.89	1.16	0.54	0.50	1.48	1.06	1.11
	1985	0.82	1.17	0.64	0.31	1.27	1.12	1.05
	1986	0.79	0.91	0.61	0.56	1.12	1.13	0.97
	1987	0.75	0.84	0.47	0.65	1.01	1.03	0.90
	1988	0.76	0.85	0.48	0.68	0.88	0.87	0.78
	1989	0.78	0.91	0.44	0.65	0.74	0.82	0.75
	1990	0.85	1.01	0.39	1.02	0.70	0.84	0.76
Consumer Durable Goods	1981	11.72	12.32	13.32	5.89	39.89	33.27	25.62
	1983	10.41	11.15	12.10	3.66	38.85	31.02	25.17
	1985	12.84	11.27	11.44	16.47	36.58	29.19	26.14
	1986	9.38	10.49	10.64	5.04	36.93	31.05	26.35
	1987	9.30	10.39	7.80	5.80	34.53	31.30	25.19
	1988	10.32	11.45	8.12	7.44	33.42	31.50	25.10
	1989	10.06	10.74	9.08	7.73	31.67	29.72	23.89
	1990	11.01	11.89	9.29	9.16	32.83	29.21	24.54

Notes : The summation of shares of five different goods in each destination does not necessarily become 100% due to the existence of goods which do not belong to any of above categories.

Table 7 Changing export structure of ANIES in each destination by commodity

(Unit: %)

		EAST A.	JAPAN	ANIES	ASEAN	CHINA	AMERICAS	EC12	WORLD
Food	1981	9.43	18.26	5.55	5.90	2.38	2.67	3.36	5.48
	1983	8.68	18.81	4.96	4.65	4.46	2.36	2.46	4.88
	1985	7.79	18.02	4.16	4.20	1.70	1.87	2.48	4.30
	1986	9.65	22.16	4.00	4.75	2.19	2.00	2.75	4.90
	1987	8.80	19.78	3.25	4.11	2.27	1.85	1.88	4.46
	1988	7.36	16.21	3.15	4.18	2.12	1.87	1.73	4.11
	1989	6.29	13.60	3.06	3.53	2.25	1.50	1.41	3.59
	1990	5.81	13.67	2.87	2.92	2.50	1.36	1.19	3.30
Industrial Materials	1981	53.09	46.15	56.75	57.08	50.97	13.11	15.86	32.45
	1983	54.69	46.17	52.70	64.36	46.63	11.13	14.63	29.89
	1985	47.59	43.58	51.60	56.38	39.00	11.56	14.44	28.56
	1986	46.42	34.63	51.02	55.89	49.43	9.78	11.89	25.65
	1987	43.40	31.67	48.04	53.79	47.39	9.05	10.77	24.22
	1988	41.96	32.70	44.00	50.02	46.79	8.90	10.52	24.76
	1989	42.37	31.89	44.42	48.88	49.45	8.94	11.60	25.96
	1990	42.77	30.88	44.08	48.98	50.79	8.99	10.23	26.33
Capital Goods	1981	17.57	10.17	19.23	23.50	17.41	22.19	15.60	18.56
	1983	19.70	10.87	24.92	21.11	26.43	28.43	24.53	24.14
	1985	25.99	14.63	27.95	28.70	36.67	25.65	31.30	26.17
	1986	23.30	12.47	28.95	27.91	28.25	25.71	27.88	24.48
	1987	25.06	13.37	32.52	30.60	29.35	27.52	28.35	25.95
	1988	27.89	14.78	36.34	34.84	30.87	31.06	32.20	29.22
	1989	28.85	17.05	35.75	37.32	29.17	33.33	34.88	30.84
	1990	30.00	20.78	34.87	37.52	27.07	34.32	36.31	32.00
Consumer Non-Durable Goods	1981	6.79	15.08	3.60	2.02	4.61	32.62	34.79	21.12
	1983	5.74	12.54	4.14	1.74	5.79	31.12	30.44	20.23
	1985	6.39	12.91	3.69	2.17	5.01	32.11	26.92	20.10
	1986	8.20	16.91	4.13	2.29	5.83	31.24	29.31	21.63
	1987	9.29	19.56	3.88	2.53	5.58	29.13	28.60	20.86
	1988	9.14	20.06	3.99	2.27	5.02	27.12	25.79	18.69
	1989	9.62	21.39	4.82	2.07	5.43	27.94	23.40	18.36
	1990	8.73	19.09	6.43	2.11	4.92	28.46	22.75	17.54
Consumer Durable Goods	1981	10.28	6.91	12.41	9.29	20.21	26.93	25.00	18.77
	1983	8.24	7.51	9.98	6.65	12.12	25.14	23.54	17.48
	1985	9.47	7.75	10.22	5.96	14.59	26.78	20.12	17.67
	1986	9.39	10.37	9.61	6.37	10.59	29.34	24.25	20.31
	1987	10.54	12.42	10.18	6.43	11.57	30.53	26.92	21.61
	1988	11.31	13.60	10.66	6.58	12.57	29.20	25.77	20.66
	1989	10.76	13.72	10.18	6.63	10.92	26.40	26.41	19.15
	1990	10.47	13.26	9.80	6.88	11.53	24.95	27.25	18.67

Notes : The summation of shares of five different goods in each destination does not necessarily become 100% due to the existence of goods which do not belong to any of above categories.

Table 8 Changing export structure of ASEAN in each destination by commodity (Unit: %)

		EAST A.	JAPAN	ANIES	ASEAN	CHINA	AMERICAS	EC12	WORLD
Food	1981	10.33	6.01	12.44	30.10	50.97	9.69	25.11	14.08
	1983	8.97	6.80	9.08	22.26	27.36	9.49	24.82	12.63
	1985	9.69	7.04	10.23	18.15	34.87	11.06	22.53	13.36
	1986	13.30	11.43	13.59	19.94	26.93	13.47	30.43	17.31
	1987	12.47	12.21	10.98	16.41	23.49	10.99	26.72	15.52
	1988	13.52	13.87	11.33	17.50	23.76	10.66	23.17	15.80
	1989	13.54	13.18	10.96	21.64	26.52	10.39	19.90	15.41
	1990	11.62	12.24	10.15	16.53	10.38	10.80	17.94	13.45
Industrial Materials	1981	82.25	91.33	72.46	55.84	48.22	65.78	56.82	73.92
	1983	82.56	90.32	75.64	60.58	71.10	58.45	52.07	72.34
	1985	80.05	89.30	70.81	62.63	64.22	51.05	53.76	68.53
	1986	72.40	83.06	60.12	56.02	71.51	39.70	40.55	58.71
	1987	71.09	81.60	59.91	57.53	74.55	37.62	39.63	57.06
	1988	66.66	77.24	55.78	54.91	72.57	31.73	38.29	52.79
	1989	64.34	74.26	52.42	61.47	69.51	25.96	36.54	49.35
	1990	61.66	72.14	47.95	61.65	84.11	21.60	30.51	46.56
Capital Goods	1981	3.65	0.56	8.97	5.97	0.59	9.58	4.51	4.52
	1983	4.28	1.22	8.57	6.03	0.94	15.49	8.11	6.66
	1985	5.99	2.10	12.07	6.92	0.66	16.53	9.91	8.39
	1986	8.96	3.02	17.31	14.05	1.17	20.60	10.84	11.12
	1987	9.71	2.73	18.21	16.24	1.36	21.05	10.09	11.61
	1988	10.86	3.72	18.86	17.75	2.26	24.60	11.80	13.06
	1989	11.85	5.70	20.27	11.59	3.02	26.56	12.61	14.24
	1990	15.33	8.04	24.46	15.38	3.98	27.11	14.16	16.40
Consumer Non-Durable Goods	1981	0.63	0.25	1.29	0.98	0.01	4.59	7.28	2.68
	1983	0.71	0.27	1.33	0.92	0.03	6.47	6.42	3.04
	1985	0.79	0.30	1.44	1.40	0.03	9.70	6.67	4.05
	1986	1.59	0.50	3.11	2.56	0.05	11.37	9.23	5.86
	1987	1.56	0.85	2.43	2.44	0.22	13.15	13.55	7.22
	1988	2.10	1.44	3.11	1.80	0.33	14.23	14.89	8.12
	1989	2.67	2.07	3.88	1.55	0.19	15.61	16.54	9.15
	1990	3.18	2.46	4.50	1.74	0.39	17.36	20.16	10.49
Consumer Durable Goods	1981	0.63	0.28	1.23	0.94	0.08	1.79	2.22	1.12
	1983	0.70	0.26	1.29	1.02	0.08	2.45	3.24	1.45
	1985	0.82	0.27	1.71	0.81	0.08	3.58	3.51	1.85
	1986	1.42	0.48	3.00	0.89	0.10	5.31	5.00	2.94
	1987	1.94	1.00	3.40	1.45	0.24	7.47	5.96	3.96
	1988	3.56	1.96	5.92	2.22	0.95	8.75	7.70	5.43
	1989	4.92	2.93	8.32	2.19	0.74	11.54	10.56	7.30
	1990	5.87	3.44	9.56	3.01	0.88	12.99	13.26	8.69

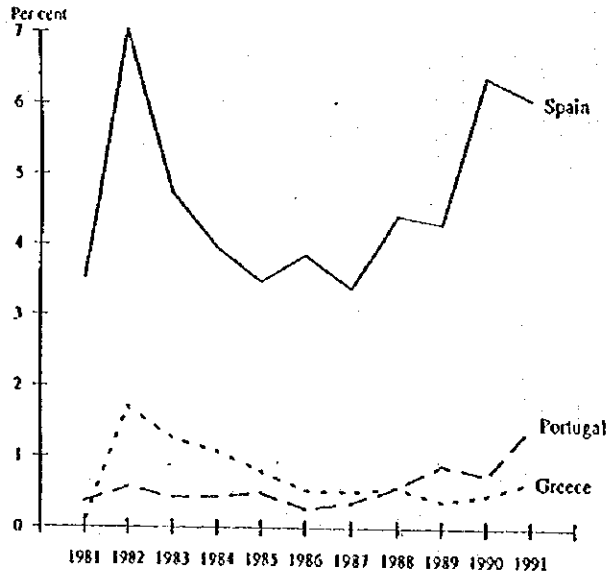
Notes : The summation of shares of five different goods in each destination does not necessarily become 100% due to the existence of goods which do not belong to any of above categories.

