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The Development of Small and Medium Scale Enterprises in the Process of Industrialization, Modernization in Viet Nam

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I. The role of small and medium scale enterprises (SMEs) in the process of industrialization, modernization in Viet Nam

1. Concept of SMEs

Until now in Viet Nam there have not been legal regulations indicating concrete criteria and standards to define SMEs. During the 60s and 70s industrial enterprises were classified into 5 groups based on such indicators as gross product value ; total number of workers ; managing organizations (local or central) ; complicated character of management. Such classification was needed mainly for forming the apparatus of management. In recent years some organizations and researchers suggested concrete indicators and criteria for classificaiton of SMEs. It may concern the following :

Industrial and commercial bank in providing credit to enterprises states that medium enterprises are those with capital of 5-10 billion of dong and employees of 500-1,000, and small ones- with captital below 5 billion of dong and employees below 500.

Many researchers consider that in the production and construction sectors enterprises with captital below 1 billion of dong and employ less than 100 persons are small, capital of 1 to 10 billion of Dong and employ from 100 to 500 persons are medium. In the commercial and service sectors medium enterprises may be with capital form 500 million to 5 billion of Dong and employees of 50- 250.

It is impossible to adopt mechanically foreign experiences and firmly establish criteria and measures to classify SMEs in Viet Nam for all industries and periods. From our point of view, the following 3 indicators should be used simultaneously in Viet Nam to classify enterprises in respect of scale :

1) Gross capital including fixed and working capital ;
2) Total number of regular employees ;
3) Gross sales per annum (or gross physical product)

A single indicator could not correctly reflect the scale, e.g. a garment enterprise with 2,000 employees may be only considered as a medium one due to accompanying small capital, but at the same time a hydroelectric or chemical plant with 2,000 persons can be classified as a large scale enterprise because such plant has a big amount of capital. For enterprise of the same industry producing the same product the larger gross product the larger scale they are.

It is the time (no more delays) for the government to issue legal regulations on concrete assessing indicators and criteria for distinguishing small and medium scale enterprises. On the basis of such frame criteria, various industries and sectors will issue concrete regulations according to their conditions.

2. Characteristics of SMEs in Viet Nam

(1) SMEs have some features representing their strengths such as follows.

During the centrally planning period with subsidies SMEs could exist and develop only in two forms, cooperatives and state- owned enterprises, but now they are operating in different forms of property and industries : small and medium state enterprises share 85.7% in the total number of state enterprises : 30% of foreign joint ventures : 100% of cooperatives, private enterprises, limited companies, joint- stock companies.

SMEs are dynamic and flexible to market changes, especially to small, individual and local demand due to their ability to change the business and product direction, increase or reduce easily the number of employees.

Employees have more stable works and less threat to lose their works. This is applicable not only to Viet Nam in recent years, but also to other countries in the world. Employees in large enterprises will easily lose their jobs, in particular during the economic recession, e.g. in Germany from 1970 to 1987 while large companies reduced the employment of 360,000 persons (about 10%), SMEs created works for 1.6 million of persons. In NICs during 1985- 1987 employment in small businesses shared 23-33% of that in productive sectors, 45-55%- in non- productive sectors. In the USA in the 80s the number of SMEs increased by 500,000-700,000 units and created nearly 20 million of new jobs (wihile 500 famous American companies alone reduced 3.5 million of jobs...). In China from 1979 to 1987 nearly 70 million people found works to which contributed millions rural and urban SMEs. In Viet Nam, according to statistical data of December 1994, the number of employees absorbed by SMEs in the form of joint- stock companies, limited companies, private enterprises, teams, cooperatives reached 3.5 million, that is 11% of labour force. Moreover, relations between employees of SMEs are rather close, even friendly due to relatives, family, village linkages.

Production and management organizations are flexible, neat, managerial decisions are quickly put into operation, control and regulation- direct. Hence, cost of management can be reduced.

Initial capital is small, efficiency is high, with short time for return that is attractive for agents' and individuals' investment into this sector.

(2) The features of SMEs that generate disadvantages :

Limited capital resources, especially own and additional capital, for concentration and accumulation to hold or expand production and entrepreneurship.

Weak and out of date technical, technological basis. Most of SMEs have small woking houses and offices for transactions.

Limited level of control and functional management. Most of SMEs' managers have no fundamental education, especially lack of knowledge about market economy, business management, hence their work is based mainly on practical experiences.

3. The role of SMEs in the process of industrialization and modernization

There are still existing different viewpoints on the definiton and classification of SMEs. But assessment about the role of SMEs has almost been unified. Yet SMEs have the mentioned limitations and face with difficulties, but based on their inherent advantages, they play a significant role in national economy and in industrialization, modernization. This has been proved in the world as well as in Viet Nam. In Japan, among 6.5million of enterprises 98.7% are SMEs. In NICs in the period of 1985-1987 SMEs contributed 25-35%to gross product (in the productive sector) and 60-70% (non-productive sector). France has such "international", multinational SMEs that share about 50% of total export. For Viet Nam to proceed industrializatiotn, modernization it should solve simultaneously problems : objectives, directions, content, steps, the way to mobilize and organize labour force, to exploit various resources. So the main tasks to concern about are :

Rapid, stable, efficient industrialization, modernization to avoid the threat of relatively lower speed of development while lacking captial and having high demand for works.

New conditions for industrialization in Viet Nam- market economy directed towards socialist bias.

Rapid industrialization, modernization without negative environmental and social consequences.

Integrating large, medium and small scale enterprises, determining the role and significance of SMEs postulates one of the impornant problems of industrialization, modernization and directly affect mobilization of labour force and resources in order to efficiently execute its objectives.

SMEs play very important role in the process of industrialization, modernization in Viet Nam. This could be represented as follows :

First, development of SMEs creates a lot of jobs using mainly individuals' capital. Generally, in developed as well as developing countries SMEs have large share of the total number of enterprises and generate jobs for about two thirds of industrial labour force. In Viet Nam employment creation becomes urgent pressure, so development of SMEs could provide a lot of work within a short time. As of September 1993 SMEs of different forms of ownership provided stable jobs for more than 3 million of persons at enterprises and for a lot of people working outside them (surveys show that every 10 enterprise workers need one outside the enterprise for provision of inputs, sale of output, subcontracts, beings sputniks.)

Establishment of SMEs are based on small initial capital, mainly individuals' external ssistance is limited. Surveys during 1991-1993 showed that for a SMEs establishment capital was below 500 million of Dong, amount of capital needed for a job-10 million of Dong (that is one fifths to one tenths of that for a large enterprise). It was estimated that development of SMEs helped to absorb about 25,000 billion of Dong.

Hence, development of SMEs permits to mobilize and use individuals' capital and labour resources that made industrialization, modernization actually residents' task.

With a large number of different ownership sectors, drawing main part of labour who are working in enterprises and doing business in all fields : Production, construction, trading services, SMEs have been creating majority of products, national income and contributing much accumulation to state budget. On the other hand, under the market mechanism, thanks to advantages in dynamic, flexible and elastic changes of product and business orientation, SMEs could rather quickly meet the market diversified and changing demand, generating lively activities in the economic development.

Industrialization, modernization are impossible without large scale, capital- intensive and having modern technology enterprises acting as key elements in certain industries that brings ability to compete in the world market. Besides the development of necessary large scale enterprises we should adopt measures for increasing the accumulating and concentrating ability of some SMEs in order to make them possible in transferring into large scale enterprises. This is realistic and the empirical evidence also shows that many big groups and corporations in developed and developing countries were before originally SMEs.

In the conditions of competition the development of SMEs requires integration with large scale enterprises (via subcontracts, cooperating relationships...). Such the linkages with the large enterprises would assist and promote the development of the latter.

In the world as well as in Viet Nam, industrialization, modernization should be accompanied by environmental protection ; speeding up urbanization must not lead to social pressure such as :migration to big cities ; accommodation and infrastructure problems... Current success of scientific- technological progress, like progress in information science, microbiological technology, new materials, allows SMEs to use the modern techniques and technologies. The deveiopment of SMEs within industrial clusters and centers could meet the indicated requirements.

From above argued it is possible to state that concerning about the development of SMEs is one of important strategic directions in the process of country's industrialization, modernization.

II. Empirical evidence of SMEs development in Viet Nam

In Viet Nam SMEs have been formed and developed since the late 19 and early 20 centuries. The registered point was the time of French exploitation of Viet Nam as a colony.

During the period 1954-1975 SMEs in the North and in the South functioned under different mechanism and directions.

From 1976 to 1985 all SMEs worked on general bases-Centrally planning mechanism. During that period SMEs were small in the number and functioned in two forms : State-owned enterprises and cooperatives.

After 1986 thanks to effects of multisectoral policy of economic development, SMEs turned to a new stage of development. There have been the early results of Doi Moi :

The number of SMEs rapidly expanded and their ownership structure changed in the following ways :

The number of State enterprises fell as a result of merger, liquidation and ownership changes. In 1990 the total number of state enterprises was 12,000 (of which 85.7% were SMEs), but in June of 1993 the number reduced to 7,060 - or by 41%, of which 25% has been transferred to private sector, 16% - liquidated due to inefficiency. The mentioned figures belongs to the SMEs. At the end of the year state enterprises consisted of 6,042 units.

There was a significant reduction in the number of cooperatives. In 1986 in total there were 37,649 small and handicraft cooperatives, but on 1 of January 1993 their number was reduced to 5,723 (that is 15.2% of 1986 figure).

The number of private, limited and joint-stock companies have increased rapidly. In 1986 there was actually no private enterprises, while in December of 1994 the number of private enterprises reached 13,772 units, limited companies - 5,120, joint-stock companies - 133. The proportion of private sector in gross industrial product increased from 15.6% in 1986 to 27.5% in 1994.

In Viet Nam since 1986 most of new establishments have been private sector SMEs.

Many private enterprises, limited companies have been formed on the basis of production rearrangements and improvement of state enterprises and cooperatives management. Surveys of samples of 100 owners of private enterprises in Hanoi and 200 such owners in Ho Chi Minh City showed that more than a half of them worked before as government employees (that is 63% in Hanoi and 48% in Ho Chi Minh City).

Such increase in SMEs number and change in their ownership composition generally responds to the market mechanism with government regulations. This can help to avoid the intent of massive development of state enterprises and creation of cooperatives not on the voluntary ground, because the people having capital could invest in production business.

Since 1991 with the elimination of subsidies and implementation of equal conditions for enterprises of different ownership forms, SMEs have been forced to compete actually. Only those enterprises could exist and develop that are dynamic, trying to change their products and business directions to linking specialization and differentiation on the basis of technological innovation, promotion of joint ventures and integration, making entrepreneurship relevant to the market needs.

Intra-enterprise organization of production and management has been changed primarily for SMEs of different ownership forms with orientation to practice, efficiency in business management, linkages between production and market, generation of motives for development.

Many small, handicraft cooperatives do not continue to depend on each other and proceed massive collectivization of productive assets as previously but exist on the basis of efficient cooperation required by the labour division and cooperation in such forms as cooperatives providing inputs-outputs services, technical and technological services while their members and members' families could proceed the production itself.

State SMEs have a chance to act more freely in their business activities.

The managing apparatus of SMEs has been simplified. Majority have used widely the forms of piece-work on sales or incomes, on group, team, or individual wages.

Thanks to the mentioned initial progress, SMEs have significantly contributed to economic growth

Table 1 Difficulties for the private enterprises and companies

Difficulties	Share of enterprises (%)	Share of companies (%)
+Lack of capital	44.29	68.57
+Difficulties in domestic market	26.43	37.62
+Difficulties in external market	5.0	28.09
+Lack of materials and equipment	8.57	24.52
+Difficulties due to government policies	25.71	27.14
+Limited abilities	18.57	

Table 2 The survey reported by Ministry of labour, invalids and social affairs gives the same result

Kinds of difficulties	Small enterprises (%)	Medium enterprises (%)
+Lack of capital	47.9	62.5
+La,ck of raw materials	7.5	6.3
+Lack of energy	13.1	14.6
+Government policies	15.2	16.7
+Lack of product items	13.6	27.1
+Lack of progressive machinery and equipment	18.7	27.1
+Lack of product market	44.4	29.2
+Lack of technical labour	5.1	18.8
+Unclesr local policies	3.0	2.0

rates and innovation of Viet Nam's economy in recent years.

However, in their development, SMEs have faced with a lot of diffculties and obstacles that generate causal effects. They are : narrow limited and unstable market ; lack of capital ; out of date techniques and technologies. Lack of market leads to the absence of demand for investment and technological innovation. Lack of capital limits abilities to technical and technological innovation which in turn results in low competitiveness of products, and hence, to lack of market.

SMEs by themselves are difficult to break down such synchronic cycle. In many cases there should be the assistance from the government or from large scale enterprises.

The development and renovation of SMEs have been still of automatic character and faced with a lot of difficulties, including transformantion from cooperatives into collective enterprises or joint-stock cooperatives.

Production and management organization of state SMEs remains spread and overlapping that leads to uneconomic and inefficient situations. Integration and joint-ventures linkages between large scale enterprises and SMEs, as well as between themselves within each category have not been develped. The main reason is weak government control and managing activities that relates to : Law and policy establishment ; sectoral planning ; information, technolgy and education assistance and supports.

III. Orientation and measures for development of SMEs in the process of Industrialization, modernization in Veit Nam

1. Diversification of SMEs in sectors, jobs and ownership towards socialist bias

In context of sectors and jobs : To encourage private enterprises and cooperatives to enter those areas of business and production that they could carry out. State enterprises should take in those industries, areas and produce those products that are acting as important instruments of macroeconomic controls, of socialist direction. They are :

+ meeting public demand (waterways, highways construction, weapons production...).

+ having deciding role in national economic development (some products of manufacturing electricity products for agriculture...) but is out of private sector concerns or has not been invested in by other ownership sectors :

+ Having an important position that required the government monitoring (printing, pharmaceutical production...)