Table 9 (a) Direct investment flows (% of shares)

From: \ To:		HONG KONG	SINGAPORE	TAIWAN	KOREA	ANIES
USA						
USA	1982	46.7	32.3	38.3	33.1	32.9
	1986	41.2	36.7	25.2	29.5	33.5
	1990	30.6	37.4	24.9	28.7	30.3
EC						
	1982	14.2	36.7	9.2	13.1	21.9
	1986	10.9	38.0	12.9	8.5	17.9
	1990	10.9	27.2	15.6	15.5	18.8
JAPAN						
	1982	30.1	16.8	20.9	47.1	23.8
	1986	20.5	24.0	25.2	52.3	23.5
	1990	31.5	28.2	25.3	46.2	33.2
HONG KONG						
	1982	0.0	0.0	8.3	0.0	2.7
	1986	0.0	0.0	5.8	3.6	2.6
	1990	0.0	0.0	4.6	2.9	2.3
SINGAPORE						
	1982	1.7	0.0	0.0	0.0	0.2
	1986	1.4	0.0	0.0	0.1	0.2
	1990	0.0	0.0	1.0	0.7	0.5
TAIWAN						
	1982	1.3	0.0	0.0	0.0	0.1
	1986	0.0	0.0	0.0	0.0	0.0
	1990	0.0	0.0	0.0	0.0	0.0
KOREA						
	1982	0.0	0.0	0.0	0.0	0.0
	1986	0.0	0.0	0.0	0.0	0.0
	1990	0.0	0.0	0.0	0.0	0.0
ANIES						
	1982	3.0	0.0	4.3	0.0	3.1
	1986	1.4	0.0	5.8	3.7	2.8
	1990	0.0	0.0	5.6	3.6	2.8
ASEAN4						
	1982	0.0	0.0	0.0	0.0	0.0
	1986	0.0	0.0	0.0	0.0	0.0
	1990	0.0	0.0	0.0	0.0	0.0
TOTAL						
	1982	100.0	100.0	100.0	100.0	100.0
	1986	100.0	100.0	100.0	100.0	100.0
	1990	100.0	100.0	100.0	100.0	100.0
	86/82	2.61	1.43	1.69	2.63	1.73
	90/86	1.58	1.80	2.24	2.17	1.98

Table 9 (b) Direct investment flows (% of shares)

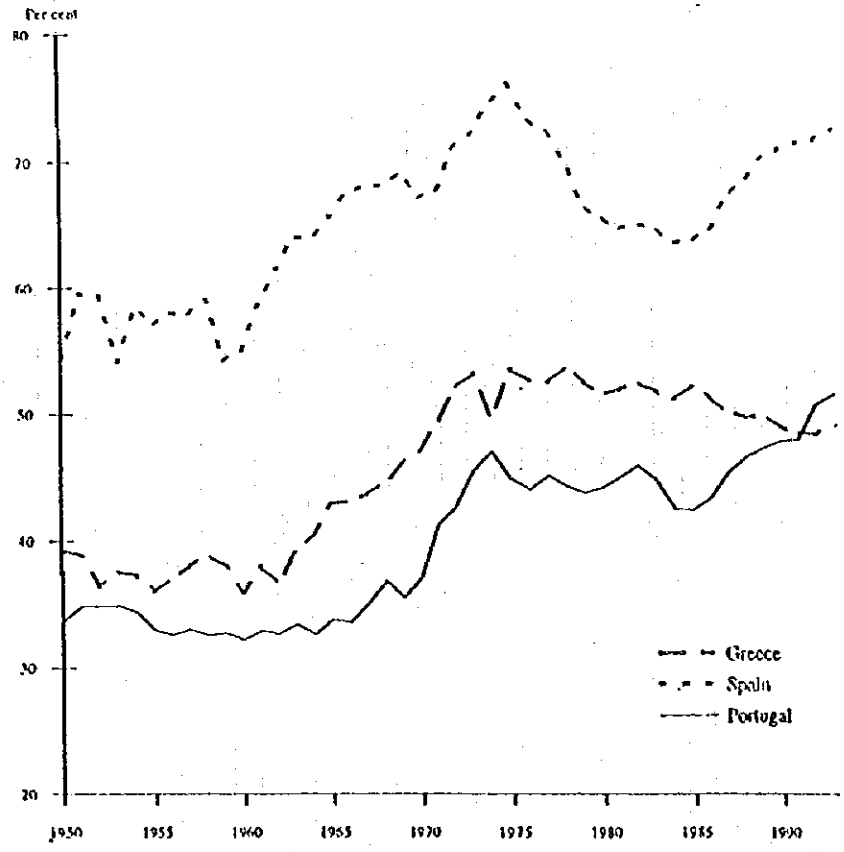
From: \ To:		THAILAND	INDONESIA	PHILIPPINE	ASEAN4	CHINA	TOTAL
USA							
USA	1982	8.5	5.6	48.3	11.1		18.5
	1986	18.1	7.7	57.0	16.3	16.7	22.5
	1990	11.6	5.7	53.6	10.3	12.1	16.5
EC							
	1982	23.2	11.7	9.8	15.3		17.5
	1986	15.8	12.0	12.2	13.3	8.3	14.4
	1990	7.4	12.3	11.1	10.4	8.5	12.6
JAPAN							
	1982	23.4	36.9	18.0	30.5		28.2
	1986	20.5	33.2	13.7	27.1	14.3	26.6
	1990	35.4	24.9	15.2	28.4	13.3	27.6
HONG KONG							
	1982	3.4	10.1	5.9	7.5		5.9
	1986	3.2	11.9	6.0	8.5	54.0	11.3
	1990	5.9	9.6	6.8	8.1	59.5	13.9
SINGAPORE							
	1982	3.6	0.0	0.0	1.2		0.8
	1986	2.8	2.0	0.0	2.1	0.4	1.2
	1990	3.7	2.6	0.0	2.9	1.2	1.9
TAIWAN							
	1982	6.8	0.0	0.0	2.2		1.5
	1986	6.2	0.9	0.0	2.6	0.2	1.4
	1990	7.0	6.0	0.0	6.1	0.0	3.3
KOREA							
	1982	0.2	0.0	0.0	0.1		0.0
	1986	0.1	1.4	0.0	0.8	0.3	0.4
	1990	0.6	4.8	0.0	3.0	0.0	1.7
ANIES							
	1982	14.0	18.1	5.9	11.0		8.3
	1986	12.3	16.2	6.0	13.9	54.4	14.3
	1990	17.2	23.0	6.8	20.0	60.7	28.8
ASEAN4							
	1982	2.0	1.5	0.6	2.1		1.4
	1986	2.3	0.0	0.0	0.8	0.0	0.4
	1990	0.9	0.0	0.0	0.3	0.0	0.2
TOTAL							
	1982	100.0	100.0	100.0	100.0		100.0
	1986	100.0	100.0	100.0	100.0	100.0	100.0
	1990	100.0	100.0	100.0	100.0	100.0	100.0
	86/82	1.33	1.34	1.22	1.33		1.64
	90/86	2.83	2.45	1.21	2.65	3.20	2.37



[a] Per cent of total OECD FDI outflows.

Source : Ohno and Okamoto [1994]

Figure 1 Total FDI-inflows of mediterranean EC member countries



[a]Real GDP per head, measured at purchasing power parities; 1993 estimates.- [b]EC core countries (Belgium, France, Germany, Italy, Luxembourg, Netherlands) = 100.

Source : Ohno and Okamoto [1994]

Figure 2 Per capita incomes of South EC member countries, 1950-1993

Appendix 1 Network of regional agreements

1958	
Benelux, France, Germany, Italy	Membership
1961	
Greece	Association Agreement
1963	
Turkey	Association Agreement
ACP countries	Association Agreement (Yaounde)
1970	
Spain	FT Agreement
Malta	Association Agreement
1973	
Denmark, Ireland, UK	Membership
Portugal	FT Agreement
Austria, Finland, Iceland, Norway, Sweden, Switzerland	FT Agreement
Cyprus	Association Agreement
1975	
Israel	FT Agreement
ACP countries	Association Agreement (Lomé)
1976	
Maghreb (Algeria, Morocco, Tunisia)	Cooperation Agreement
1977	
Mashreq (Egypt, Jordan, Lebanon, Syria)	Cooperation Agreement
1980	
Yugoslavia	Cooperation Agreement
1981	
Greece	Membership
1986	
Portugal, Spain	Membership
1992	
Czechoslovakia, Hungary, Poland	Europe Agreement
1993	
Austria, Finland, Iceland, Norway, Sweden, Switzerland	EEA Agreement
Bulgaria, Romania	Europe Agreement

Appendix 2 An economic classification of the single market proposals

Measures	Goods	Services	Persons	Capital
Market access	Abolition of intra-EC frontier controls Approximation of: - technical regulations - VAT rates and excises - food health standards Implications for trade policy (unspecified)	Dismantling trucking quotas Access to inter-regional air travel markets Mutual recognition and "home country control" in financial services	Abolition of intra-EC frontier controls Relaxation of residence requirements Right of establishment for professionals	Abolition of exchange controls Admission of securities listed in other member states Industrial cooperation
Competitive conditions	Liberalisation of public procurement Merger control Review of state aid to industry	Increased competition in air transport Approximation of fiscal and regulatory aspects in services markets	European "vocational training card"	Harmonisation of take-over and holding regulations Fiscal approximation of parent-subsidiary relations
Market functioning	Research programs in telecommunications and information technology Proposals on standards, trade marks, company law, etc.	Approximation of banking and insurance regulations EC system of permits for road haulage EC standard for electronic payments	Approximation of training programs Mutual recognition of diplomas (especially for professionals)	European company statute Harmonisation of intellectual property rights Common bankruptcy provisions
Sectoral policy	Agriculture: elimination of MCAs Steel: reduction in subsidies	Common air transport policy on access, capacity and prices Common rules on mass risks insurance	deferred to European Political Union Treaty	deferred to European Monetary Union Treaty

7

Viet Nam's Participation in AFTA, APEC, and WTO : Commitment to Free Trade vs. the Need to Promote Industries

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I. Early commitment to the free trade regime

Viet Nam joined the Association of Southeast Asian Nations (ASEAN) in 1995, and thereby accepted the obligation of moving toward free trade under the ASEAN Free Trade Area (AFTA). In addition, Viet Nam is likely to join the Asia-Pacific Economic Cooperation (APEC) and the World Trade Organization (WTO) in the not-too-distant future. Viet Nam, though still an underdeveloped economy in terms of income, technology, and industrial structure, is about to commit itself to these arrangements with a free-trade orientation. This paper considers the implications of these commitments for the long-term development strategy of Viet Nam as a very latecomer.

1. Joining AFTA

Viet Nam became a new member of ASEAN in July 1995, and began to participate in AFTA—ASEAN's recently created free trade regime—in January 1996. The original plan of AFTA was to reduce the maximum tariffs on manufactured goods among ASEAN members to 5% by 2008, but the schedule was later accelerated to 2003—and a further acceleration has also been considered. However, Viet Nam has been given three additional years to complete the proposed tariff reduction on manufactured goods—i.e., by 2006. Even with this three-year postponement, Viet Nam will be exposed to free trade discipline (although only within ASEAN) at a very early stage of its economic development. As a first step in this direction, the Vietnamese government has already begun to restructure the current tariff system of 0-200% to a new system of 10-60%, with simultaneous changes in the domestic tax structure.

At the moment, however, it is unclear how severe the actual requirements of AFTA turn out to be for Viet Nam. Negotiations are still underway as to whether all manufactured goods or only specified products will be subject to the proposed tariff reduction. Obviously, the impact on Viet Nam will be much larger in the former case.

2. Joining APEC in the future

Viet Nam's possible membership in APEC is currently under consideration. The United States, Australia, and New Zealand are generally cautious about expanding the membership. Nevertheless, in the case of Viet Nam, a new membership is likely to be granted in the near future provided that the Vietnamese government is willing, the rest of ASEAN continue to support Viet Nam in this matter, and the United States refrains from objecting."

However, the Vietnamese government remains cautious and undecided about pursuing the APEC

membership immediately.[2] Institutional adaptation to the recently admitted AFTA is already straining the government's human and physical resources. In addition, implementation of the AFTA schedule of intra-ASEAN tariff reduction on manufactures to 5% or less by 2006 will require enormous efforts by the Vietnamese government and private sector. The government feels that it needs more preparation before committing itself any further to free trade and therefore does not positively seek or expect to join APEC at this time.

APEC was initially created as a loose forum for exchanging views and solving problems as they arise among member countries. However, in recent years, the institutionalization of APEC is underway.

The Bogor Declaration in November 1994 expressed the general intention by the APEC members to liberalize international trade and investment by 2010 for developed countries and by 2020 for developing countries, without specifying the content of liberalization.

The Osaka Meeting in November 1995 did not delineate detailed Action Plans for individual members (which are to be submitted at the Manila Meeting in October 1996) but adopted Action Agenda to guide future liberalization.[3] Action Agenda consist of (i) liberalization of international trade and investment; (ii) institutional harmonization; and (iii) economic and technological cooperation. For the purposes of receiving a wider range of economic assistance and the expansion of its multilateral diplomatic arena, joining APEC will certainly benefit Viet Nam. But the first two Agenda, and in particular the need to adopt free trade, will have significant implications for the Vietnamese strategy for future industrial promotion.

The Osaka Meeting also partly reconciled some of the policy issues among the members. Notably, the principle of cooperative and spontaneous liberalization stipulated that trade liberalization should proceed individually and voluntarily, without strict rules and criteria imposed by multilateral agreements. This resolved one of the key issues regarding whether liberalization should be voluntary or institutionally imposed.

In addition, the APEC members adopted nine general principles as the basis of trade and investment liberalization. They are: ① comprehensiveness; ② consistency with WTO; ③ overall comparability; ④ nondiscrimination; ⑤ transparency; ⑥ standstill; ⑦ simultaneous process without delay; ⑧ flexibility; and ⑨ cooperation. The 8th principle (flexibility) in particular may have a significant bearing on Viet Nam's development strategy. It states that "considering the different levels of economic development among the APEC economies and their diverse circumstances, flexibility will be available in the liberalization and facilitation process."

3. Joining WTO in the future

The timing of Viet Nam's membership in WTO is even more uncertain than APEC, subject to various international political factors. Suffice it to say that the opportunity to join WTO will certainly come so long as Viet Nam continues the present policy of integration with the global economy, and that Viet Nam must therefore conduct its trade policy with the future participation in WTO in mind.[4]

It is clear that Viet Nam is in the process of committing itself to increasingly rigorous requirements of free trade, first within ASEAN, then within the Asia-Pacific region, and eventually vis-a-vis the whole world. But the exact timing of membership, liberalization schedule, and content of liberalization remain quite uncertain with respect to each organization.

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1) The current 18 members of APEC are Japan, United States, Canada, Australia, New Zealand, Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Indonesia, Philippines, Brunei, China, Papua New Guinea, Chile, and Mexico. While new membership is on hold until the end of 1996, Russia and Pakistan have already signaled their desire to join.

2) This paragraph is based on the statement by the Vietnamese delegation to the Fourth Workshop of the Joint Japan-Viet Nam Research Project, held on January 28-29, 1996, in Tokyo.

3) For the details and significance of the APEC Osaka Meeting, see Masahiko Ebashi, "Future Direction of APEC after Osaka Meeting: Implications for Viet Nam" (January 1996).

II. The trade pattern of Viet Nam

Let us review the trade pattern of Viet Nam. Tables 1 and 2 show exports and imports reported in official statistics. Table 1 presents major products while Table 2 classifies goods by 2-digit level industry. Comparing these two tables, total exports and imports in 1991 and 1992 are not identical but similar.[5]

These tables show the primitive structure of the Vietnamese economy. Exports are concentrated on a few primary commodities, with mineral fuels and agricultural and marine products occupying as much as 80% (Table 1, 1993). Among them, three items—crude oil, rice, and marine products (shrimp, squid, etc.)—account for 53% of total exports. Relatively minor industrial exports consist of secondary textile products (sewn goods).

Major imports include machinery, refined petroleum products, and chemical products (including fertilizer). "Other," comprising nearly half the imports, includes consumer durables such as motorbikes, boom boxes, TVs, videos, and karaoke machines. Viet Nam's current trade pattern reveals the absence of modern manufacturing industries.

Figure 1(a) and 1(b) indicate Viet Nam's exports and imports in 1993 by trading partner (compiled by IMF). Let us consider exports first. The largest destination is Japan at 31%, followed by EU at 23%. The share of ASEAN is 18%—not very large but not negligible either.[6] In contrast, the share of APEC is a very high 72% This means that APEC policy will deeply affect the international trade of Viet Nam when it becomes a member. The share of the United States has been very small for historical reasons, but the Viet Nam-U.S. trade relationship is expected to expand rapidly following the normalization of the bilateral relationship in 1995. This will make APEC even more important for Viet Nam.