In respect to ownership it is necessary to avoid both tendencies-massive development of state enterprises ; and over-quick, simplified privatization of most existing state enterprises. Diversification of ownership forms of SMEs directed by socialist bias should be done as follows :

+ Rearrangement of state enterprises based on the reduction in the number of units but at the same time improvement of their efficiency and role as an important instrument for macroeconomic regulation and socialist direction. Depending on the role and level of efficiency state enterprises may be classified into 4 groups followed by relevant measures :

(1) Group of those that continue to be wholly state owned enterprises. They are producers of important goods for national economy not being made by other sectors due to absence of desire or lack of abilities to invest.

(2) Group of state enterprises that are subjects to equitization by relevant levels and steps.

(3) Group of enterprises with too small amount of capital, so that current activity is faced with temporary diffculties, however is potential in the long run. They may be merged to large units.

(4) Group of enterprises, long time unprofitable, lacking abilities to be developed, not belonging to the key industries, may be the subjects of the Bankruptcy Law.

+ Renovation of cooperatives by diversification of their organizational forms : Besides cooperatives based on joint capital, labour we should adopt forms of cooperation in different parts and procedures of the business and production process.

The renovation of institutional models, functioning and managing mechanism of cooperatives should follow the 6 principles passed by the 23 Congress, Vienna, of the international Union of Cooperatives (1966) : (1) Entry is definitely voluntary ; (2) Cooperatives are democratic organizations with members' equal rights in electing (one vote for each member) ; (3) Dividends should be limited ; (4) Profits are distributed according to attempts contributed by each member ; (5) Development of members' education and training ; (6) Cooperatives cooperate with each other by different levels-local, national and international.

+ The development of private enterprises, joint-stock and limited companies should be encouraged. This is because such forms carry most advantages of SMEs that have been restored and developed since 1990 up to now and that still have been small in all the number of units, gross product, capital and labour.

2. The size of enterprises and technological level are closely related

But the context of this linkage is placed under the development of science-technology and their role and impact. While during the First Technical Revolution, modern technique could be adopted only in the conditions of large enterprises, in current scientific-technological revolution thanks to the success of information, microbiological machinery, new materials technoilogies, modern technology may be used also by SMEs, especially in such industries like electronic, food and foodstuff, light industries. Consequently, directions of technology development are as follows : Adoption of different levels of technology in the SMEs sector, simultaneous use of modern technologies at those SMEs that have demand for and ability of such use, in the first plan-enterprises producing export goods, food processing. Every unit needs to proceed technological innovation at suitable level. This is very important and capital raising and using measures should be adoped : intensive investment : mobilization of people's capital : raise of joint-ventures and integrated capital ; development of linkages with scientific organizations for investigation and implication of technological results.

3. Development of rural SMEs

SMEs have an advantage in spread allocation and using local disperse natural resources and raw materials for producing goods to meet local, regional and national demand and demand for export. Economic restructuring towards industrialization, modernization requires and creates conditions for rural industry development, of which SMEs are fundamental. Hence, to meet that requirement we should concern about the rural SMEs, especially those producing construction materials for local demand, processing agriculture, fishery, forestry products, providing services and sub-contracting for the large ones in cities.

Industrial production requires a certain level of infrastructure provision, skilled labour and business ability. On the other hand, production and business will be efficient if only on the basis of labour division and cooperation, hence rural SMEs should be allocated in forms of clusters, industrial centers and villages.

4. The development of economic integration between SMEs and the large ones, of which large enterprises play a central, leading role

The integration between enterprises is considered as an objective need, derived from labour division. Being limited by capital, labour, technique and technology ,SMEs usually carry out parts of the reproduction process. So they need the linkages with large enterprises in their business. On the other hand, such form of intergration could permit large enterprises to concentrate their ability in more complicated areas and hence improve efficiency. Empirical evidence abroad show that production organization in two floors-large enterprises carry out the most complicated parts, requiring high technology and the SMEs are responsible for less complicated and for subcontracting works-allows industries to have high growth, stability and efficiency in their development. Moreover, SMEs without integration with large units may not be competitive in the market.

Economic integration between SMEs and large enterprises may be proceeded in the following forms :

-Primary processing by SMEs, final processing and definite use of materials belong to the large one.

-SMEs and large enterprises are manufacturing final products, in which the large ones carry out prodution of complicated parts and procedures, collection of the final procucts and sale. In this case there may be "sputnik" systems with the key and leading role of large, usually state, enterprises.

-Provision by large enterprises of some services :sale of product, consulting in investment, technology transferring, training...

The instruments for proceeding the mentioned integration are economic contracts, product associations or higher level-economic groups (if there are adequate conditions). The key problem to hold and develop such integration is to initiate it based on the objective needs of labour division and cooperation and on voluntary and mutual interests principles.

5. Macroeconomic measures necessary for development of SMEs in the mentioned manner

First, formation and development of organizations for government regulation, representatives and consulting agents for support and assistance in SMEs management. SMEs are the subjects of control, different in products and ownership, and usually face with difficulties in capital, technology, techniques and information.

At present SMEs are scattered in management relations by various leaders. For example, in Hanoi region about 200 central industrial SMEs have been controlled by 22 leaders and 100 local state-owned SMEs-by 13 leaders. Divesification of managing leaders cause both disperse and overlapping management and control-controlling what it should not and releasing what it should control. A lot of important issues affecting the development of enterprises could not get enough concerns, such as planning for an industry's development, assistance in overcoming market troubles, in transferring of technology.

In the development SMEs need external supports, need someone who could protect their interests and who could be their representative speaker. SMEs must indeed become business agents and be managed by laws and policy requlations.

Consequently, it is the time to renovate and improve management organization of SMEs such as follows :

-To strengthen government control by laws and policy regulations, to give up managing agents. Ministries of industries and functional ministries should be SMEs' government controlling organizations.

-To evolve representative organizations for product groups and for different types of ownership in order to protect interest, to give assistance to each other, at the same time to be the speakers of workers and owners, consult the government in planning and making policies related to one or another industry and their interests. They may be such associations as Association of industrial and commercial agents : Product association :Union of cooperatives, Non-state labour Union.

Second, to strengthen and renovate government control of SMEs :

The government has issued some laws and regulations related to SMEs development and control such as Law on Private enterprises ; Company Law ; Law for encouraging domestic investment...and related policy regulations. But the government should do more to reach required level. In recent years the government should concern about the following problems :

-Improve the system of laws related to SMEs of different ownership like Law on Cooperatives ; Law on state enterprises.

-Improve the present strategy for socio-economic development and construct the next one for the period towards year 2010, and on this basis to build regional, sectoral and subsectoral strategies and plans for socio-economic development. They will be the basis for determining directions for SMEs development.

-Improve, renovate policies for development and control of SMEs oriented to complex, reflecting the link between the development platform and plans, between the plan of an industry and the policies and measures to proceed. The complex character of the policy should be reflected not only in adequate amount of regulations to cover all processes of investment, production and business, but also in the required level of promoting or limiting effects and to execute the given unified targets. The policies have also ensure equality between different types of ownership.

At present we lack policies that could effectively affect the production sector such as standards ensuring quality ; current stipulations have not ensured equality between state and non-state enterprises yet, e.g. it is more difficult for non-state enterprises to get land or borrow capital than state ones, and the former have to pay higher for electricity. Among the policies first concerns should be given to the following : Policies related to industrial, product and regional structures (the main attention should be made on such industries and products with high socio-economic efficiency, like export goods, processed agriculture, forestry and fishery products, the development of traditional villages...) ; policy for infrastructure provision ; the tax policy ;investment and credit, technology, training policies and policy related to labour force...

Foreign experiences show that they usually make proceed target programs and projects in order to use the government's and international assistance effectively. This is a good lesson for us to learn from, because through the programs and projects the unification and complex character of strategies, plans and policies and means, conditions for proceeding. The government should have some regional and product programs and projects for SMEs development.

-Create facilitating business environment for SMEs that includes political, legal, economic, psychological, cultural...

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The Rural Industry of Viet Nam : Current Development, its Problems and Some Solutions

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I. The current development of Viet Nam's rural industry

1. Overview about the rural industry of Viet Nam

Even there are many researches about the rural industry, and there is now still not an united definition about it, ideas about this category was more and more clear, especially theoretically. It is a part of the whole industry allocated in the rural area and related very closed to the economical and social development in this area. The rural industry is practiced in all the branches and involves all the production activities of

-Business organizations in the rural area (the co-operatives, companies limited, private enterprises, share holder companies, etc.), specialized or not specialized in the industrial production :

-State owned small and medium companies, doing business on the base of local resources, producing mostly for the local market and combining closely with the local economy ;

-Cottage industry (households, private handicraft, etc.) in the rural area.

Even the rural industry was researched for some years, there is now no statistics (even in the official state statistical organization) about the rural industry, so that there are no differences in the data about the rural industry. Existing data reflect only situation of different locals (provinces or districts). Because of that there will be different ideas about the contents and data describing this category, especially its quantifying. Based on the current statistics of Viet Nam, quantifying the size of the rural industry Viet Nam's can be made by 2 follolwing methods :

-Calculating the value (gross product) of rural industry from the total gross product of the industry by reducing the gross product of the non-state sector of the urban industry and the state enterprises. The gross product of the state enterprises can be reduced because they mostly concentrate in the cities or in the urbanized areas. Districts' state enterprises which can be seen as part of rural industry, but most of them are stopping to operate as industrial organizations.

-Figures the share of Vietnamese rural industry in some representative provinces, and based on that to estimate gross rural industry's products. The difficulty of this way is that the shares of rural industry in different provinces are very different. However, with the sample of 10-12 selected provinces the average share are relatively reliable.

General assessment of rural industry in Viet Nam can be summarized as follows :

-Rural industry in Viet Nam has been established as an economics entity for some past years. Especially, this has positive changes recently. The estimated growth rate in these years are 10-15%,lower than that of urban industry. Nonetheless, these rates are varied : in most non-agricultrural villages that rates are very high, and in mountain ones they are far lower. Generally, rural industry has some positives effects to socio-economic development in rural area, but still very weak, and has not satisfied the demand from the whole economy.

-The development of rural industry considers with the development of market mechanism. Therefore, it is well suited with new mechanism and new business environment. That suitability is reflected in the changes of business and products structures : those have big demand in the market developed fast, and vice versa, although the latter may have long tradition, inherited much culture feature and encouraged by the government. Thanks to the market and the regulation of the government, some business and products which had decreased for some years now developed again and modernized. However, some cultrural feature are changed.

-The organization forms of rural industry are also changed positively with market mechanism : Cooperatives either are changed ownership or bankrupt. Household business becomes popular. Other forms are rare.

-Rural industry development is not uniform. Most of areas treat agriculture as main activity, industry is sub-product dispute the share it contributes to gross products. Even some provinces which has more developed and longer tradition of industry still think that it is only sub-product. Then the development of rural industry coinsides with Labour distribution. They have close interrelation.

2. Features of Viet Nam's rural industry

Rural industry's organization have the following features :

-The size each is small. The survey in Haihung province illustrated that the average turnover in 1994 is about 388 million Dong, in 1995 increased by 21.9% and reached 473 million Dong. Most of them use 15-20 employees and have only one business. Organization that uses 100 and more employees is very rare.

-Technology is not out of date, products are not diversified. Most of them used the technology that are dismissed by big state-owned enterprises or produced by domestic ones.

-Labors in small and medium scale organization have low skills, limited management experience and low productivity.

-The competitiveness of the rural industry is low because of the limited resources. Therefore, the ability to seize opportunity is not high. There is a big demand for making joint-venture in doing business.

-Their markers are mostly regional. Some are trying to enter national one but their competitiveness is very low.

-Rural organization are using provincial resources, especially natural ones or traditional features in some business. The development on rural industry is interrelated closely with the development of industrial villages. New industrial villages are developed slowly but in the good process. The most popular ways is to spread and expand from some centers of rural industry (mostly traditional handicraft villages) or to transfer new occupations from other locations (cities or villages). Areas with highest development of rural industry are the deltas of Red River and Cuu long River. The most developed branch is the food and foodstuff processig.

-The development of the industrial production is combined closely with the development of the agricultrural production. The clear action is the mobilizing of agricultural Labour forces in its free time for purposes of industrial business.

-Production of rural industry depends strongly on the enterprises in the urban areas and related closely to these enterprises.

3. Factors affecting negatively the development of rural industry in Viet Nam

(1) The needs and threats for the development of rural industry are large, but resources for it is limited

The needs to develop the rural industry based on both sides, on the requirement of production development and on the socio-political requirements. Those are requirements of re-structuring the economy, of mobilizing all the resources for the economical development, of needs to solve the unemployment in the rural areas, of overcoming the poverty for a part of rural population and the unerdevelopment of rural area in comparison with the urban areas. In opposite, there are some factors, which affect negatively the development of the rural industry, such as :

-Rural population has limited business experiences. A survey in Haihung showed, that only 13.9%enterprises' owners started their business based on their business experiences. An other survey in Namha (3 communes), 82-87% interviewees answered, that they practiced no non-farm activities, because they had no experiences to do any activities. Most of rural businessmen started their business without any preparation for necessary knowledge and skills. All these would be accumulated during the business after starting business.

-The education is limited, too. The survey in Haihung showed, that only 30.5% enterprises' owners had a 3 months training. Many important laws, such as company's law, Law on investment, Law on taxation, law on business contract. Law on employment, etc. are explained enough to them.

-New knowledge on technique and technology are introduced and transferred to the rural population very late.

All these can be reasons for a over quick development of rural industry, a development with not enough preparation.

(2) The rural industry has a limited market, on which the competition is very hard

As mentioned above, the market of rural industry is mostly local market. This is the result of the self supplying economy existing in a long time. This limitation can be showed as following :

-The demand is underdeveloped and is diversified very strongly.