As for imports, APEC's share is an even higher 86%. With growing trade with the United States, it can safely be said that APEC countries will comprise almost all imports of Viet Nam from now to the early 21st century. Although the liberalization deadline of APEC (2020) is 14 years behind that required by AFTA (2006), its impact on Viet Nam will be much larger because APEC includes every major trading and investment partner for Viet Nam—Japan, Asian NIEs, and the United States.

III. Static analysis: trade creation effect vs. trade diversion effect

In this section, we introduce two static analyses of the free trade area (Urata, 1995; Nagaoka, 1995).

In international economics, global free trade is known to promote the welfare of each country by improving the efficiency of resource allocation. However, free trade within a certain region—as opposed to the entire world—may or may not produce such a desirable result. By lowering tariffs within the region while maintaining the trade barriers against nonmembers, the regional demand will certainly shift from the outside goods to the goods produced within the region. This will cause the following two effects.

(1) Trade creation effect: intra-regional trade which has been suppressed due to trade restrictions will begin, leading to a more efficient division of labor in production among the member countries.

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4) For transition and developing economies like Viet Nam, the WTO's policy that might seriously affect their development strategy is the prohibition of (i) quantitative import restrictions; (ii) export subsidies; and (iii) trade-related investment measures. However, waivers to these provisions do exist. In addition, developing countries will be granted a moratorium of five years in abolishing these measures after the WTO Agreement becomes effective. Even so, the observance of the WTO Agreement would still be a policy constraint on latecomer countries trying to catch up. On the other hand, there are certain merits in WTO membership. The foremost among them would be the automatic entitlement to the most-favored-nation status without bilateral negotiations.

5) According to the IMF data compiled from export and import values reported by Viet Nam's trading partners, Viet Nam's total exports were 2.087 and 2.475 billion dollars in 1991 and 1992, respectively, and its total imports were similarly 2.338 and 2.506 billion dollars. Except for 1991 imports, these figures are not very different from those in Tables 1 and 2. However, none of these data includes smuggled exports and imports.

6) A large part of exports to (and imports from) Singapore reflects the refining of Vietnamese crude oil by Singaporean facilities.

(2) Trade diversion effect: If the most efficient producer is outside the region, regional products (which are less efficient) may replace the imports from outside, leading to a loss of allocative efficiency.

The problem arises when the second effect is greater than the first—then the establishment of a free trade area (FTA) will lower economic welfare. If this is the case, it is possible that the member countries themselves may suffer a welfare loss. Even if this does not happen, the loss incurred by the nonmembers will always be greater than the gain obtained by the members. The desirability of a regional FTA therefore depends greatly on whether the globally most efficient producer exists in the region.

Figure 2(a) shows the trade creation effect when Country A and Country B form an FTA and no efficient producers exist outside the region. In Country A, Da and Sa are domestic demand and supply, respectively, of a certain good—say, clothing. Assume that Country B can supply clothing indefinitely at the unchanged price of Pb. Initially, Country A is levying a tariff on imported clothing at the rate t, and thus the domestic price in Country A is (1+t)Pb. Consumption is OI, production is OH, and imports are HI. In addition, consumer surplus is CQD, producer surplus is DPF, and the government's tariff revenue is PLMQ.

Now suppose the bilateral tariff is removed. Clothing produced in Country B is now supplied at the price Pb. In Country A, consumption expands to OJ and production shrinks to OG. The new consumer surplus is PNE, producer surplus EKF, and therefore Country A's welfare increases by the sum of two triangles PLK and QMN. These results are identical to those of tariff removal in a two-country model—countries outside the FTA can simply be ignored.

Figure 2(b) presents the trade diversion effect when there exists an efficient producer (Country C) outside the FTA. Both Country B and Country C can elastically supply clothing at the prices Pb and Pc, respectively, but assume Pb>Pc. Initially, Country A is levying tariff t to all imports and importing clothing from Country C only, which is cheaper at the price of (1+t)Pc. In Country A, consumption is OJ, production OI, and tariff revenue TUML.

Suppose the tariff on clothing from Country B only is removed, and the domestic price of clothing made in Country B becomes lower than that made in Country C (Pb<(1+t)Pc). Country A will now import clothing only from Country B (who is a less efficient producer). The new economic welfare consists of consumer surplus DSF, producer surplus FPG, and zero tariff revenue. Whether total welfare of Country A increases or not depends on the sign of TQP+URS−QRML. In other words, whether the welfare of a member country increases or not depends on the relative size of the trade creation effect and the trade diversion effect.

Clearly, trade diversion does not occur if the FTA includes the most efficient producer in the world. This condition is more likely to be satisfied the greater the number of member countries. From this point of view, small FTAs like AFTA may have strong trade diversion effects which are detrimental to their welfare. By contrast, APEC includes all types of countries—from the most developed to NIEs, and developing and transitional countries—and therefore there is less danger of trade diversion. Particularly for Viet Nam, APEC includes all its major trading partners. For this reason, Viet Nam's participation in APEC is not likely to generate any significant trade diversion effects.

IV. Dynamic analysis: promoting industries vs. exposure to competition

However, the more important issue for Viet Nam is the dynamic—rather than static—effects of joining an FTA. From the dynamic point of view, the problem that Viet Nam faces can be summarized as follows.

(1) Viet Nam is a very latecomer in the growth chain of East Asia. Its income and technology levels are low, its economic structure unsophisticated, and its undeveloped private sector is still incapable of responding strongly to free competition and price incentives. To begin the process of industrialization from this early stage of development requires selective promotion of industries—including import protection—by the government.

(2) However, there are also risks associated with government intervention. Under the current

circumstances where future prospects of individual industries are uncertain and the government lacks the full institutional capacity to carry out developmental policies, we must beware of prolonged protection of inefficient industries, political pressure from interest groups, and enormous waste of resources and foreign exchange that might result from failed protection.

An early commitment to free trade means that the country voluntarily gives up the policy option of import protection—and this carries both costs and benefits. On the cost side, the country may lose the chance to "take off" economically because the use of effective industrial policy is ruled out. On the other hand, the country may benefit from the disciplinary effect of free trade and exposure to external competition, thus avoiding "government failure." The relative importance of costs versus benefits cannot be generalized. For each individual country, it depends on the stage of development, political and social factors, institutional capacity, and the severity and timing of required liberalization measures.

1. The arguments for and against "infant industry protection"

The traditional theory that justifies industrial protection in developing countries is called the "infant industry protection" argument. It presumes the existence of increasing-returns-to-scale over time in the protected industry—i.e., the industry, although inefficient and high-cost at present, will become internationally competitive as it accumulates the experience of production and improves productivity. This property is called the "learning effect" or "dynamic increasing-returns-to-scale." By temporarily protecting such an industry, the government can expand the industrial base and raise national income.

Although it is usually difficult to tell which industries exhibit this property, it is too much to say that it is impossible. For latecomers including Viet Nam, all the industries to be promoted are (or were) present in developed countries. The essence of productivity increase in latecomers consists of catching up with the existing technology that the leaders achieved long ago. For them, it is by no means impossible to pick potential winners if one carefully analyzes the initial conditions of the latecomer, the experiences of developed countries, global economic conditions, etc. In East Asia, where the patterns of flying-geese formation and product cycles are clearly observable—industry by industry, and country by country—much can be learned from the earlier achievers of industrialization.

Figure 3 depicts the learning effect. Cumulative output is measured horizontally. As the industry accumulates the experience of production, the unit cost is assumed to decline.

Let us study Case A. The initial cost is OA which is uncompetitive under free trade since the world price is OP*—thus the domestic industry cannot be started. However, if the government temporarily levies an import tariff of t, the domestic product will become cheaper than the foreign product, allowing the domestic industry to enjoy the learning effect through the expansion of domestic sales. When cumulative output rises beyond X (at point B) the domestic industry is able to survive without further protection. (Instead of waiting until point B is reached, the government may begin to reduce the tariff rate gradually from t as the industry gains experience, to produce the same promotion effect.) Because of the success of protective promotion, protection will ultimately become redundant and the industry can now move to the free trade regime.

This model implies that premature commitment to free trade is harmful. If tariffs are kept too low or prohibited altogether, a latecomer will not be able to industrialize. The country will be trapped into the situation of exporting traditional commodities, and its economic structure will not develop to a higher stage. For example, Viet Nam may forever be exporting crude oil, rice, and marine products. In this case, the trade pattern is said to be governed by "static comparative advantage." Conversely, policies to consciously promote capital accumulation and technological introduction for the purpose of expanding the export base from primary commodities to light-industry goods, and then to higher-level manufacture, is called the deliberate creation of "dynamic comparative advantage." An early commitment to free trade may close the latter option.

However, there are a few famous counter-arguments against temporary protection of infant industries:

(1) Mill-Bastable Criterion—the targeted industry must not only become competitive eventually, but

also generate sufficient surpluses in the future to cover the initial "setup cost." This includes the cost borne by consumers having to purchase expensive domestic products as well as subsidies given to this industry. Case 2 in Figure 3 clearly does not satisfy this condition.

(2) Existence of market failure—if the private sector can finance current deficits with future surpluses, new industries will develop even without official protection. In order to justify government intervention, "market failure" must be present. Uncertainty, asymmetrical information, and incomplete financial markets are frequently cited in this context. (This condition seems to be satisfied in Viet Nam where these problems are severe.)

(3) Government failure—although market fails, government may fail even more significantly. Government failure occurs because of incompetence, corruption, or political pressure—leading to the protection of hopeless industries, perpetuation of protection as vested rights, and immense waste of resources. If the institutional capacity of the government is limited, failed protection may weaken the national economy rather than create new industries.

Considering these problems, the protection of prospective industries must be carried out, if it is to be carried out, with utmost care and solid pragmatism in its implementation.

2. Dynamic externalities

The argument above featured dynamic efficiency of a single firm or industry. Temporary protection can also be justified by the existence of "externalities" across different firms or industries. Such externalities arise when the production of each firm has mutually beneficial effects to each other although they cannot be directly recouped. It does not matter whether firms belong to the same or different industries. Let us cite some examples.

Consider a steel firm and a machinery firm, each contemplating an expansion of operation. However, a steel firm will not invest in an advanced blast furnace unless a sufficiently large steel demand is anticipated, and a machinery firm will not expand unless a stable supply of steel is guaranteed. The problem will be solved if both firms invest at the same time, but due to uncertainty about each other's strategy, both continue to operate at low levels of output and productivity, relying on imported inputs. The government can coordinate the simultaneous investment by the two firms to overcome the impasse, thus improving the productivity of each industry. In this case, externalities are due to positive industrial linkage.

Alternatively, individual firms may produce "something" that benefits the entire industry or economy. For example, knowledge and technology introduced to one firm may be imitated by others. Skills embodied in workers of a firm, accumulated through on-the-job training, may readily be available to other firms. If such spillover effects are important, the free economy may under-invest in new technology and human capital from the viewpoint of social welfare. Under these circumstances, official encouragement and protection of these activities are justified.

3. Discipline of free trade

So far we have surveyed arguments that justify protection and discourage commitment to free trade. However, there are also views that positively recommends an early commitment to free trade. They emphasize the disciplinary effect of international competition which preserves economic dynamism and promotes allocative efficiency and income growth.

First, exposure to foreign competition not only corrects the distorted domestic price system via commodity arbitrage, but also serves as a ruthless but very effective managerial discipline. Competition eliminates firms that are too inefficient to survive and forces the remaining firms to make serious efforts to improve productivity.

Second, even when the domestic market is oligopolistic (i.e., dominated by a few giant firms), the possibility of imports will encourage domestic firms to behave competitively. As Viet Nam is reorganizing state-owned enterprises into a small number of large industry groups, the most effective way to maintain a

competitive environment will be to remain open to foreign competition.

Third, if we are to avoid government failure discussed above, an externally imposed timetable for trade liberalization is useful. To prevent industrial protection from being hijacked by domestic interest groups, a wise government should use international commitment to free trade to guarantee the temporariness of protection and defend the criterion for industry selection. From the point of view of enterprises, knowing that the gradual removal of tariff protection has been internationally agreed and cannot be unilaterally rescinded by the national government prompts them to direct limited resources to true innovation rather than rent-seeking.

In sum, we recognize, on the one hand, that government intervention is essential for the development of the still primitive Vietnamese economy, and temporary import protection—if wisely and flexibly implemented—should be justified. On the other hand, we also recognize that import protection carries real danger if institutions are weak. Commitment to free trade minimizes the failure of protection by imposing discipline on both the government and the private sector.

V. Strategy for promoting industries with early commitment to free trade

Viet Nam must accept the fact that, in today's world economy, the use of blatant protection is ruled out as a way of catching up with the developed countries. This is a very different international environment from that faced by the predecessors (Japan, Asian NIEs, and some of the ASEAN countries).

However, an immediate and complete removal of import protection is unrealistic for Viet Nam—that would most likely suppress the chance of long-term development. The international community should therefore grant Viet Nam a minimum level of preferential treatment and the right to maintain partial and temporary protection which are consistent with its stage of development. Simultaneously, The government of Viet Nam should adjust its domestic development strategy according to the requirements of the pre-announced external liberalization. So long as these conditions are met, Viet Nam should willingly accept the timetable for trade liberalization and take full advantage of its disciplinary effect.

Free trade and protection should not be taken as mutually exclusive. The two policies must be combined in various ways as the stage of development and the requirements of individual industries change. A general formula for choosing free trade versus protection does not exist. Pragmatism, not dogmatic assertion of whether free trade or protection is desirable, should be the guiding principle. An early commitment to free trade is not at all inconsistent with the argument that trade liberalization should proceed at the speed that is appropriate for each individual industry—and the government should see to it that it happens. In fact, that is the only practical way.

In what follows, we will consider how Viet Nam's long-term development policy should be amended in light of its early commitment to free trade.

1. Instruments of industrial promotion

Concrete policies which would be outlawed under AFTA, APEC, or WTO remain uncertain at this point. Nevertheless, it is almost certain that numerical import restrictions, prohibitive tariffs, export subsidies, and local content requirements will be phased out eventually. The question still remains as to how severely these prohibitions will affect Viet Nam in terms of coverage, time schedule, and substance. It may be that latecomers like Viet Nam will be given many escape clauses as a result of multilateral negotiations. Alternatively, all participants may be required to open up regardless of the stage of development.

We believe that permission of temporary and limited protection is appropriate for underdeveloped economies including Viet Nam. If the international requirement is too onerous, Viet Nam should rightly demand a special grace period or waiver—or even reconsider the early participation of such an agreement. Of course, special treatment should be relatively modest and must be eliminated in the long run. Meanwhile, the government should strive to graduate from the period of such temporary protection as soon as possible.

Once the minimum protection is allowed, the government must promote domestic industries with larger weights on policies other than direct trade measures. Emphasis on other policies is not necessarily a disadvantage. We should welcome it if the implementation of these policies is accelerated under such circumstances. Many things can be done largely independently from trade policy—for example, macroeconomic stabilization, fiscal and monetary reform, rural development, education and skill development, investing in infrastructure, institutional reform for receiving FDI, bureaucratic reform, SOE reform, poverty alleviation, introduction of new technology, legal reform, etc. A bit of siege mentality—that import barriers will have to be lowered and the nation will be exposed to fierce international competition—may help mobilize resources for implementing these necessary policies.

At any rate, the deadline for trade liberalization is ten years away (2006) for AFTA and a quarter century away (2020) for APEC. A lot must be accomplished between now and then. Viet Nam should concentrate on what can—and should—be done today.

As argued above, it is vital that the commitment to trade liberalization should be wisely used as incentives for SOE reform and private-sector development, as well as protecting the government from domestic interest groups. The authorities should advertize the positive effects of open trade—i.e., productivity increase, prevention of domestic monopoly, avoidance of government failure, etc. Rather than succumbing to the feeling of victimization, Viet Nam should shrewdly take advantage of the requirements imposed by AFTA, APEC, and WTO for the purpose of long-term economic development.

While the future is uncertain, things may turn out more favorably than currently anticipated. If the Vietnamese economy successfully grows and develops in the next quarter century, its industries may become sufficiently competitive to require no special protection. In this optimistic scenario, neither APEC nor WTO would be a real constraint. Then, Viet Nam should even consider an early graduation from the protective regime by removing trade barriers in advance of the deadline set by APEC or WTO.

2. Criteria for selecting target industries

Industries targeted for promotion must exhibit the learning effect (section IV above). In addition, targeted industries are expected to meet the following conditions:

(1) Productivity-growth criterion—productivity gain as well as cost reduction should be large, so the industry is likely to become internationally competitive in a relatively short time.

(2) Income-elasticity criterion—future demand (and its growth rate) is expected to be large. Future demand in turn is determined by the size of the domestic market, economic growth of major trading partners, access to export markets, global price stability, and the income elasticity of the product in question.

(3) Low setup cost—initially needed subsidies are small and the sacrifice in terms of consumer surplus is not too large.

(4) Low import requirement—the industry does not require too much foreign inputs, either directly or indirectly through upstream industries. If the import requirement is high, growth of this industry will put a pressure on the balance of payments.

The first and second criteria guarantee, from the supply and demand conditions, that the learning effect will be large. These two criteria are those actually adopted by the Japanese Ministry of International Trade and Industry (MITI) in picking industries to promote during the 1960s.

3. Vietnamese industries in light of the criteria above

In the case of Viet Nam, three broad types of industries are potential candidates for official promotion—primary commodities and their processing, light industry, and heavy chemical industry.

First, consider primary commodity industry which currently provides the largest export base (crude oil, rice, marine products, etc.). This industry is not expected to grow greatly and continuously in terms of productivity or global demand (criteria (1) and (2)), nor does it serve as a catalyst for the structural change

of the Vietnamese economy. Nonetheless, it satisfies criteria (3) and (4) above, and the fact that it is at present the largest source of foreign exchange should not be overlooked. Furthermore, in the short to medium run, there is much room for increasing the value-added of these products by additional processing, introduction of new species, quality improvement, etc. Thus, the government should promote primary commodity and processing industry as the currently important export base through provision of financial and technical assistance.