-The buying power is limited because of the limited income sources (mostly from agricultrural production, especially the food production). The re-structuring the economy results some changes in the income structrure, but the changes are unremarkable. In some traditional villages, income from non-farm activities makes high percentage of the total income of the population (in a survey in 1991, this percentage was 80-90% in Ha bac). But in the area with only agricultrural production, this percentage was only 10-20%. Another reason is, the average income per catita was very low. 1988, the income per catita in developed areas was still 15,000-35,000 Dong per month. 1994-1995, this data in small and medium enterprises in rural districts of Haihung was 355,000-358,000 Dong, much higher than average income from agricultural production (nearly 145,000 Dong per month). A survey in Thanhhoa showed similar income situation.[1]

(3) Technique and technology are out of date, but the resources for their renovation are limited

The production organizations in the rural industry have small and medium size. Their technical instruments are mostly manual or manual improved, only few are mechanized, even the trend of mechanization is more and more practiced. In almost areas there are enterprises, which use machines and equipment in value of hundreds of Dong. But most of them are second hand, re-sold by the large state companies in the cities. or their were manufactured by domestic mechanical companies, or even self built by the users. The result is, the machines work not exact, use much energy electricity and materials, products quality is limited, the production efficiency is low. Generally speaking, the machines and equipment of rural enterprises are incomplete, mostly not modern.

Not only the machines and equipment, the technology of rural industry is out of date, too. Most of technologies used in the rural industy are traditional (some time improved) technologies, or technologies introduced since the middle of this century. The innovation and improvement in the last years are unessential and not very much.

Machines and equipment of rural industry were used in the last years not very well. Many organization mobilized only 40-50% their produciion capacity, some other only 15-20%. They are imported from many

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1) Report of People committee of Thanh hoa province, August 1995.

different countries, so that the parts and elements have not same standards and enterprises have difficulties in operating them. Eleclricity were expanded step by step in last years, but in many cases they do not satisfy the technical requirement, are not well managed, so that they are inefficient. Otherwise, only a small part of electricity is used for the production purposes.

(4) The infrastructure and service system are underdeveloped

The infrastructure in rural area is very underdeveloped and incomplete, unsuitable for the modern equipment and technology :

-Transportation system is very weak, even it was strongly improved in last years :

+ The quantity and quality of the road way system is low. Besides the national and interprovincial roads, which is available for the large trucks, the interdistrict and intercommune roads can be used only for the small transport tools and semi-mechanized transport means. This transport system can not satisfy the demand on transportation in large amount.
+ Capacity of the transport means in the rural area is very limited. Their quantity is few and their quality is primitive.
+ The system of stores and ports was not constructed and built in necessary size. Some river ports (also small sea ports) in the Northen were built for long time, but in the last time were not improved and expanded remarkably. Because of that their capacity were reduced quickly large ships can not come in there.

-The electricity system fits not to the requirement of the consumption and the production. Nowadays the national net was expanded to all the communes in the deltas. But, there are 2 difficulties affecting negatively its role in developing the rural area :

+ The price for electricity is too high in comparison with the income of rural population.
+ The consumption net is not constructed suitable for the rural area.

-Water supply system and the system for processing dirty water are nearly not constructed and built in the rural area. Many locations use now natural water for consumption and production purposes. Dirty water was not processed. Measurements to protect the environment are rarely praciteed. In many cases, hygiene criteria are not enough considered in rural industry.

-Communication system can not satisfy the demand. Telephone net is not covering all the rural areas. Many communes in the deltas are not connected to the national telecophone net. Some other services of the communication (telegram, post, etc.) are often slowly transported.

(5) Legal environment in rural areas is not developed

Legal environment in rural areas has the following characteristics :

- Policies and the conformance of the policies are influenced by a lot of local rules. Besides the " local rules ", which are applied in certain regions, there are particular rules for craftsmen in certain occupations, particularly the traditional occupations inherited from many generations. Among those rules, the most important traditional rules is the transferring know-how to certain people (usually to the formal inheritor, who is commonly the biggest son). Currently, this is reduced, but it is still applied in the production of the key items of some traditional products.
- The promoting of the government policies and laws is not widespread enough in rual areas. A lot of basic business law documentation is not known by rural people. The data from the survey for Hai Hung small and medium sized businesses provided us with an typical example for that. Moreover, many government and local managers, especially local managers (commune and hamlet) do not understand the legal system, therefore, the implemenation of laws is not identical everwhere.
- Rural areas are often far from administation centers, so that rural population has some times difficulties with completing administrative procedures.

(6) Different effects of cultural-social environment in rural area

Major characteristics of cultrural-social environment in rural area are :

-Tradition and customs play a very important role. They affect not only the production, but also the consumption and the whole life of rural population. In a relative long time they caused a slow diversifying products and technologies in the traditional villages. Problems are : These customs and traditions are very different in different locations.

-Family relations affect also strongly the life in rural areas in both trend :

Positively and negatively. At this time they play an active role by helping poor families, especially by seeking financial sources for the production, by transferring business experiences. In many location, families' mortgage for the borrowing is a successful form to overcome the financial difficulties.

-Transferring urban life style to rural areas and conflicts between generations in rural areas. Transferring new, urban life style affects positively introducting and transferring new technologies, new knowledge and business experiences to rural areas. It also helps to establish and develop the national market. However, this process caused a Labour flow from rural areas to cities, where material and cultural living standards are much higher. The result can be that at any time rural land would be not cultured any more.

-The general education level of population was reduced. This affects negatively to the development of rural industry and the development of rural economy in general.

-The urbanization caused double effects to the rural are :

+ Many rural areas were urbanized and became population centers or small towns with developed industrial production or trade. The expansion of cities affects positively the urbanizing their neighborhood.
+ The economical integration and exchange between rural and urban areas influenced re-structuring rural economy

(7) Lack of financial resources for the rural industry

Many economists believed that the lack of financial resources is the biggest difficulties for the development of rural industry. In fact, it is nowadays not the biggest problem any more, even it is still one of the most important problems of all the enterprises in rural area. In a survey in Haihung (1995), where 36 private enterprises were answered, 50% enterprises' owners said, that they had financial difficulties ; other 19.4% said that they had some time financial difficulties and only 2.8% had not any remarkable financial difficulties. In an other survey organized by the German immigration program, where 888 enterprises owners were researched, 21.3% of interviewees had "special financial difficulties", other 51.3% had difficulties on this area. About the financial sources, the most important one is the fund of enterprises' owners (paid in capital). In Hai hung, more than 50% from the funds of the enterprises established in 1994 are equiry of the enterprises' owners (paid in capital). 1995. this percentage increased to nearly 60%. Funds from integration partners was 20-30% and credit made nearly 14% the fund of the small and medium enterprises. According to a research of the German immigration program, 69.3% of enterprises' fund are equity of the enterprises' owners (paid in capital). Credit sources were listed as following :

- Banks :
- Credit cooperatives ;
- Subsidized programs ;
- Friends and relatives :
- Individual persons (individual capital owners) ;
- Employee in the enterprise ;
- Hui (internal fund, established by group of persons. which can be used for the group's members in circulated order) ;
- Foreign sources.

From these sources, the 3 most important are individual capital owners (which can satisfy 7% of total financial demand), banks (nearly 4.5%), friends and relatives (2% of financial demand). It is interesting that the enterprises' owners will borrow from their friends and relatives first, if they need money. After that they will go to the banks if this money is not enough. The reasons are :

- Enterprises have not enough assets as mortgage for the bank ;

- Activities of the banks were not developed enough in the area ;
- The interest was too high in comparison to the profit of the business ;
- Credit terms were too short and procedures were too complicated ;
- Credit amount were too small and time for completing all the procedures were too long, so that the business opportunity would be over.

By the private capital owners, the enterprises have difficulties, too. Those are :

- The amount is too small and can not satisfy the demand ;
- The interest is too high ;
- Repaying schedule is flexible and can affect negatively the business of the enterprises.

The research in some provinces showed that the small and medium enterprises should satisfy following requests by mobilizing and using funds :

- Mobilizing funds in the necessary amount, in the right time and with good conditions for doing business.
- Forms and methods of fund mobilizing should fit to the organization and management conditions of the enterprises.
- Conditions of fund mobilizating and using should fit to the economical conditions of the enterprises, so that the business of the enterprise can be effectively and can develop rationally.
- Mobilizing fund should help the enterprise take advantages of all business opportunities on the market.
- Fund should be maintained and developed.

The contents explained above showed that following are main factors affecting the mobilizing and using funds of the enterprises :

- Fund sources and their characteristics ;
- Business plan of enterprise ;
- Organization forms of the enterprises ;
- Business traditions on the location and of the enterprise' owners ;
- Finance policy of the government and requirements of the credit institutions ;
- Socio-Economical environment (the development of the banking system, of the market, business environment of the enterprises, etc.)

II. Principles and strategy of developing the rural industry in Viet Nam

1. Major principles to develop the rural industry in Viet Nam

Rural industry as general and the rural industry in a concrete location is a flexible category. A production unit, which has been seen as a unit of the rural industry, can develop to a big company, which is not a unit of the rural industry any more. This should be followed in every policy to develop the rural industry. To develop the rural industry, following principles should be practiced :

- The development of rural industry is not for itself, but aimed to the purposes of socio-economical development whole economy and the society. It develops in closed relationships to the rural development, to the industrialyation and modernization of the rural area.
- The developement of the rural industry is a process, which follows a general master plan and practiced step by step. Purposes, methods, tools and concrete step should based on the detail conditions of every locations and of the rural area. They can not be too quickly, subjectively and
- The development of the rural industry should be done by the rural area itself, but it needs helps and regulations of the government. The major motivation for the development of rural industry is the needs of development of every locaions. Subsidiaries and helps of the government should affect as stimulus and orientaions for this sector. The government can create conditions for the development of rural industry, not develops this sector in stead of the rural population. Because of that, these

helps and subsidiaries should aim to the develop the internal potentials of rural industry, of individual production organizations in the rural area.

- The development of rural industry should be combined with the developing of merket economy in Viet Nam, with the urbanizing the rural area and developing the industry in the urban areas.

2. Major orientations to develop the rural industry in Viet Nam

(1) The branches of rural industry

The rural industry covered different branches. In very location, the brances to be develop are different, too. In general, in coming years, following branches should be encouraged :

- Branches, products of which satisfy large and stable demand on the market :
- Branches, which enable to employ many people :
- Branches, growth of which would encourage many other branches on the same or other location :
- Branches, which enable to utilize the local resources, especially resources, which were fragmented, not utilized before and can be supplied stabile :
- Branches, which need few investment.

Based on this creteria, following branches should be favored :

- Processing food and foodstuffs, manufacturing metal products, building materials, manufacturing consumption products from woods (they will satisfy the local demand) ;
- Garment, textile, producing consumption goods from bamboo, etc. (branches utilizing local resources).

(2) Territorial structure

Generally speaking, rural industry should be encouraged to develop strongly in some centers first, and then expands to the neighborhoods. This process should be combined with developing other locations, where there are high demand and good conditions. Major areas, which should be encouraged are the deltas of Red River the deltas along the sea side of Middle Viet Nam and some locations in the delta of Cuulong. In these areas, the traditional industrial villages should have more subsidies, which are connected with condition, that their business experiences will be transferred to the other locations.

IV.Some solutions for developing Viet Nam's rural industry in near future

1. Expanding rural market and developing market economy in country

This should be performed priority in present period because it creates the internal motivation for enterprises and firms not only in the industry but also in other economical sectors in the country. The requirement is that developing different kinds of rural market synchronously step by step, improving their operational mechanism, making them to be closed with the national market and international market. Understanding the market of rural industry in expanded meaning plays an imprortant role, especially in the period, when Vietnamese economy was connected with the international and regional economy.

In order to develop the market economy in the country, the Government should carry out some activites, such as :

- Reinforcing the trend of production division and specialization in country, encouraging the goods exchange and developing the market systems in the country ;
- Increasing the income for rural poeple, reinforcing and orientating the demand, influencing the changes of consumption structure and customs in the country ;
- Encouraging and helping the enterprises (both in urban and rural areas) to renovate, improve their products, so that they will have attractive designs, packages, good quality and reasonable prices ;
- Reinforcing the controlling and protecting domestic products. including products of rural industry, resisting the unequal competition of smuggled goods, wihch are increasingly traded in Viet Nam ;
- Reinforcing the subcontract relationships between rural and urban enterprises, expanding the export-

import services for rural industry.

2. Expanding the service system, introducting technical-technological knowledge to the businessmen in rural industry and transferring technology to rural enterprises

In determining and carrying out the solutions to expand the service activities for doing business in the country, it's necessary to perceive that economical sectors have closed relationship with each other, they operate as service of each other. At the present, doing business with the service in country seems to be not profitable, because the demand is not high enough so that the enterprises can cover their expenses. Even so, some kinds of services should be developed priority, such as :

- Supplying technical materials for rural business ;
- Technical and technological services ;
- Consultant services (legal and business consultant) ;
- Trade services.

Some major activities should be done by government, such as :

- Developing a master plan general strategy for establishing and expanding the organizations researching and transferring technologies, which are combined closely with urban organizations. These organizations should be built step by step, according to the demand of the location ;
- Establishing state organizations doing consultancy for the rural enterprises, which would be transferred to the business system step by step ;
- Subsidizing no-state organizations in suitable forms (reduced tax, cost free distribuiton of technological information, etc.) ;
- Organizing a services of state scientists and technologists in rural areas, stimulating them by promoting knowledge and skills to the rural population ;
- Financial aiding to the scientific-technological services for the country.

The development of the service system in the country should be connected with the improvement of general education in the area. This should be seen as a socio-economical requirement, not only an economical one.

3. Developing the infrastructure in the country

This is an important condition for the development of rural industry in special, for the development of the country as a territorial, for the industrialization and modernization in general. At first, the transportation net should be constructed. Based on this, projects for doing this should be implemented step by step and effectively. The government should invest more for improving and developing socio-cultural infrastructure in the country, especially the education system.

In order to mobilize financial sources for building infrastructure in the country the government should try to get ODA fund and credit from other international financial organizations. For some projects, bonds can be issued. Methods of tending should be also improved in the way that there are integration and co-operation beween foreign and domestic organizations to reduce the costs and ensure a high quality of the projects.

An other method is to stimulate local government organizations by investment to improve and expand their infrastructure.