Second, consider labor-intensive light industry. Even though only a few sewn products and sundry goods are exported successfully today, light industry in general has a great potential of becoming a major export base in the early 21st century, given Viet Nam's initial conditions (especially cheap skilled labor) and the state of dynamic growth linkage in East Asia. This industry meets, to a large extent, all the four criteria for industrial selection above. In addition, initial protection is hardly needed for light industry which requires a relatively small setup cost. The gestation period prior to the commencement of exports will be short. In this sense, labor-intensive light industry has the best prospect of becoming Viet Nam's major exports to developed countries and Asian NIEs in the near future. There remains a question of which light industry should be promoted. Needless to say, official promotion should be based on in-depth and on-going studies on the prospects of each individual product.

Third, let us examine the feasibility of capital-intensive heavy chemical industry (steel, oil refinery, petro-chemicals, cement, fertilizer, etc.) in Viet Nam. The domestic demand for these material industries is expected to grow as the Vietnamese economy develops rapidly. Unlike light industry, however, whether Viet Nam has dynamic comparative advantage in these industries is an open question. Several favorable conditions must be met before Viet Nam can profitably produce these materials at home rather than rely on imports. In light of the four criteria above, Viet Nam must clear many difficult problems before deciding to promote heavy chemical industry.[7]

(1) Productivity of these industries (which are capital- and technology-intensive) may not achieve an internationally competitive level in labor-rich Viet Nam. Unlike primary commodities and light industry, the imposed timetable for trade liberalization can become a severe constraint for these industries. Careful feasibility studies are needed for individual investments, and those projects which cannot become competitive by the deadline for trade liberalization must be reconsidered.

(2) Many developed countries, Asian NIEs, and other ASEAN countries have already invested in these industries. As these production facilities come into operation one by one, there is a serious chance of global overcapacity and price decline. If the Viet Namese facilities in the pipeline turn out to be unable to capture sufficiently large markets, they would become permanent loss-makers without economies of scale. To avoid such a quagmire, international markets should be monitored closely, "regional division of labor" of industries with increasing returns should be agreed among ASEAN (and APEC) countries to prevent overproduction in the Asia/Pacific area, and the Vietnamese firms should be financially strong enough to ride out the expected fluctuations in international demand and price.

(3) The set up cost of heavy chemical industries is generally very high, and a large part of it will be financed by external borrowing. The number and size of these projects must be carefully chosen in order not to incur a heavy external debt burden associated with excessive investment.

(4) If raw material inputs can be secured domestically, the growth of the promoted industry is less likely to exert pressure on the balance of payments. However, on the other hand, Viet Nam should not attempt to establish a new industry simply because of the domestic availability of raw materials—unless all other conditions are also satisfied. Availability of domestic inputs is neither sufficient nor necessary for these industries to become internationally competitive.

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7) The Joint Japan-Viet Nam Research Project has already begun the feasibility studies of these individual industries in detail. See the report by Koichiro Fukui, "Five Capital Intensive Industries and Possible Problems for New Investment" (March 1996).

Viet Nam should go ahead with the import substitution strategy of these heavy chemical industries if all these questions are answered favorably. In other words, vigorous official promotion of these industries without careful deliberation of these matters carries serious risks and should therefore be avoided.

In conclusion, the Vietnamese government should actively support the exports of primary commodities (which are the current major export base) and light industry goods (which are likely to become a very important export base) without granting import protection, regardless of AFTA, APEC, or WTO. As for heavy chemical industries with large capital and technology requirements and long gestation periods, investment must proceed more carefully since the agreed timetable for trade liberalization may become a serious binding constraint.

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Table 1 Viet Nam: merchandise trade by product items, 1991-92

(Unit : Million US$)

	1991	1992	1993	1993 share
EXPORTS	2024	2475	2850	100.0%
Petroleum	581	156	799	28.0%
Coal	48	47	70	2.5%
Rubber	50	54	68	2.4%
Rice	225	300	340	11.9%
Tea	14	16	20	0.7%
Coffee	74	86	104	3.6%
Marine products	285	302	378	13.3%
Agri&fore products	440	434	492	17.3%
Textiles & garments	156	221	350	12.3%
Other light industrial goods	68	100	50	1.8%
Other	83	158	179	6.3%
IMPORTS	2105	2535	3505	100.0%
Petroleum	485	615	716	20.4%
Wheat	36	59	62	1.8%
Sugar	5	4	6	0.2%
MSG 1/	45	53	55	1.6%
Cotton textiles	32	23	40	1.1%
Raw cotton	61	13	17	0.5%
Fertilizers	246	320	150	4.3%
Steel	25	104	150	4.3%
Machine & spare parts	...	100	549	15.7%
Cars & trucks	12	39	60	1.7%
Other 2/	1158	1205	1700	48.5%

Source: IMF and World Bank estimates, from data provided by the Vietnamese authorities; as quoted in World Bank, VIET NAM PUBLIC SECTOR MANAGEMENT AND PRIVATE SECTOR INCENTIVES: AN ECONOMIC REPORT (Sept. 1994), pp. 118-120.

1/ Probably "monosodium glutamate."
2/ Derived from the residual in the table.

Table 2 Viet Nam: merchandise trade by commodity

(Unit : Million US$)

EXPORTS	761.7	825.1	1003.3	1902.2	2353.3	1929.2	2460.0	100.0%
Foodstuff	337.2	369.1	413.8	689.7	825.9	675.7	...	35.0%
Beverages	21.5	23.0	28.2	15.9	18.4	13.8	...	0.7%
Industrial materials	149.6	164.2	232.0	230.2	326.8	266.0	...	13.8%
Mineral fuels	34.5	36.2	44.4	424.2	500.0	702.0	...	36.4%
Chemicals	--	--	--	--	--	--	...	0.0%
Manufactured products	53.7	57.1	70.0	90.6	107.5	88.7	...	4.6%
Machinery & equipment	--	--	--	--	--	--	...	0.0%
Other manufactures	165.2	175.5	215.0	451.6	574.7	183.1	...	9.5%
Unclassified	--	--	--	--	--	--	...	0.0%
IMPORTS	2153.0	2452.3	2739.6	2151.8	2738.5	2178.7	2380.0	100.0%
Foodstuff	120.9	134.0	179.7	159.0	114.3	117.0	...	5.4%
Beverages	--	--	--	--	--	--	...	0.0%
Industrial materials	92.4	104.4	102.3	28.7	89.7	72.7	...	3.3%
Mineral fuels	453.2	513.6	716.0	89.1	640.8	502.7	...	23.1%
Chemicals	334.7	358.3	399.1	623.5	450.2	357.8	...	16.4%
Manufactured products	363.9	443.9	612.0	546.1	612.0	484.1	...	22.2%
Machinery & equipment	704.2	801.3	631.7	620.7	741.8	571.8	...	26.2%
Other manufactures	59.4	70.3	72.1	61.5	66.7	54.7	...	2.5%
Unclassified	24.4	26.5	26.8	23.3	23.2	18.1	...	0.8%

Source : General Statistical Office (1992) ; Economy & Trade of Viet Nam 1986-1991. Hanoi, Viet Nam, as quoted in MITI WhiteE Paper on Economic Aid (1994). p.114.