4. Improving the macroeconomics policies of the government

Government's policies should be improved in the way, that they do not only stimulate the urban companies to invest into the country, but also encourage the enterprises in the rural areas by increasing their business. Otherwise, the policies should be improved complexly and fit to the characteristics of special locations. At the present, following problems should be researched and improved :

1) Regulations on mobilizing financial resources. In detail :

- Diversifying the forms of doing business on financial branch :
- Improving the activities of banking system in the country :
- Changing regulations about borrowing from state owned banks, so that they can serve the rural business organizations better :
- Improving the payment system.

2) Insurance policy. In fact, the insurance sytem is not existing for the business system in rural area. In the future, it should be organized in differnt forms so that it can operate flexibly, but effectively and satisfy requirement of businessmen in the country. Insurance service can be operated by non-state organizations, but the government should help them and control them strictly, so that the interest of producers can be ensured.
3) Policies supporting technology transferring to rural industrial enterprises. The government needs to support in some forms, such as providing (cost free) technological and technical information, distributing widely, simple technologies that easy to apply in many rural areas, subsidizing partly for orgnizations researching and transferring technologies to small enterprises (especially for applying foreign technologies). At the same time, traditional products should be re-evaluated, so that the government can base on it to aid some programs to maintain and develop their traditional cultural characteristics. The establishment of financial fund to favor technology innovation in the rural areas should be proven and parcticed.
4) Administrative procedures relating to business activities. Most important are procedures related to establishment and operating a business.

5. Developing industrial villages in the country

Developing industrial villages in the country plays an important role for the rural industry. These villages is now not completely quantified, but it will be estimated by thousand ones in Viet Nam. They involve either indusrial traditional villages with long history or new ones with a history of some decades. The new industrial villages were established by 2 ways :

- A result of doing business as subcontractors for the enterprises in the cities or export-import companies in the plan economy. This was seen as as model of developing rural industry " down from higherlevel ". Currently most of them have difficulties in doing business, either have loss, to change their business or even go to bankrupt.
- As the result of an expansion from the traditional industrial villages, a self development or a development "up from bottom". The most of them can oprate efficient in the market economy.

In order to develop the rural industry during the industrial villages, the government can practiced following activities :

- Distributing knowledge, information about the productions technique and technology, training operating skills and introducing business experiences to people in the contry. This should be done during the education in the middle and high schools and, at the same time, through the media, which should be simple, suitable to the conditions in the country.
- Creating good conditions for establishing a system of rural market to stimulate the commodity exchange and encourage the increase of demand in this area.
- Supporting local government organizations by developing and improving their infrastrucrure (in form of co-opration between the government and citizen of the location). Transportation net and electricity system should be built concentrately.
- Expanding the credit beusiness in the country. Forms of special funds (used for determined purposes), e.g. fund supporting the poor people, fund supporting creating new jobs for unemployment, etc. should be researched, improved and parcticed.

11
Review of the Trade and Production Structure in Viet Nam

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In this paper, we analyze Viet Nam's trade and production statistics in order to reveal the tendency of Viet Nam's industrialization. We were able to obtain Viet Nam's statistics thanks to the extensive effort of our counterpart, Ministry of Planning and Investment(MPI). We should note that due to a shortage of time, data are imperfect, and the analysis is tentative.

I. Export

Though primary commodities remain the largest sector of Viet Nam's export, total export grew rapidly, 92.3% in US$ between 1991 and 1994. In 1994, primary commodities occupied 73.1% of total export. They contributed 54.9% of total export growth in 1993-1994, and 71.0%, 1991-1994. Crude oil is the largest single item amounted 866.8 million dollars (22.4% of the total export) in 1994, and on the other hand we should notice that "oil products" is the largest import item amounted 693 million dollars in 1994, mainly from Singapore as refined products on commission. Export diversification is mainly in light industry, which accounted for 18.3% of total export in 1994. Light industry, almost all of which is clothing(wearing and shoes), contributed 29.5% to export growth in 1993-1994, and 29.6%,1991-1994. These industries used to export mainly to COMECON countries, but after its breakdown, the destination changed to Western countries, and export was extended mainly on consignment. At the same time, export of machinery expanded quickly(332.0%:1993-1994), but because of its thin share of total export(2.3% in 1994), its contribution to total export growth was only 7.5%(1993-1994). Considering the expansion in machinery imports, their export cannot be attributed to strengthening international competitiveness.

We can see from the above that Viet Nam's export is shifting to industrial commodities, but the commodities which contribute to export growth are very few, other than clothing. Developing Asian countries have accomplished their economic growth by expanding industrial export, and upgrading the export commodity from clothing to machinery such as electronics. It seems that Viet Nam has not yet accomplished this upgrading. In order to advance, accumulation of technology and experience are required. For example, supporting industries, which are very primitive in Viet Nam, need to be developed. In many countries, this required much effort by both the private sector and government.

Revealed Comparative Advantage(RCA) shows a comparison of individual countries' export shares of particular products and world averages. Viet Nam's RCAs in manufacturing commodities are generally very low, as can be seen in the following table which lists their chief export categories. Among them, "clothing

Table 1 RCAs of Industrial Goods in Viet Nam

SITC	Commodity	1991	1992	1993	1994
751	office machines	N.A.	N.A.	0.03	0.09
785	bicycles	N.A.	N.A.	0.14	0.10
84	clothing and accessories	1.94	2.47	2.22	3.58
85	footwear	0.49	0.86	2.55	3.30
896	fine arts products	0.00	0.01	0.01	0.00

and accessories" and "footwear" RCAs were above 1.0(3.58 and 3.30 respectively in 1994), showing competitiveness in these industries. It should be noted, however, that other Asian countries typically registered corresponding RCAs of over 10 when their competitiveness in these commodities was around its peak. From that perspective, the figures for Viet Nam appear rather low, suggesting that the country still has plenty of room to expand its exports in these categories.

II. Import

There are many imperfections in import statistics. For example, in Viet Nam when a factory, which has been constructed using FDI, imports production equipment, this equipment does not count towards imports. In such cases the import amounts will be subtracted from the FDI inflow. At the same time, it is reported that undervaluation of import goods frequently occur to avoid import duty, and smuggling cannot be ignored.

While considering the above, let us analyze import statistics. In 1994, industrial goods were the largest part of imports, accounting for 78%. They contributed 82.9% to total import growth in 1993-1994. No single category of goods can be credited alone for the import uptrend, and this in itself serves as an indication that increased imports of a broad range of industrial goods are fueling the overall flow. Most imports fit into one of two categories: capital goods (e.g., industrial machinery) or intermediate goods (e.g., raw materials). (As mentioned in the trend of export, "oil products" is the largest import item amounted 693 million dollars (11.89% of the total) in 1994, mainly from Singapore, and on the other hand "crude oil" is the largest export item amounted 866.8 million dollars in 1994, and includes exports to Singapore for refining on commission.) This situation suggests that import growth is now directly linked to domestic trends in industrialization. An example is the way export growth in apparel products has sparked an explosive uptrend in imports of intermediate goods for their production (fabrics). This however, illustrates that the Vietnamese apparel industry remains little more than a source of low-cost labor for the final product processing stages. The implication is that growth in this industry at present has only a marginal spillover effect on other domestic industrial sectors.

III. Production

The agricultural, industrial and service sectors accounted for 27.7%, 29.6% and 42.7% respectively of Viet Nam's GDP in 1994. The manufacturing sector of ASEAN countries generally accounts for around 40% of GDP (39.2% in Thailand, 40.7% in Indonesia), substantially higher than the manufacturing share in Viet Nam. In historical terms, Viet Nam is currently about as industrialized as Thailand was in the early 1980s. Furthermore, "food", "foodstuff" and "fuels" account for half of the industrial sector in Viet Nam. This suggests that the difference in industrial development between Viet Nam and ASEAN is even larger.

Industrial output of Viet Nam grew rapidly by 45.2% in Dong between 1991 and 1994, and the booming sectors were foodstuffs, fuels, chemical fertilizer and construction materials. Primary products such as foodstuffs and crude oil still accounted for 50.0% of the industrial sector in 1994. Notice that the growth rates of export-oriented products such as clothing were less than total industrial growth. Even

Table 2 Shares of Major Secter in GDP(*) (1994)

	Malasia(**) (Mil.Ringgit)		Thailand(1993) (Mil.Baht)		Indoniesia (Bil.Rupiah)		Philippines (Bil.Peso)		Viet Nam (Bil.Dong)	
Agri Sector	16,155	14.8	314,974	10.0	65,821	17.4	372	22.0	47,082	27.7
Mining	8,175	7.5	46,538	1.5	31,381	8.3	17	1.0		
Manufacturing	34,458	31.5	899,435	28.5	90,207	23.9	394	23.3	37,535	22.0
Electricity	2,454	2.2	77,294	2.4	3,913	1.0	45	2.7		
Condtruction	4,545	4.2	217,159	6.9	27,942	7.4	97	5.8	12,946	7.6
Industrial Sector	49,632	45.4	1,240,426	39.2	153,443	40.7	552	32.7	50,481	29.6
Service Sector	43,581	37.8	1,605,974	50.8	158	41.9	764	45.3	72,695	42.7
Total(GDP)	109,368	100	3,161,374	100	377,354	100	1,688	100	170,258	100

(*) Unless otherwise indicated, data are based on GDP at current market prices.

(**) Data are based on GDP at constant 1978 prices

Data Sources: Key Indicators of Developing Asian and Pacific Countries 1995 (Asian Development Bank)

Table 3

Export	Production	Import
Clothing	Foodstuff	Machines
Transportation	Fuel	Chemical Products
	Chemical Products	Clothing Material
	Construction Material	
	Clothing	

though clothing export expanded, its domestic industrial share dropped. Considering that foodstuffs and fuels are characterized as primary commodities rather than industrial goods, it very well could be that Viet Nam's industrialization is mainly for a quickly expanding domestic market. This might imply that Viet Nam's industrialization is inward-oriented rather than outward-oriented.

To summarize the above, while exports, imports and domestic production grew rapidly, their leading sectors were all different.

It seems that Viet Nam's light industry development is now in a transition phase from import substitution to export substitution. But, Viet Nam does not have much international competitiveness in light industries other than clothing. Viet Nam has hardly any international competitiveness in high-grade goods such as electronics. These goods require not only labor, but also technology and experience, including one gained through the formation of supporting industries.

Other than clothing, it appears that Viet Nam's industries do not seek to develop overseas market. Industrialization of Viet Nam is driven by domestic market expansion.

The macroeconomic environment fosters such a tendency. While there is 30% inflation on domestic prices, the exchange rate of Dong is almost fixed to the US dollar. This will result in an overvaluation of Dong. When the US dollar is depreciating, this nearly fixed status is allowable because Dong is simultaneously depreciating, but now, the US dollar is appreciating. In the same way, the price index trend depresses manufacturing. In the period from Jan.1993 to Dec.1994, the price of manufacturing goods was almost stable while others surged. (see the Table 4)

The recent macroeconomic situation makes a strong incentive to produce for the domestic rather than overseas market, and for the service rather than manufacturing sector. The institutional situation also fosters such tendency. The present situation, resisting private corporations, especially in the industrial sector where state-owned companies dominate, impedes the establishment of private manufacturing companies. It also seems that a lack of integrated commercial law makes business contracts unreliable and further depresses manufacturing. In this scenario, the economic growth will lean toward non-tradable goods. It will be harmful to Viet Nam's future economy.

Inward-oriented policy will soon cause standstill due to an imbalance of payments and a limited domestic market. In order to encourage manufacturing, it is necessary to abolish the manufacturing-

Table 4 Price Index by commodity groups

Month	Goods	Total Food	Agricultural Products	Processed Food	Manufacturing	Services	Dong per US $ (ave.)
Jan. 1990	100.0	100.0	100.0	100.0	100.0	100.0	N.A.
Jan. 1991	114.3	119.1	115.8	120.6	114.3	104.3	5,133
Jan. 1992	178.9	179.3	161.2	193.0	178.9	149.8	9,274
Jan. 1993	198.9	189.4	135.2	224.7	198.9	203.8	11,150
Jan. 1994	205.2	199.9	148.7	236.4	207.6	240.8	10,640
Dec. 1994	233.4	240.2	194.6	271.6	219.0	266.5	10,955

Source: World Bank, Viet Nam Economic Report on Industrialization and Industrial Policy, 1995

depressive policies, and in order to promote manufacturing export, it is necessary to take an outward-oriented policy. Experiences of growing Asian countries reveal that outward-oriented policy needs the full backing of government through market-friendly intervention.