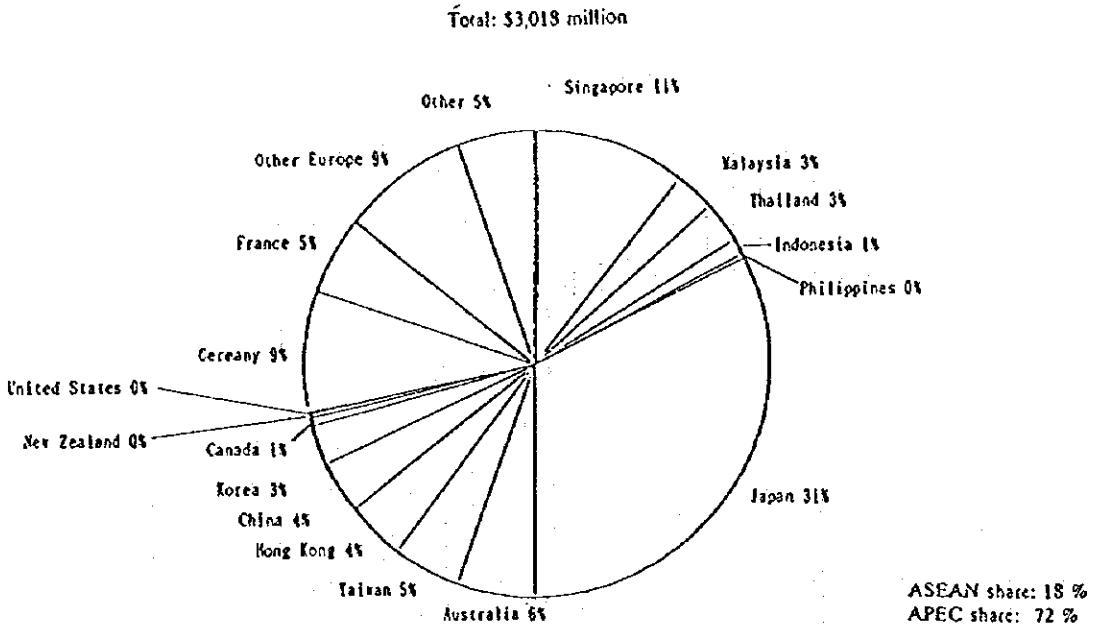
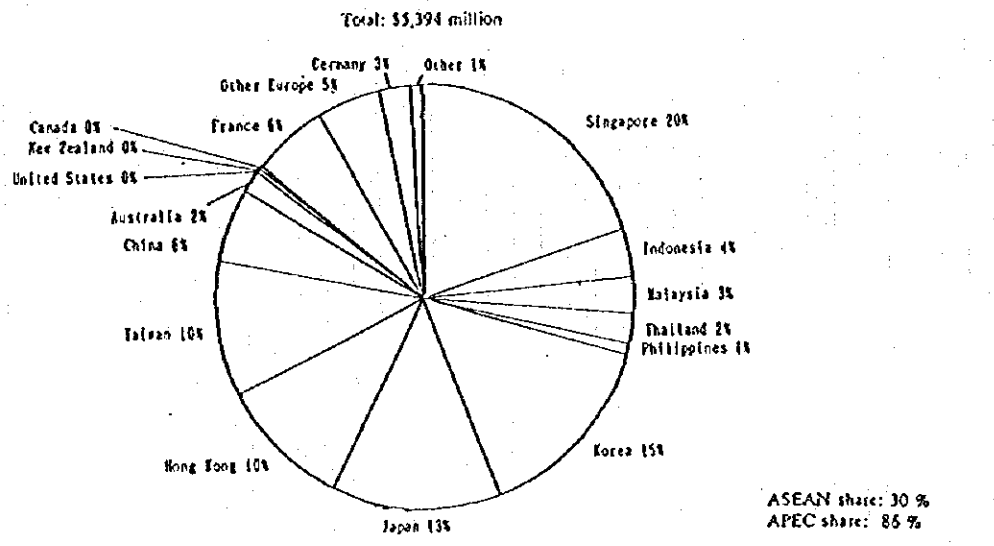


Figure 1 (a) Viet Nam: Exports in 1993



Source: IMF, Direction of Trade Statistics, 1994. All data are derived from partner country data and IMF estimates.

Figure 1 (b) Viet Nam: Imports in 1993

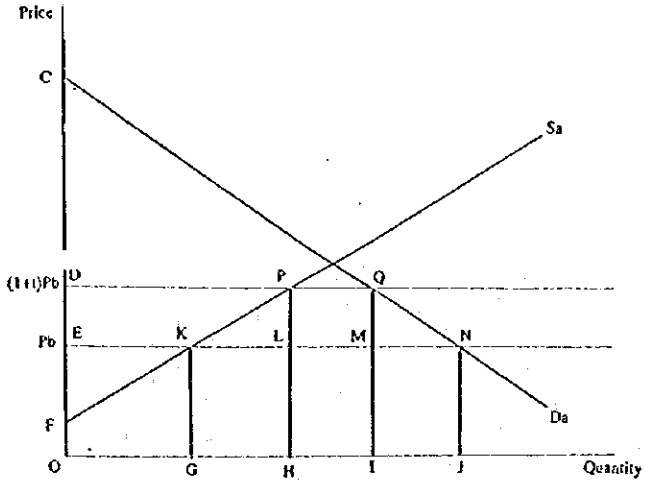
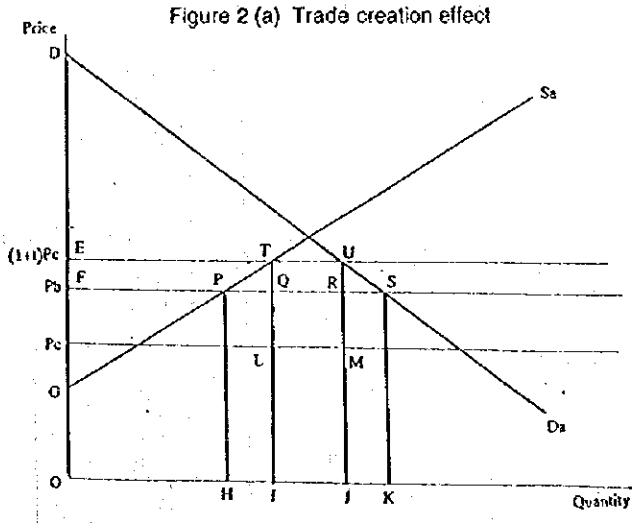


Figure 2 (a) Trade creation effect



Source: Urata (1995).

Figure 2 (b) Trade diversion effect

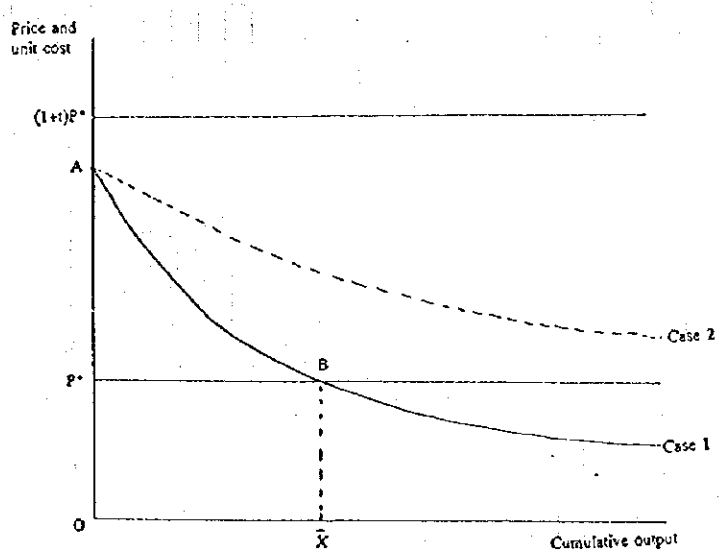


Figure 3 Protection and the learning effect

8
On Some Issues of Industrial Development Orientation in Viet Nam

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I. Some traits on the industrial development within the cause of socio-economic renovation and growth in Viet Nam

The results the political line of renovation brought about in favor of industrial development have an extremely important significance, namely :

In spite of various currently existing difficulties, many new factors arose in the industrial sector, creating preconditions for its further development.

During the years 1990-1994, the average annual growth rate of industrial production accounted for 12.3 percent. The economic structure has recorded a certain shift, when the proportion of industry and construction in GDP increased from 22.6% in 1990 to 29.6% in 1994.

The economically important industrial products have shown a high growth rate, such as electricity, crude oil, cement, fertilizers, as well as some exportable consumer goods and products of food industry, etc.

The lindustrial enterprises and production establishments have paid more attention to the quality and design of their products. They have shown more initiative and flexibility in adjusting their production altematives, relevant to the market requirements. This is just due to the fact that the previous support in form of state subsidies was abolished and all the businesses were then placed under an impact of competition.

In the industrial sector, various economic components have been facilitated to develop in conformity with interests of the nation and of the businessmen themselves.

The state-owned industrial enterprises have been rearranged and consolidated in the spirit of rationalization and effectiveness so that the public sector would factually keep a leading role in the development process. Many enterprises, who found themselves in troubles in the first months under the new management mechanism, have now already "rose up" and recorded better results.

The non- public sector is promoted to develop, particularly in producing consumer goods, processing agro- products and in handicrafts.

By the end of 1994, in the processing industry alone, there were already 8,866 establishments which got their license. Among them, 58% were registered as private enterprises : and other 17% as companies of limited liability.

As for the small and handicraft Industries, there were 5,287 cooperatives and more than 450 thousand private households involved in the prodution activities.

External economic relations have further developed. Foreign direct investments (FDI) in general and investments into the industrial sector in particular have shown a rapidly increasing trend. The industrial sector shares an important part in exportations, accounting for over 50% of the country's total export volume.

The registered capital of FDI projects, so far licensed, accounts for approximately 18 billion USD. The investments into the industrial sector share 40% of the total capital, registered by project (if including projects in the field of oil and gas, the share of industrial sector would account for more than 60%), of which the in-depth investments comprise over 60% Among such investments, the joint-ventures constitute a principal form, namely, for more than 65%. And in addition, the investments activities are now territorially distributed on more regions. The Government has also adopted various amendments to gradually improve the legal framework for foreign investments.

Six export- processing zones (EPZ) were so far granted their license. Some of them were already put into operation, absorbing several industrial enterprises, whose products are determined for export. An integral process of elaborating master plans is just being under way for industrial estates, conformably with the infrastructure facilities development and urbanization plans. Some industrial estates are now already under construction so that a favorable environment would be generated to attract investments into the industrial sector.

<Problems to be handled>

- The industrial sector has still a small productive capacity, incapable to generate by itself necessary resources for re- investment. Its ability of reequipping the national economy, in particular its ability of supporting the agricultural production and rural economy, appears to be still negligible.
- The manpower engaged in the industrial sector accounts for only about 11% of the total labor force, whilst the agriculture still absorbs an excessively large part of labor force, i.e, more than 72%.
- The low technological level, which implies usually high standards of material spending on a product unit, a low productivity of labor and a low quality of manufactured products, thus restraining their competitiveness on the market.
- In general, the infrastructure proves still to be weak, which constitutes a limiting factor in terms of attracting investments, both domestic and FDI, for the industrial development.
- There is still a part of state- owned industrial establishments, which did not succeed to adapt themselves to the new mechanism, while showing a poor efficiency in their activity. The development of non- public industrial sector seems to be still sluggish.

II. Industrial development orientation in Viet Nam to the year 2000

In the long run, to develop an industrial sector with relatively comprehensive structure in pursuit of the country's industrialization, modernization, aimed at transforming Viet Nam from a backward agriculture-based country into an industrialized one. It is hoped that this objective would be essentially attained within a period of over two decades.

The five-year period 1996-2000 has an important position in terms of generating preconditions for a stronger development in the later decades.

To create a favorable environment and conditions for the industrial sector to develop at an annual rate of 14-15% during the years 1996-2000, meanwhile keeping this rate or promoting a higher rate for the after-2000 year.

In this regard, the value added of the industrial sector is expected to reach a figure of 34-35% of GDP by the year 2000, and hence, the share of industrial production in GDP will exceed that of the agriculture.

During next five years, efforts should be done to essentially accomplish the technical innovation process and thus improving the competitiveness of the existing industrial establishments. At the same time, it is desirable to strongly attract domestic and foreign investments so to develop the processing and manufacturing industries-sectors and projects, which would efficiently make advantage of domestically available potentials on labor and natural resources following a clear orientation to exports. For the industrial development orientation, priorities will be given to :

- Food processing industry, which is to both satisfy the domestic demand and meet requirements on the quality for export promotions. It is expected to combine various scales of production, various levels of technology, cortrespondingly to each locality, each product so that a majority of agro-forestry-fisheries products would be processed, first of all, rice, rubber, coffee, tea, sea products, sugar cane, vegetables and fruits, as well as meat of different kinds.
- Industry producing consumer goods, which is to both respond to the internal demand, in substituting imports, and effectively serve exports, in making full use of comparative advantages in manpower. It deals here principally with branches, such as textiles, garments, leather processing, shoes producing, high- level building materials, fine- arts articles, toys and other house utensils.
- To further conduct investigation, exploration and exploitation of oil and gas. To finish constructing a complex of collecting and transporting gas to borders. To make an effective use of gas for producing electric power, liquidized gas, nitrogenous fertilizer : and to create favorable conditions to early develop an industrial branch producing gas-based chemicals. To accelerate the construction of the refinery No.1, in making preparations for a successive construction of refinery No.2.

To broaden forms of cooperation and joint- venturing in order to improve capabilities of the national oil-gas industry in investigation, exploitation, processing and services provision.

- It is desirable to reorganize and further consolidate the mechanical engineering industry so that the latter would become a key branch, capable of providing other production branches with a major part of necessary equipment and instruments.

In combining the domestic production and importation, to assure the supply of equipment, firstly equipment for the agro-processing industry,transport means and spare parts, etc. Effects should be made to development branches of building and repairing marine vessels, assembling and manufacturing cars, motorbikes, electrical appliances, etc.

- To promote the electronics and information technology industry : for the immediate time, to produce selected accessories, elements and to assemble equipment of domestic and industrial electronics, informatics and communications equipment. To widen computer-based services, especially to develop application software packages for different domains of scientific research, production and daily life.
- To build selected bases of heavy industry in thrust fields, where there are urgent requirements and exist adequate conditions on capital, technology, consumption markets in the sense that the establishments in question would rapidly show their effectiveness and positive influence.

To strongly develop the export- led industries, thus facilitating a fast, sustainable and effective growth of the national economy. At the same time, it is indispensable to attach an adequate stress to the internal market - a market created by a populous nation with an ever- growing purchasing power. The industrial sector itself should guarantee an effective import substitution. On the other hand, the Government should introduce adequate policy measures of protecting the domestic industrial products, with a suitable degree of protection and time limit, so to gradually improve the competitiveness of the national industrial sector.

To bring into full play combined forces of different economic components in favor of the industrial development. To innovate and further consolidate stateowned enterprises in the direction of improving their efficiency so that the latter could properly deserve their leading role. To create favorable conditions and legal environment in order that the private sector would feel assured to make long- term investments into the production development. To encourage the privately owned economic component in making its investments into production activitis ; and at the same time, it is necessary to properly protect the legitimate property ownership and private interests. To widen forms of cooperation, integration and joint-venturing between the public economic sector and the private sector, both domestic and foreign, in favor of the industrial development.

To upgrade, rehabilitate and newly construct, with a suitable prioritization, the economic infrastructure, first of all, in the most congestd and weakest links, that just still impede the development course.

To rehabilitate and consolidate currently existing industrial estates in terms of infrastructure facilities and production technology. Trying to mobilize as many resources as possible so to newly build several industrial estates, allocated largely on different areas, of which for the immediate time, a stress will be focused into the focal economic regions. The development of industrial estates should be kept in parallel with the development of infrastructure facilities and rational urbanization.

III. Orientation of allocating the industrial production

1. Concerning the currently existing industrial estates and complexes

Based on the overall master plan, it is necessary to examine possibilities of expansion and nor improvement following the directions as below :

- In case of complexes which are situated deeply in the urban interior, next to populous residential quarters, there will be mainly in- depth investments, aimed at undertaking the technological upgrading and modernization, as well as resolving the problem of environmental pollution. It is decidedly necessary to move or even demolish those plants that prove to be too old, or to cause heavily poisonous pollution.

As for the complexes which are placed far from the urban centers and have still more land areas ; it is supposed to improve the technical infrastructure, to revise the master plan in terms of using their terrain available and setting out their invesment direction so to effectively attracting investments.

In any case, it is indispensable to attach a master plan of industrial estates and complexes to that of urbanization development.

2. Concerning new industrial estates

It is requested to elaborate the nation- wide overall master plan in order to specify alternatives of allocating the industrial production, while attaching a master plan of industrial development to that of infrastructure and urbanization development. To choose locations with better conditions to develop earlier during next 10-15years in order to determine activities of programming in more details (where some integral conditions should be guaranteed, namely, electricity and water supply, drainage, transportation, etc.).

In the immediate time, to promote a rapid economic development, a stress will be given to areas which have a more convenient background in terms of infrastructure, material supply, consumption market, and prove to be more attractive for investors, both domestic and foreign. It deals here with 3 focal economic zones : triangle of Hanoi-Haiphong-Halong, triangle of Ho Chi Minh City-Bien Hoa-Vung Tau : and the central region Lien Chieu-Dung Quat.

The form chosen is to establish industrial estates, for which there was already a special statute promulgated by the Goverment. Such industrial estates would have the following characteristic features :

1) Having their clearly determined borders, where the industrial establishments will be concentrated, in sharing common infrastructure facilities, without residential settlements interposed.

2) Having their particular management statute.

3) Having their managerial body.

As for non-focal zones, the following direction was set out for the coming years :

1) To consolidate and innovate the currently available industrial production units and complexes under the form of In- depth investments, technological rehabilitation and innovation.

2) New industrial complexes could be established for those localities which have more favorable conditions. The main idea here is to create "focal points" of industrial production in different townships, townlets, hence on one hand, to meet the requirements of industrializing the agricultural production and rural areas, and on the other hand, to make full use of local advantages.

3) As for areas, surrounding the focal zones, it is required to establish relations of cooperation, integration and interaction with the latter within their process of industrial development. It is possible to

create a kind of "supportive" industrial production, "satellite or peripheral" industrial complexes, in absorbing production units, released from large cities.

As for mountainous regions, the Central Highlands are now still facing numerous infrastructure difficulties, that evidently hinder their industrial development. In this regard, a special attention should be paid to the problem of infrastructure facilities, particularly roads, hence facilitating an eventual growth of industrial production and complexes in the later period. For the immediate time, it is desirable to develop small-scale industrial formations in different towns, townships-principally processing industry, linked with agriculture and forestry and to construct small-size hydro-power stations.

To prepare terrain and location for important projects, such as refineries, petro-chemical complexes, large-scale metallurgy, etc. Due to their voluminous requirements on transport, such projects should be better located near to sea ports : and in addition, they require a large-area terrain and an appropriate settlement of environmental problems.

To sum up, the question of allocating industrial production for the coming years, in our opinion, should be handled with a clear awareness of thrusts and priorities, in view of creating a favorable environment to attract financial sources for the industrial development, especially foreign direct investmens in favor of a rapid growth of the national economy. At the same time, it is highly desirable to attentively develop medium and small-scale industries, particularly processing industries, linked with sources of supplying raw materials from the agricultural sector, so that the inter-regional gaps could be gradually reduced.