Table 5 (a) Export of Viet Nam (Million US $)

	1991		1992		1993		1994		Growth Rate (1991-1994)	Contribution (1991-1994)
Total	*2009.8*	*100.0%*	*2288.9*	*100.0%*	*2951.0*	*100.0%*	*3864.0*	*100.0%*	*92.3%*	*100.00%*
1. Food and grains	727.0	36.2%	947.3	41.4%	1102.3	37.3%	1507.1	39.0%	107.3%	42.07%
rice	234.5	11.7%	418.4	18.3%	361.8	12.3%	422.5	10.9%	80.2%	10.14%
broken rice		0.0%		0.0%	0.9	0.0%	1.7	0.0%		0.09%
cassava		0.0%	3.9	0.2%	4.1	0.1%	3.2	0.1%		0.17%
maize/corn	6.6	0.3%	8.8	0.4%	8.5	0.3%	15.4	0.4%	133.3%	0.47%
cashew	25.5	1.3%	41.1	1.8%	44.0	1.5%	72.5	1.9%	184.3%	2.53%
sugar		0.0%		0.0%	6.6	0.2%	0.5	0.0%		0.03%
sea products	285.4	14.2%	307.6	13.4%	427.1	14.5%	530.4	13.7%	85.8%	13.21%
meat	45.0	2.2%	21.4	0.9%	20.6	0.7%	17.9	0.5%	-60.2%	-1.46%
egg		0.0%		0.0%	10.3	0.3%	10.4	0.3%		0.56%
"Yen" bird's nel	2.3	0.1%	3.9	0.2%	1.2	0.0%	5.6	0.1%	143.5%	0.18%
processed food		0.0%		0.0%	1.1	0.0%	3.4	0.1%		0.18%
coffee	76.2	3.8%	93.5	4.0%	110.7	3.8%	328.2	8.5%	330.7%	13.59%
tea	13.7	0.7%	16.1	0.7%	25.5	0.9%	26.5	0.7%	93.4%	0.69%
pepper	17.6	0.9%	15.3	0.7%	11.5	0.5%	29.1	0.8%	65.6%	0.62%
cinnamon	3.8	0.2%	4.4	0.2%	4.4	0.1%	4.9	0.1%	28.9%	0.06%
garlic		0.0%		0.0%	0.4	0.0%	3.0	0.1%		0.16%
red pepper	0.7	0.0%	0.6	0.0%	0.4	0.0%	0.6	0.0%	-14.3%	-0.01%
mushroom		0.0%		0.0%	2.1	0.1%	5.9	0.2%		0.32%
vegetable	15.8	0.8%	14.3	0.6%	17.8	0.6%	21.6	0.6%	36.7%	0.31%
honey		0.0%		0.0%	1.3	0.0%	0.1	0.0%		0.01%
animal's foods		0.0%		0.0%	0.5	0.0%	0.0	0.0%		
2. Drinks and Tobacco		0.0%		0.0%	2.7	0.1%	2.9	0.1%		0.16%
3. Non-food raw material	149.5	7.4%	170.7	7.5%	231.3	7.8%	290.7	7.5%	94.4%	7.62%
leather		0.0%	3.6	0.2%	3.6	0.1%	7.0	0.2%		0.38%
leather, hair		0.0%		0.0%	0.3	0.0%	8.0	0.2%		0.43%
peanut	47.9	2.4%	32.0	1.4%	61.9	2.1%	75.0	1.9%	56.6%	1.46%
soybean	3.3	0.2%	2.3	0.1%	1.3	0.0%	2.1	0.1%	-36.4%	-0.06%
sesame	3.1	0.2%	2.0	0.1%	0.7	0.0%	0.4	0.0%	-87.1%	-0.15%
coconut		0.0%		0.0%	2.1	0.1%	4.0	0.1%		0.22%
rubber	49.6	2.5%	67.1	2.9%	74.3	2.5%	133.6	3.5%	169.4%	4.53%
log wood	26.7	1.3%	16.1	0.7%	3.6	0.1%	0.0	0.0%		-1.44%
timber		0.0%		0.0%	23.2	0.8%	12.9	0.3%		0.70%
aquilegin(a kind of plant)		0.0%	1.3	0.1%	2.0	0.1%	0.0	0.0%		
silk		0.0%	0.8	0.0%	4.9	0.2%	12.1	0.3%		0.65%
jute		0.0%		0.0%	1.1	0.0%	2.0	0.1%		0.11%
marble		0.0%	5.1	0.2%	2.8	0.1%	2.3	0.1%		0.12%
sand		0.0%		0.0%	1.1	0.0%	7.1	0.2%		0.38%
steel		0.0%	12.7	0.6%	0.9	0.0%	1.8	0.0%		0.10%
zinc ore	0.3	0.0%	1.8	0.1%	3.0	0.1%	3.1	0.1%	933.3%	0.15%
tin ore		0.0%	24.3	1.1%	0.4	0.0%	0.0	0.0%		
duck feather		0.0%		0.0%	10.1	0.3%	13.3	0.3%		0.72%
rattan	13.8	0.7%		0.0%	6.5	0.2%	2.8	0.1%	-79.7%	-0.59%
herbal medicine	4.3	0.2%		0.0%	7.4	0.3%	1.7	0.0%	-60.5%	-0.14%
forest products	0.5	0.0%	1.6	0.1%	1.6	0.1%	1.5	0.0%	200.0%	0.05%
4. Fuel and minerals	630.8	31.4%	868.0	37.9%	980.6	33.2%	1009.2	26.1%	60.0%	20.41%
coal	48.3	2.4%	62.1	2.7%	51.9	1.8%	75.1	1.9%	55.5%	1.45%
crude oil	581.4	28.9%	805.7	35.2%	843.9	28.6%	866.8	22.4%	49.1%	15.39%
non-crude oil	1.1	0.1%		0.0%	80.9	2.7%	67.2	1.7%	6009.1%	3.56%
5. Cooking oil and fats		0.0%		0.0%	6.3	0.2%	14.0	0.4%		0.76%
Primary commodities total	*1507.3*	*75.0%*	*1985.0*	*86.8%*	*2333.2*	*78.7%*	*2833.9*	*73.1%*	*87.3%*	*71.01%*

Table 5 (b) Export of Viet Nam (Million US $)

	1991		1992		1993		1994		Growth Rate (1991-1994)	Contribution (1991-1994)
6. Chemical Products		0.0%	4.6	0.2%	13.0	0.4%	16.8	0.4%		0.91%
monosodium glutamate		0.0%		0.0%	3.1	0.1%	0.0	0.0%		
medicine		0.0%	4.6	0.2%	2.0	0.1%	2.2	0.1%		0.12%
oil-abstract		0.0%		0.0%	3.8	0.1%	3.8	0.1%		0.20%
cosmetic		0.0%		0.0%	1.4	0.0%	0.6	0.0%		0.03%
7. Other processed products	64.0	3.2%	44.3	1.9%	152.0	5.1%	180.0	4.7%	181.3%	6.26%
leather products	2.5	0.1%	10.5	0.5%	14.2	0.5%	0.0	0.0%		-0.13%
plywood		0.0%		0.0%	3.6	0.1%	4.9	0.1%		0.26%
wood products		0.0%		0.0%	49.2	1.7%	52.2	1.4%		2.82%
rubber products		0.0%		0.0%	2.0	0.1%	0.8	0.0%		0.04%
paper	1.3	0.1%		0.0%	1.9	0.1%	2.3	0.1%	76.9%	0.05%
fabric	3.8	0.2%	7.6	0.3%	4.9	0.2%	5.5	0.1%	44.7%	0.09%
embroidered product	8.8	0.4%	4.0	0.2%	4.7	0.2%	5.9	0.2%	-33.0%	-0.16%
towel, pillow	13.8	0.7%	10.2	0.4%	15.0	0.5%	29.0	0.8%	110.1%	0.82%
woolen carpet	6.2	0.3%	7.9	0.3%	4.2	0.1%	8.3	0.2%	33.9%	0.11%
jute carpet		0.0%		0.0%	0.9	0.0%	1.5	0.0%		0.08%
cement	1.0	0.0%		0.0%	2.1	0.1%	0.3	0.0%	-70.0%	-0.04%
porcelain		0.0%		0.0%	3.7	0.1%	16.5	0.4%		0.89%
iron		0.0%		0.0%	1.2	0.0%	0.8	0.0%		0.04%
steel	7.7	0.4%	4.1	0.2%	14.5	0.5%	7.4	0.2%	-3.9%	-0.02%
zinc	1.1	0.1%		0.0%	0.5	0.0%	0.0	0.0%		-0.06%
tin	17.8	0.9%		0.0%	14.6	0.5%	16.0	0.4%	-10.1%	-0.10%
8. Machines		0.0%		0.0%	20.6	0.7%	89.0	2.3%		4.80%
office machines		0.0%		0.0%	2.1	0.1%	0.0	0.0%		
audio-visual		0.0%		0.0%	3.3	0.1%	5.4	0.1%		0.29%
home appliance		0.0%		0.0%	5.7	0.2%	10.4	0.3%		0.56%
bicycle		0.0%		0.0%	1.6	0.1%	1.5	0.0%		0.08%
vehicle for transportation		0.0%		0.0%	1.1	0.0%	54.0	1.4%		2.91%
9. Other manufactured goods	159.7	7.9%	232.9	10.2%	438.8	14.9%	708.2	18.3%	343.5%	29.58%
products of rattan and bamboo	10.8	0.5%		0.0%	21.1	0.7%	19.3	0.5%	78.7%	0.46%
clothes	133.9	6.7%	201.9	8.8%	238.8	8.1%	504.4	13.1%	276.7%	19.98%
shoes	8.2	0.4%	16.6	0.7%	68.0	2.3%	115.4	3.0%	1307.3%	5.78%
stationery		0.0%		0.0%	2.1	0.1%	1.6	0.0%		0.09%
fine arts products	6.8	0.3%	14.4	0.6%	20.1	0.7%	12.9	0.3%	89.7%	0.33%
Manufactured products total	*223.7*	*11.1%*	*281.8*	*12.3%*	*624.4*	*21.2%*	*994.0*	*25.7%*	*344.3%*	*41.54%*

Note : The summations of each columns are not necessarily correspondent to the figures of the "Total" and the subtotal (e.g.1.Food, Feeds).

The data of the year 1993 and 1994 don't include the exports in ruble basis.

The "Total" figure of the year 1991 and 1992 don't include the exports in ruble basis.

Source : Government of Viet Nam

Table 6 (a) Import of Viet Nam (In Million US $)

	1991		1992		1993		1994		Growth Rate (1991-1994)	Contribution (1991-1994)
Total	2562.3	100.00%	[illegible]	100.00%	3923.8	100.00%	5826.8	100.00%	127.4%	100.00%
1. Food and grains	103.6	4.04%			119.5	3.05%	183.9	3.15%	77.4%	2.46%
wheat	7.9	0.31%			2.2	0.06%	7.7	0.13%	-2.5%	-0.01%
wheat flour	35.7	1.39%			51.1	1.30%	52.1	0.89%	45.9%	0.50%
malt (material used in brewery industry)	3.1	0.12%			10.5	0.27%	13.4	0.23%	332.3%	0.32%
sugar	5.1	0.20%			14.2	0.36%	39.1	0.67%	666.7%	1.04%
unprocessed milk	9.8	0.38%			5.5	0.14%	0.5	0.01%	-94.9%	-0.28%
milk		0.00%			30.9	0.79%	41.3	0.71%		1.27%
2. Drinks and tobacco	54.1	2.11%			34.0	0.87%	72.0	1.24%	33.1%	0.55%
liquor	0.6	0.02%			1.5	0.04%	2.7	0.05%	350.0%	0.06%
beer	0.9	0.04%			9.5	0.24%	1.8	0.03%	100.0%	0.03%
bottled water		0.00%			2.6	0.07%	0.7	0.01%		0.02%
cigarette material	52.7	2.06%			16.9	0.43%	62.2	1.07%	18.0%	0.29%
3. Non-food raw material	61.1	2.41%			51.1	1.31%	148.9	2.56%	139.8%	2.66%
pulp	0.1	0.00%			2.6	0.07%	15.1	0.26%	15000.0%	0.46%
cotton	61.0	2.38%			20.3	0.52%	42.7	0.73%	-30.0%	-0.56%
synthetic fiber		0.00%			19.7	0.50%	40.6	0.70%		1.24%
ferrous	1.0	0.04%			1.0	0.03%	0.1	0.00%	-90.0%	-0.03%
amiantus (material used to make cement)		0.00%			2.3	0.06%	3.1	0.05%		0.09%
wool, leather, feather		0.00%			3.9	0.10%	10.1	0.17%		0.31%
rubber		0.00%			0.6	0.02%	21.2	0.36%		0.65%
gypsum (material used to make cement)		0.00%				0.00%	1.7	0.03%		0.05%
4. Fuel and minerals	485.3	18.94%			709.8	18.09%	735.6	12.63%	51.6%	7.67%
crude oil		0.00%				0.00%	7.8	0.13%		0.24%
oil products	485.3	18.94%			687.4	17.52%	693.0	11.89%	42.8%	6.36%
lubricating oil		0.00%			7.2	0.18%	16.2	0.28%		0.50%
asphalt		0.00%			11.9	0.30%	11.4	0.20%		0.35%
gas		0.00%			0.3	0.01%	3.4	0.06%		0.10%
electrode		0.00%			1.9	0.05%		0.00%		
5. Cooking oils and fats		0.00%			11.8	0.30%	21.4	0.37%		0.66%
6. Chemical products	306.6	11.97%			656.1	16.72%	1013.3	17.40%	230.6%	21.66%
acid (all kinds)		0.00%			1.3	0.03%	1.3	0.02%		0.04%
sodium hydroxide	1.5	0.06%			4.9	0.12%	12.0	0.21%	700.0%	0.32%
dyestuff	7.2	0.28%			13.0	0.33%	13.1	0.22%	81.9%	0.18%
chemicals to produce paints		0.00%			2.3	0.06%	12.7	0.22%		0.39%
dynamite	1.2	0.05%			2.0	0.05%	4.8	0.08%	300.0%	0.11%
sodium glutamate		0.00%			70.7	1.80%	44.1	0.76%		1.35%
other chemical products		0.00%			74.2	1.89%	76.1	1.31%		2.33%
herbal/medicinal materials		0.00%			47.9	1.22%	37.9	0.65%		1.16%
medicine		0.00%			86.0	2.19%	140.0	2.40%		4.29%
vegetable oil		0.00%			3.4	0.09%	6.9	0.12%		0.21%
fertilizer	260.6	10.17%			222.7	5.68%	389.3	6.69%	49.5%	3.95%
plastic	36.1	1.41%			82.0	2.09%	196.0	3.36%	442.9%	4.90%
insecticides		0.00%			33.4	0.85%	57.6	0.99%		1.76%
cosmetics, soaps		0.00%			0.7	0.02%	13.2	0.23%		0.40%
7. Other processed products	4.5	0.16%			759.4	19.35%	778.8	13.35%	17275.6%	23.71%
plaster/plywood		0.00%			0.9	0.02%	1.2	0.02%		0.04%
tires and tubes		0.00%			30.0	0.76%	28.0	0.48%		0.86%
paper		0.00%			31.5	0.80%	43.7	0.75%		1.34%
cardboard		0.00%			12.0	0.31%	23.5	0.40%		0.72%
synthetic fiber		0.00%			60.0	1.53%	80.9	1.39%		2.48%
fabric		0.00%			50.7	1.29%	55.3	0.95%		1.69%
cement	1.0	0.04%			9.6	0.24%	33.3	0.57%	3230.0%	0.99%
clinker	0.6	0.02%			7.6	0.19%	31.1	0.53%	5083.3%	0.93%
roof tiles		0.00%			21.1	0.54%	25.7	0.44%		0.79%
brick and tile		0.00%			4.6	0.12%	5.4	0.09%		0.17%
special kinds of bricks		0.00%			2.2	0.06%	11.3	0.19%		0.35%
glass, ceramics		0.00%			3.3	0.08%	9.8	0.17%		0.30%

Table 6 (b) Import of Viet Nam (in Million US $)

	1991		1992		1993		1994		Growth Rate (1991-1994)	Contribution (1991-1994)
steel		0.00%			233.1	5.94%	204.0	3.50%		6.25%
iron tubes, pipes		0.00%			5.3	0.14%	29.8	0.51%		0.91%
copper metal		0.00%			4.2	0.11%	14.2	0.24%		0.44%
aluminium	0.7	0.03%			6.8	0.17%	18.5	0.32%	2542.9%	0.55%
lead	0.4	0.02%			2.1	0.05%	3.7	0.06%	825.0%	0.10%
zinc	1.4	0.05%			2.6	0.07%	6.9	0.12%	392.9%	0.17%
fishing net thread		0.00%			3.2	0.08%	7.4	0.13%		0.23%
tin can		0.00%			14.3	0.36%	6.6	0.11%		0.20%
soldering stick		0.00%				0.00%	7.6	0.13%		0.23%
auxiliary materials for manufacturing cigarettes		0.00%			42.1	1.07%	21.8	0.37%		0.67%
8. Machines	102.1	3.98%			1036.7	26.42%	1438.5	24.69%	1308.9%	40.95%
electricity generator		0.00%			38.9	0.99%	14.5	0.25%		0.44%
farming machine		0.00%			8.9	0.23%	26.6	0.46%		0.82%
construction machine		0.00%			13.0	0.33%	28.1	0.48%		0.86%
mining equipment		0.00%			5.9	0.15%	5.4	0.09%		0.17%
equipment in leather/textile industries		0.00%			35.8	0.91%	72.8	1.25%		2.23%
printing equipment		0.00%			3.0	0.08%	9.7	0.17%		0.30%
equipment in food processing industries		0.00%			19.4	0.49%	46.4	0.80%		1.43%
forklifts/lifting equipment		0.00%			4.8	0.12%	3.9	0.07%		0.12%
ball-bearing		0.00%			3.8	0.10%	8.1	0.14%		0.25%
office equipment		0.00%			21.1	0.54%	54.6	0.94%		1.67%
telecommunication & audio-visual equipment		0.00%			129.1	3.29%	154.2	2.65%		4.72%
electronic parts		0.00%			57.2	1.46%	102.8	1.76%		3.15%
electricity distribution equipment		0.00%			0.7	0.02%	11.9	0.20%		0.36%
medical equipment		0.00%			0.1	0.00%	0.2	0.00%		0.01%
household appliances		0.00%			12.9	0.33%	74.1	1.27%		2.27%
vehicles for land transport		0.00%			99.8	2.54%	162.7	2.79%		4.98%
vehicles for rail transport		0.00%			0.8	0.02%	1.7	0.03%		0.05%
vehicles for air transport		0.00%			9.2	0.23%	16.5	0.28%		0.51%
vehicles for sea transport		0.00%			4.6	0.12%	14.4	0.25%		0.44%
motorbikes		0.00%				0.00%	347.0	5.96%		10.63%
cement equipment		0.00%			12.1	0.31%	74.7	1.28%		2.29%
forestry equipment		0.00%			1.9	0.05%	9.3	0.16%		0.28%
other equipment		0.00%			269.2	6.86%	158.8	2.73%		4.87%
9. Other manufactured goods	37.8	1.48%			253.6	6.46%	551.6	9.47%	1359.3%	15.74%
hygienic equipment		0.00%			2.8	0.07%	10.5	0.18%		0.32%
lighting equipment		0.00%			4.4	0.11%	13.2	0.23%		0.40%
measuring equipment for non-liquid		0.00%			3.1	0.08%	2.4	0.04%		0.07%
ready made clothes		0.00%			0.2	0.01%	0.6	0.01%		0.02%
medical equipment		0.00%			21.8	0.56%	24.6	0.42%		0.75%
measuring equipment for liquid		0.00%			6.5	0.17%	5.2	0.09%		0.16%
shoe accessories	20.1	0.78%			8.7	0.22%		0.00%		-0.62%
garment accessories	17.7	0.69%			96.2	2.45%		0.00%		-0.54%
10. equipment in complete sets	318.5	12.43%			287.7	7.33%	738.0	12.67%	131.7%	12.85%
hydroelectricity		0.00%			52.1	1.33%		0.00%		
electricity transmission		0.00%			150.4	3.83%		0.00%		
oil and gas		0.00%			59.1	1.51%		0.00%		
industry		0.00%			10.2	0.26%		0.00%		
transportation		0.00%			4.7	0.12%		0.00%		
equipment for socio-cultural facilities		0.00%			11.2	0.29%		0.00%		

Note : Data of the year 1991 and 1992 have not been completed yet by the Vietnamese side.

Sources : Government of Viet Nam.

Table 7 Value added of industry (1990-1994) (1994's price in million Dong)

	1990		1991		1992		1993		1994	
Industry Total	*23,539*	*100.00%*	*25,858*	*100.00%*	*29,636*	*100.00%*	*33,234*	*100.00%*	*37,535*	*100.00%*
1 Electricity	1,758	7.47%	1,841	7.12%	1,899	6.41%	2,087	6.28%	2,455	6.54%
2 Fuels	2,606	11.07%	3,579	13.84%	4,854	16.38%	5,444	16.38%	5,953	15.86%
3 Ferrous metallurgy	201	0.85%	313	1.21%	362	1.22%	469	1.41%	537	1.43%
4 Non-ferrous metallurgy	167	0.71%	219	0.85%	302	1.02%	329	0.99%	297	0.79%
5 Equipment and machinery	1,005	4.27%	983	3.80%	1,094	3.69%	1,246	3.75%	1,325	3.53%
6 Electric and electronics	457	1.94%	463	1.79%	492	1.66%	665	2.00%	796	2.12%
7 Other metallic products	546	2.32%	530	2.05%	533	1.80%	588	1.77%	616	1.64%
8 Chemical fertilizer	1,547	6.57%	1,862	7.20%	2,217	7.48%	2,629	7.91%	3,138	8.36%
9 Construction material	1,681	7.14%	1,947	7.53%	2,264	7.64%	2,606	7.84%	2,905	7.74%
10 Wood and wood products	963	4.09%	996	3.85%	999	3.37%	987	2.97%	1,081	2.88%
11 Cellulose and paper	523	2.22%	489	1.89%	551	1.86%	608	1.83%	661	1.76%
12 Glass, earthware and porcelain	245	1.04%	297	1.15%	335	1.13%	389	1.17%	379	1.01%
13 Food	789	3.35%	856	3.31%	919	3.10%	917	2.76%	1,002	2.67%
14 Foodstuffs	7,678	32.62%	8,132	31.45%	9,125	30.79%	10,219	30.75%	11,809	31.46%
15 Textile products	2,114	8.98%	2,133	8.25%	2,329	7.86%	2,343	7.05%	2,582	6.88%
16 Sewing products	341	1.45%	367	1.42%	430	1.45%	598	1.80%	713	1.90%
17 Tanning of leather	157	0.67%	93	0.36%	127	0.43%	209	0.63%	251	0.67%
18 Printing	162	0.69%	181	0.70%	210	0.71%	246	0.74%	293	0.78%
19 Others	599	2.54%	577	2.23%	594	2.00%	655	1.97%	742	1.98%

	1990		1991		1992		1993		1994	
Electricity	1,758	7.5%	1,841	7.1%	1,899	6.4%	2,087	6.3%	2,455	6.5%
Primary Products	11,073	47.0%	12,567	48.6%	14,898	50.3%	16,580	49.9%	18,764	50.0%
Clothing Products	2,612	11.1%	2,593	10.0%	2,886	9.7%	3,150	9.5%	3,546	9.4%
Machinery/Electronics	1,462	6.2%	1,446	5.6%	1,586	5.4%	1,911	5.8%	2,121	5.7%
Others	6,634	28.2%	7,411	28.7%	8,367	28.2%	9,506	28.6%	10,649	28.4%

Source : Government of Viet Nam

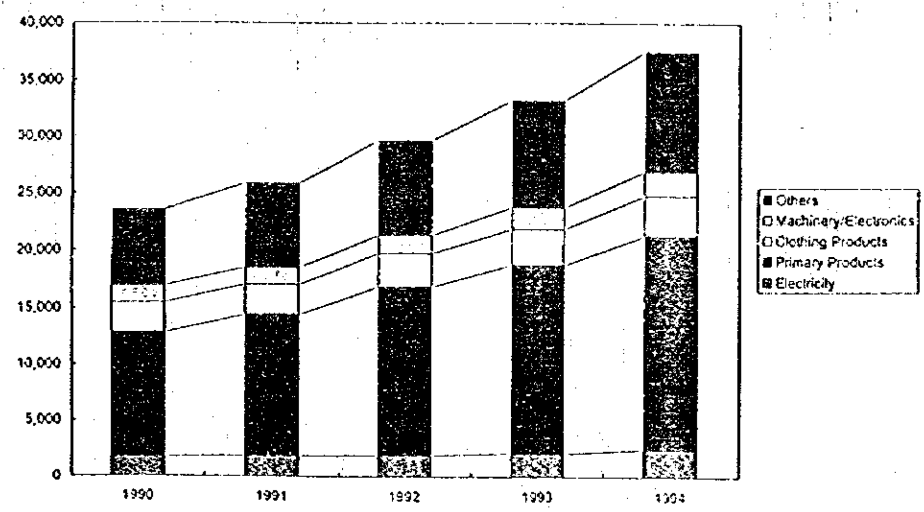
Table 8 Value added of industry (1990-1994) (1994's price in million US $)

	1990		1991		1992		1993		1994	
Industry Total	1,393	100.0%	1,474	100.0%	2,032	100.0%	2,781	100.0%	3,426	100.0%
1 Electricity	104	7.5%	105	7.1%	130	6.4%	175	6.3%	224	6.5%
2 Fuels	154	11.1%	204	13.8%	333	16.4%	456	16.4%	543	15.9%
3 Ferrous metallurgy	12	0.9%	18	1.2%	25	1.2%	39	1.4%	49	1.4%
4 Non-ferrous metallurgy	10	0.7%	12	0.8%	21	1.0%	28	1.0%	27	0.8%
5 Equipment and machinery	59	4.3%	56	3.8%	75	3.7%	104	3.7%	121	3.5%
6 Electric and electronics	27	1.9%	26	1.8%	34	1.7%	56	2.0%	73	2.1%
7 Other metallic products	32	2.3%	30	2.0%	37	1.8%	49	1.8%	56	1.6%
8 Chemical fertilizer	92	6.6%	106	7.2%	152	7.5%	220	7.9%	286	8.4%
9 Construction material	99	7.1%	111	7.5%	155	7.6%	218	7.8%	265	7.7%
10 Wood and wood products	57	4.1%	57	3.9%	68	3.4%	83	3.0%	99	2.9%
11 Cellulose and paper	31	2.2%	28	1.9%	38	1.9%	51	1.8%	60	1.8%
12 Glass, earth and porcelain	15	1.0%	17	1.1%	23	1.1%	33	1.2%	35	1.0%
13 Food	47	3.4%	49	3.3%	63	3.1%	77	2.8%	91	2.7%
14 Foodstuffs	454	32.6%	463	31.4%	626	30.8%	855	30.7%	1,078	31.5%
15 Textile products	125	9.0%	122	8.2%	160	7.9%	196	7.1%	236	6.9%
16 Sewing products	20	1.4%	21	1.4%	29	1.5%	50	1.8%	65	1.9%
17 Tanning of leather	9	0.7%	5	0.4%	9	0.4%	17	0.6%	23	0.7%
18 Printing	10	0.7%	10	0.7%	14	0.7%	21	0.7%	27	0.8%
19 Others	35	2.5%	33	2.2%	41	2.0%	55	2.0%	68	2.0%

Note : The figures of this table are calculated from the data in the previous table with following exchange retes and GDP daflator.

	1990	1991	1992	1993	1994
GDP Deflator (Manufacturing)	143.7	250.0	361.6	421.1	473.0
Exchange rate (VND/US $)	5133	9274	11150	10640	10955

Source : Government of Viet Nam



Source : Government of Viet Nam

Figure 1 Industrial growth of Viet Nam

12
Preliminary Findings on the Problem of Foreign Direct Investment in Viet Nam

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I. Review of foreign direct investment statistics

In Vietnamese FDI statistics, the size of investment projects is usually measured by "Licensed Capital", which includes the Vietnamese partner's contribution to joint venture projects. After start construction of plant or facilities, corporations have to report to MPI "Implemented Capital", which also includes the Vietnamese partner's contribution.

1,343 FDI projects are in operation as of December 1995, and licensed capital amounts to about US$ 18 billion. 44% of investment is in manufacturing, 35% in Hotel, Tourism. These two sectors account for almost 80% of FDI projects.

Foreign Direct Investment in Viet Nam concentrated in a few regions. 35% of investment is in Ho Chi Minh City, 21% in Hanoi, 13% in Dong Nai. These three regions account for almost 70% of FDI projects, and 30% of projects scatter in other 50 provinces.

18% of investment comes from Taiwan, 10% each from Japan, Hong Kong and Singapore, 8% from South Korea. These five Asian countries shares more than half of FDI projects.

In 1995, 394 projects (excluding Oil and Gas) were licensed for US$ 6.6 billion, which is 62% more than in 1994. This impressive increase is mainly due to the growth in manufacturing sector. Implemented capital increased 33% and reached US$ 2 billion.

Table 1 Sectoral distribution of foreign investment projects in operation (as of Dec. 27 1995)

Sector	# of Projects	Licensed Capital (million US$)	Share (%)	Avg. Size (mil$/prj)
Manufacturing	784	8,057	44	10.3
Hotel, Tourism	238	6,331	35	26.6
Oil, Gas	21	1,125	6	53.6
Transportation, Communication, Post	45	1,066	6	23.7
Other	255	1,549	9	6.1
Total	1,343	18,128	100	13.5

Note: Capital of canceled projects is excluded.
Source: MPI

Table 2 Licensed and Implemented Capital of FDI Projects

(Million US$)

Year	a # of Projects		b Licensed Capital			c Implemented Capital			d=c/b Implementation Rate
	Yr.	Acm	Yr.	Growth	Acm	Yr.	Growth	Acm	Acm
1988	37	37	366		366	240		240	65.6%
1989	70	107	539	47.3%	905	298	24.2%	538	59.4%
1990	111	218	596	10.6%	1,501	384	28.9%	922	61.4%
1991	155	373	1,388	132.9%	2,889	823	114.3%	1,745	60.4%
1992	193	566	2,117	52.5%	5,006	982	19.3%	2,727	54.5%
1993	272	838	2,887	36.4%	7,893	1,065	8.5%	3,792	48.0%
1994	362	1,200	4,071	41.0%	11,964	1,500	40.8%	5,292	44.2%
1995	394	1,594	6,600	62.1%	18,564	2,000	33.3%	7,292	39.3%

Note: Excluding Oil and Gas

Source: MPI

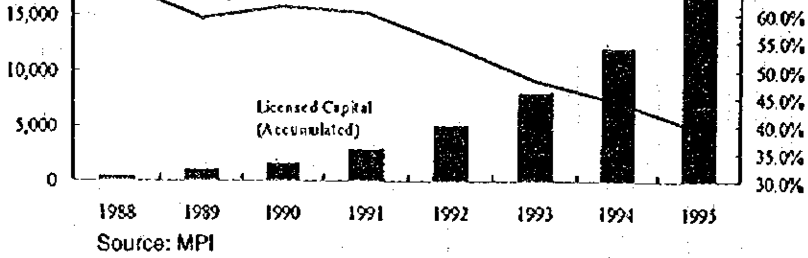
II. Decreasing implementation rate

In contrast to rapid increase in licensed capital, implementation or actual investment is not growing as fast as license approval. Growth rate of implemented capital declined to 33% in 1995 from 40% in 1994. As a result, accumulated implementation rate declined to 39%. Some factors may cause this decline of implementation rate. The weight of manufacturing project, which requires several years to implement, is increasing. Foreign investors face many difficulty such as complicated procedures for many concerned authorities or time consuming land acquisition.

III. Flow of FDI — from foreign investor's view point —

Before starting business operation in Viet Nam, foreign investor must go through many procedures, formalities, negotiations with many concerned agencies. The standard procedure has not been established and foreign investor has to cope with the situation case by case. In order to analyze this "many door" environment of FDI, we divided the flow of investment activity into three stages from foreign investor's view point.

First stage: Getting investment license
Second stage: Construction of plant
Third stage: Business operation



Source: MPI

Figure 1 Accumulated licensed capital and implementation rate

Based on this three stage flow, we interviewed 19 enterprises (9 in Ho Chi Minh area, 5 in Hanoi area, 5 in Hai Phong area) which have already approved investment license. This interview was conducted by MPI. Japanese consultant made supplementary research to ascertain the interview from foreign investor's view point. The typical flow which foreign investor must go through is shown in Figure 2.

1. First stage:Getting investment license

In the first stage, foreign investor starts looking for Joint Venture (JV) partner. Preliminary feasibility study is conducted jointly with JV partner. Before submitting investment application to MPI, informal discussions are hold with many concerned ministries to confirm the policy of Vietnamese government. MPI is now trying to shorten the period between receiving application and approving license. "Licensed Capital" in Vietnamese FDI statistics is on this base.

2. Second stage:Construction of plant

After getting investment license, foreign investors have to pass many procedures and formalities before setting up their corporation in order to get the permits such as construction license, land use permit, and

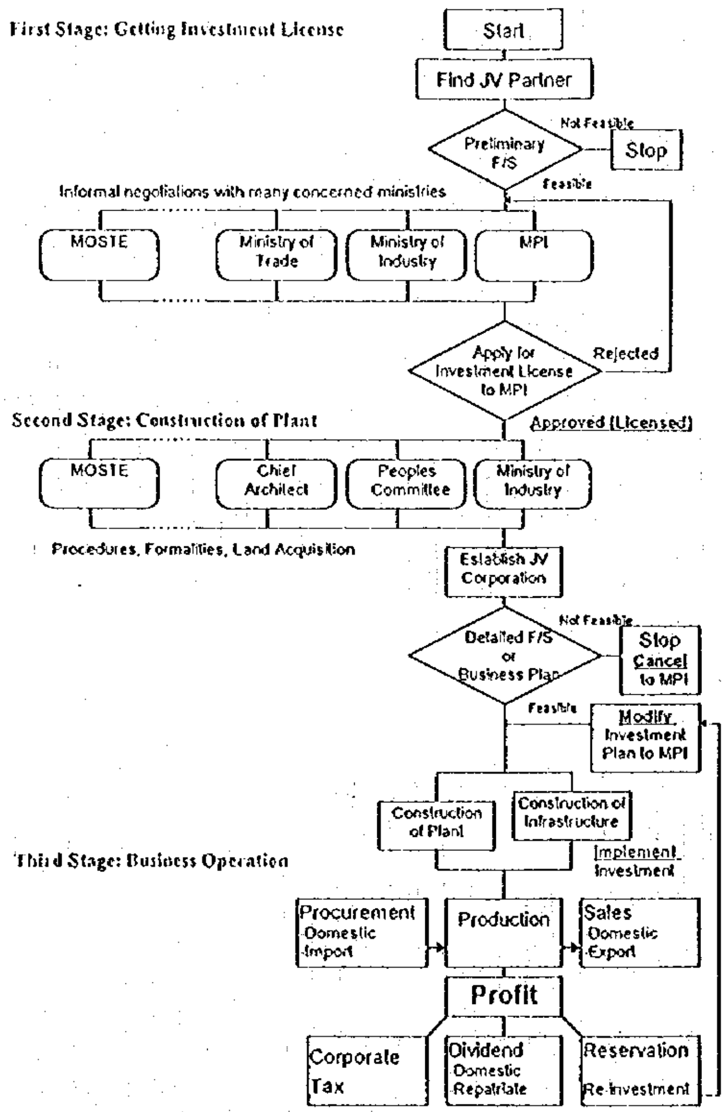


Figure 2 Flow of FDI

licenses for water supply, power supply, communication network as well as loans permits, etc.. Once JV corporation has established, its first task is to conduct detailed feasibility study. If the JV corporation is located outside Industrial Zone (IZ) or Export Processing Zone (EPZ), it has to acquire land (by paying compensation for resident's forced removal) and construct infrastructure not only inside its corporation's area but also outside, as the infrastructure provided by the government does not reach corporation's fence. When corporation starts construction of plant or facilities, corporation has to report to MPI "Implemented Capital", which includes the Vietnamese partner's contribution.

3. Third stage:Business operation

After actual business operation starts, corporation has to cope with many regulations and formalities. It takes time and effort to apply for import license of input materials for production from Ministry of Commerce or to get production quota from Ministry of Industry. Accessibility to finance source such as domestic bank is limited.

IV. Factors which hinder foreign direct investment

The result of 19 interviews is tabulated in Table 3. Factors which hinder Foreign Direct Investment and investor's reaction are categorized in the following manner.

1) Factors

☺ Investor has to go through procedure, however it is smooth and does not take time.

😐 The procedure is complicated and has to knock "many door".

☹ The procedure or regulation is harmful for the profitability of business.

2) Investor's reaction

👍 Investor perceives that business environment is favorable and wants to expand investment.

👎 Investor perceives that business environment is unfavorable and wants to shrink investment or delay the implementation of approved project.

Investor perceive that business is not feasible in current Vietnamese business environment.

In this interview, number of sample is limited and this table does not necessarily represent current business environment Viet Nam for foreign investor. Samples are extracted from the second or the third stage, and two important points should be noticed in analyzing the result of this interview. First, foreign investors who conducted preliminary feasibility study and decided not to invest are excluded from interviewee. Second, interviews are conducted by person of MPI and interviewee may not tell true information. So, Japanese consultant made supplementary research to ascertain the interview from foreign investor's view point.

Foreign investment law was promulgated in December 1987, and Viet Nam started to accept FDI in 1988. For big manufacturing project, usually it takes three or four year to start business operation. Most big manufacturing project is in the second stage, so recent discussion on hindering factors for FDI is concentrated on the first or second stage. However, this interview reveals that real bottle neck is in the third stage: business environment itself.

1. First stage:Getting investment license

In the first stage, foreign investor has to looking for Joint Venture (JV) partner, because land use permit is hard to get for 100% FDI unless it locate in IZ or EPZ. Before submitting investment application to MPI, informal discussions are hold with many concerned ministries to confirm the policy of Vietnamese government. If the investment project is new or big for Vietnamese government, it takes time for this informal negotiation. There are some cases that foreign investor is forced to modify the investment plan through informal negotiations, because the plan may undermine the business of existing State Enterprise (SE).

Table 3 (a) Hindering factors from foreign investors view point

	1	2	3	4	5	6	7	8	9	10
General										
Area	Hanoi	Hanoi	Hanoi	Hanoi	Hanoi	Hai Phong	Hai Phong	Hai Phong	Hai Phong	Hai Phong
Type of Business	Automobile Assembly	Electronic Parts	Automobile Assembly	Electronic Fans	Electronic Parts	Hotel Casino	Import & Sales LPG	Industrial Estate	Shopping Center Hotel	Steel Rolling Mill
Capital (Million US$)	33	178	33 – 55	3.5	8.7	25		120+100	9.7	56
Licensed Capital										
Implemented Capital										
Viet Nam / Foreign Capital	35 / 65	30 / 70	30 / 70	0 / 100	35 / 65	20 / 80	30 / 70	30 / 70		50 / 50
# of Employees	150		750	260	475	500	50			220
Interviewee	VN side	VN side	VN side	VN side	VN side	VN side	Foreign side	Foreign side	VN side	Foreign side
First Stage										
Searching JV Partner	⊖ 91									⊖ Jan 92
Informal Negotiation		⊖12 mn+	⊖ 2 mn+				○ 5 mn			⊖
Application for Inv. License	○ 24 mn	○ 1 mn	⊖ 4 mn	⊖12 mn+	⊖ 6mn	⊖ 6mn	○ 3 mn		⊖ 8mn	○ 5mn
Inv. License Approved	Dec-93	Jan-93	Apr-91	Jun-90	Jul-94	Aug-92	Nov-94	Dec-94	Aug-91	Jan-94
Total first stage	24 mn +	13 mn +	5 mn +	12 mn +			8 mn+		12 mn +	24 mn
Second Stage										
Getting Land Use Permit	⊖	⊖	No need to construct new plant		No need to construct new plant			⊖	⊖	⊖
Land Acquisition	⊗ 15 mn	⊗ 9 mn						⊗	⊗ 12 mn	⊗
Procedures & Formalities	⊖	⊖				○	⊖	⊗	⊖	⊖
Infrastructure Arrangement	⊗ RPW	⊗ RPW			○	⊗ Unattractive	⊗ RPW	⊗ RPW	⊗ R	⊗ RPW
Construction of Plant		20 mn								Sep-95
Start Production (Operation)	Middle of 96	Jul-95				Feb-96	Dec-95		Dec-95	
Total Second Stage	30 mn+	30 mn				30 mn+	13 mn +		30 mn	
Total First & Second Stage	54 mn+	42 mn +							42 mn	
Third Stage										
Procurement	⊗ Imp Tax	⊗ TO Tax	⊗ TO Tax		⊗ Imp Tax	⊗ Imp Tax		⊗ Imp Tax		⊗ Imp Tax
Production	⊗ Quota	⊗ Power	⊗ Quota							
Sales	⊗ Small Mkt	⊗ TO Tax	⊗ SO Dealer	⊗ Dom Comp	⊗ Dom Comp	⊗ Regulation		⊗ Exp Tax	⊗ Small Market	⊗ M of Trade
Finance			Forex		Forex				Forex	Forex, Borrowing
Biggest Problem	No IP for Automobile, Poor Infrastructure	Poor Infrastructure	No IP for Automobile	✦ 10 yr. inv. tenure is too short	Small Domestic Market	Entertainment regulation		VN govt should learn int'l competition	Almost ℞, ✦ Market is too small	

Legend : Factors
- ○ Smooth, Quick
- ⊖ Complicated, Takes Time
- ⊗ Harmful for Profitability

Investor's Reaction
- ◇ Expand Investment Plan
- ✦ Shrink Investment Plan
- ℞ Give up Investment

Abbreviation
- RPW : Road, Power, Water
- TO Tax : Turn-over Tax
- IP : Industrial Policy
- SO : State-owned
- Forex : Foreign Exchange
- Comp : Competition

Table 3 (b) Hindering factors from foreign investors view point

	11	12	13	14	15	16	17	18	19
General									
Area	HCM area	HCM area	HCM area	HCM area	HCM area	HCM area	HCM area	HCM area	HCM area
Type of Business	Electronic Parts	Electronic Parts	Pesticide	Plastics	Steel for Construction	Sports Shoes	Printed Circuit Board Assembly	PVC compound	Instant Coffee Mfg & Dst
Capital (Million US$)	1.6		8.1	90	7				
Licensed Capital					7	30	78		24
Implemented Capital					5.7	23	3	3.6	0.3
Viet Nam / Foreign Capital	50 / 50		30 / 70						0 / 100
# of Employees	72		50		40	4,900	28	58	15
Interviewee	Foreign side	Foreign side	VN side	VN side	Foreign side	Foreign side	Foreign side	Foreign side	VN side
First Stage									
Searching JV Partner	⊖	○ HEPZA							⊖
Informal Negotiation	○ DNIZAC	○ HEPZA			○ DNIZAC	○ DNIZAC	○ DNIZAC	○ DNIZAC	○ DNIZAC
Application for Inv. License	○ 2mn	○ 1mn	○ 1mn	⊖ 8mn	○ 2mn	○ 3mn	○ 1mn	○ 1mn	○ 1mn
Inv. License Approved	Sep-94	Sep-94		Jun-95	May-93	Apr-94	Sep-95	Aug-95	Mar-95
Total first stage									
Second Stage									
Getting Land Use Permit	○ DNIZAC	○ HEPZA		⊖	○ DNIZAC	○ DNIZAC	○ DNIZAC		
Land Acquisition		○ HEPZA	⊗ Expensive	○ DNIZAC	○ DNIZAC	○ DNIZAC	○ DNIZAC		
Procedures & Formalities	○ DNIZAC	○ HEPZA	⊖	⊖	○ DNIZAC	○ DNIZAC	○ DNIZAC		⊖ M of Trade
Infrastructure Arrangement		○ HEPZA					⊗ Sea/airport		
Construction of Plant							⊗ No Used Eqp		
Start Production (Operation)									
Total Second Stage									
Total First & Second Stage									
Third Stage									
Procurement		○ HEPZA	⊖ Imp Tax					⊗ Imp Tax	⊗ Imp Tax
Production					⊖		⊗ Prd Req		
Sales	⊗ Small Mkt	○ HEPZA		⊗ 30% Exp Req	⊗ M of Trade			⊗ Exp Tax	⊗ Trade Mark
Finance				Forex					Forex
Biggest Problem				Export duty	Arbitrary change of law and regulations	Arbitrary change of law and regulations	Arbitrary change of law and regulations	Irrational Imp-Exp tax rate and procedures	Arbitrary change of law and regulations

Legend : Factors
- ○ Smooth, Quick
- ⊖ Complicated, Takes Time
- ⊗ Harmful for Profitability

Investor's Reaction
- Expand Investment Plan
- Shrink Investment Plan
- Give up Investment

Abbreviation
- Eqp : Equipment
- Prd Req : Production Requirement

After receiving investment application, MPI formally start discussion with other concerned ministries and after the discussion comes to an agreement, investment license is approved. Vietnamese government is now trying to shorten the period between receiving application and approving license by creating "one stop service agency" or setting the time limit for approval. This kind of measures is effective to simplify procedure. However, protective policy for SE may discourage foreign investor from investing big manufacturing project.

2.Second stage:Construction of plant

After getting investment license, foreign investors have to pass through many procedures and formalities to set up their corporation. Most of them complain that they have to knock "many doors" to get the permits such as construction license, land use permit, and licenses for water supply, power supply, communication network as well as loans permits, etc.. This situation is created because many concerned agencies' staff do not have good understanding of investment law, and they do not have enough management experience, while Vietnamese government has not issued clear orientations on foreign direct investment in Viet Nam.

If the JV corporation is located outside Industrial Zone (IZ) or Export Processing Zone (EPZ), its has to acquire land (by paying compensation for resident's forced removal) and construct infrastructure not only inside its corporation's area but also outside, as the infrastructure provided by the government does not reach corporation's fence. Above mentioned factors in this stage has caused the delay of the construction schedule, and the increase of the construction price as the fluctuation of building material and land price.

In southern part of the country, HEPZA (Ho Chi Minh City Export Processing Zone Authority) and DNIZAC (Dong Nai Industrial Zones Administration Committee) serve as reliable consultants for foreign investor to get rid of complex formalities.

3.Third stage:Business operation

Most big manufacturing project is in the second stage, so recent discussion on hindering factors for FDI is concentrated on the first or second stage. The issues in the first and second stage are mainly the problem of procedure. However, real impediment is in the third stage. Many foreign investor perceive that current business environment in Viet Nam is not attractive.

After actual business operation starts, corporation has to cope with many regulations and formalities. It takes time and effort to apply for import license of input materials for production from Ministry of Commerce and concerned ministries. Moreover, foreign exchange and unreasonable import-export tax policy have also created more obstacles for foreign affiliated companies. As a result, this could lead to increase the price of products and reduce the competitiveness of the product made by the companies. Among interviewed companies, some claim that import-export tax policy can not protect the industries which producing products to replace the imported ones. On the contrary, the policy even encourages import activities. Many company claim that they are producing products to replace the import ones, but they have no privilege concerning to tax policy.

Even though the growth rate is very high, domestic market is relatively small for foreign investor which operates globally. In some manufacturing industries such as automobile or electronics, investors have to face difficulties in getting quota for importing materials for production. Accessibility to finance source such as domestic bank is limited.

A foreign investor in Viet Nam is surrounded by many concerned ministries and has to cope with many procedure with each ministries. Each ministries deals with the informal discussion or application from foreign investor basically case by case. A measure of one ministry sometimes contradicts measure of other ministry. As a result, foreign investors perceive that there is no one consistent policy for FDI. Viet Nam government should work out clearly oriented strategy of industrial development, according which the MPI can base on when it grants the license to investor, without having to wait for the agreement of other concerned ministries.

The current Vietnamese government's way to handle FDI project creates intransparency, and arrows arbitrary measure. This kind of approach to FDI is efficient to regulate investment activity in Viet Nam. However, foreign investors may perceive that Viet Nam is not so attractive as other Asian countries. Viet Nam government should provide stable legal and accounting environment for FDI activities in Viet Nam.

13
Preliminary Findings on the Problem of Small and Medium Enterprises and Rural Industries in Viet Nam

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I. Current conditions of small and medium enterprises and rural industries in Viet Nam

1. Small and medium enterprises

Many private small and medium enterprises(SMEs) in Viet Nam, traditionally important components of domestic material industries , were privatized between the second half of the 1980's and early 1990's. During the pre-unification period (1954 - 1974), these businesses operated under a different economic regime but their production activities were integrated into the centralized socialist economic regime after unification. In 1986, however, the official introduction of the Doi Moi policy put an end to the centralized economic management which was replaced by more open economic management based on such principles of a market economy as independent decision-making by businesses and market competition, etc. It is apparent that the Doi Moi policy was intended to encourage production activities of all-sized enterprises in the non-public sector and was adopted because of government recognition of the important role to be played by private businesses in the process of the industrialization of the Vietnamese economy. This market-oriented economic management by the Vietnamese government has noticeably stimulated the growth of SMEs, particularly private businesses which are very sensitive to market requirements and which have been increasingly playing a leading role in not only the domestic market but also in the export market.

(1) Definition of SMEs

At present, no exact definition of a SMEs appears to exist in Viet Nam. However, one MPI(Ministry of Planning and Investment) research paper defines a medium enterprise as a business with paid capital of 5 - 10 billion Vietnamese Dong and 501 - 1,000 employees and a small enterprise as a business with paid capital of up to 5 billion Dong and up to 500 employees.

The Bank for Industry and Commerce of Viet Nam (VIETCOMBANK) adopted regulations to classify as SMEs, those enterprises who have their value of fixed capital under 10 billion Dong, working capital under 8 billion Dong, staff under 500 persons, and annual turnover under 20 billion Dong.

The administration of Ho Chi Minh City identifies medium enterprises on the basis of 3 criteria as follow: legal capital registered above 1 billion Dong, labor force above 100 persons, and annual turnover

Table 1 The number of enterprises, Licensed as of the end of 1994 in 4 big cities

	Number of enter-prises	Regis-tered capital (billion VND)	Capital / enterprise (billion VND)	Of which:					
				State-Owned Enterprises			Private Enterprises		
				No. of enter-prises	Regis-tered capital	Capital / enterprise (bil. VND)	No. of enter-prises	Regis-tered capital	Capital / enterprise (bil. VND)
1	2	3	4=3/2	5	6	7=6/5	8	9	10
Whole country	26282	56330.7	2.143319	6042	48713.3	8.062446	13772	2000.2	0.145237
HaNoi	2740	5478.2	1.999343	980	4543.6	4.636327	424	46.5	0.10967
HaiPhong	649	918.5	1.415254	244	1731.7	7.097131	139	25.5	0.183453
Q.Nam-D.Nang	854	1823.2	2.134895	222	1646.8	7.418018	394	35.3	0.089594
HoChiMinh City	5003	13510.9	2.70056	855	10510.5	12.29298	1554	282.6	0.181853
4 Cities	9246	21730.6	2.350292	2301	18432.6	8.010691	2511	389.9	0.155277

Source : Calculated based on the Statistical Yearbook 1994, published by the General Statistical, Hanoi 1995.

above 10 billion Dong; enterprises with 3 respective figures under the above levels belong to the category of small enterprises.

On the other hand, the specialists in economics and the policy makers and managers proposed strongly different criteria of identifying SMEs: within the range from 50 to 100 for staff, and from 300 million to under 1 billion Dong for capital.

(2) Overview of SMEs

Although official statistic data on SMEs is unavailable, the number of all-sized licensed enterprises in Viet Nam at the end of 1994 is 26,282 with the following types of ownership from the Statistical Yearbook 1994, published by the General Statistical Office(GSO).

State enterprises : 6,042
Private enterprises : 13,772
Others(Cooperatives) : 6,468

These figures include large enterprises, but almost all of non-state enterprises seem to be included in the category of SMEs. Industry Department of GSO also laid out an estimation that the small enterprises in Viet Nam had accounted for 98%, while medium and large enterprises for 2%.(See statistical data of Viet Nam 1989-1993, Industry Department, GSO, Hanoi 1994) Therefore we would like to make a brief analysis on enterprises in Viet Nam in order to get some implication on SMEs in Viet Nam using these GSO's data.

The latest statistics published by the GSO in the 1994 Statistical Yearbook reveal that in general, the average capital of re-licensed enterprises accounts only for about 2.1 billion Dong. (see Table 1) The respective figure for the processing industry is 2.06 billion Dong. In 4 big cities Hanoi, Haiphong, Danang and Ho Chi Minh City, this indicator is higher than the national average - 2.35 billion Dong per enterprise, of which the highest figure is recorded in Hochiminh city - 2.7 billion Dong per enterprise, the lowest figure in Haiphong - 1.4 billion Dong per enterprise. If only the industrial enterprises are taken into consideration, and if they are examined by 4 criteria: labor force, turnover, total value of production and capital engaged for production - then their scale would appear even smaller (see Table 2.).

For the whole industrial branch, the average staff accounts only for 5-6 persons per enterprise.(see Table 2) Among them, by this criterion, the state-owned enterprises (SOEs) can be generally considered as medium-size (294 workers per enterprise), while non-public enterprises as small -size (below 50 workers

Table 2 Quantity, labor force, turnover, total production value and capital of industrial enterprise in 4 big cities in 1992

	Number of Enter-prises	Number of Labor force	Labor force/ Enter-prise	Turnover (million VND)	Turnover /Enterp. (million dong)	Production value (mil. VND)	Prod. value/ Enterp. (mil. VND)	Capital for Production (million VND)	Capital per Enterp. (mil. VND)
1	2	3	4=3/2	5	6=5/2	7	8=7/2	9	10=9/2
Total	377114	2051267	5.4	50027161	132.7	18116895	48.	25993946	68.9
SOE	2268	667551	294.3	37230694	16415.6	12778912	5634.4	20506928	9041.9
Cooperatives	5732	207168	36.1	1196916	208.8	514794	89.8	525492	91.7
Private Enterp.	1114	47373	42.5	1483676	1331.8	513305	460.8	794322	713.
Individual households	368000	1129175	3.1	10115875	27.5	4309884	11.7	4167267	11.3
Hanoi	12482	139683	11.2	2951581	236.5	1077931	86.4	1345065	107.8
SOE	253	94311	372.8	2640784	10437.9	910244	3597.8	1163496	4598.8
Cooperatives	1031	16589	16.1	105840	102.7	73514	71.3	96186	93.3
Private Enterp.	37	1841	49.8	76583	2069.8	13595	367.4	37452	1012.2
Invidual households	11161	26942	2.4	128374	11.5	80578	7.2	47931	4.3
Haiphong	6443	62888	9.8	860046	133.5	312473	48.5	488262	75.8
SOE	101	33704	333.7	743058	7357.	250713	2482.3	357441	3539.
Cooperatives	283	9911	35.	40143	141.8	21665	76.6	34849	123.1
Private Enterp	49	3473	70.9	14656	299.1	12330	251.6	56974	1162.7
Invidual households	6010	15800	2.6	62192	10.3	27765	4.6	38998	6.5
Q. Nam - Danang	8645	62162	7.2	630750	73.	306162	35.4	200380	23.2
SOE	52	18457	354.9	395608	7607.8	142238	2735.3	112739	2168.1
Cooperatives	461	11394	24.7	95033	206.1	65521	142.1	31063	67.4
Private Enterp	40	1841	46.	13678	342.	8850	221.3	9215	230.4
Invidual households	8092	30470	3.8	126431	15.6	89553	11.11	47363	5.9
HCMinh City	24800	281393	11.3	16463540	663.9	4953757	199.7	6605170	266.3
SOE	389	140402	360.9	11388422	29276.1	3390829	8716.8	4390195	11285.8
Cooperatives	710	21183	9.8	406009	571.8	125034	176.1	142845	201.2
Private Enterp	333	23545	70.7	1116525	3352.9	343844	1032.6	394078	1183.4
Invidual households	23368	96263	4.1	3552584	152.	1094050	46.8	1678052	71.8

Source : General Statistical Office.

Table 3 Total production value of non-public enterprises in selected domains of industrial production in 1994

(at 1989 constant prices)

Production domain	Whole production branch	Of which:				
		Non-Public Enterprises	of which			% of whole branch
			Collective units	Private enter-prises	Individual households	
1	2	3=4+5+6	4	5	6	7=3/2
Building materials	1383456	481064	64835	28374	387855	0.3477263
Wood and forestry products processing	610949	470135	46129	59227	364779	0.7695159
Ceramics, porcelain, glass	205013	109336	15878	12699	80759	0.5333125
Food processing	561959	463838	10602	11662	441574	0.8253947
Leather	78435	42942	5646	1005	36291	0.5474852

Source : General Statistical Office.

per enterprise), of which cooperative - 36 workers; private enterprises -42.5; and individual household economic units in handicrafts and small industry - 3 persons per unit.

The average staff of enterprises in 4 big cities is higher by about 1.5 - 2 times in comparison to the national average of whole industrial branch. Up to 27% of total labor (546,126 over 2,051,267) engaged in enterprises over the whole country, are concentrated in these big cities. If the criterion of "having staff under 100 persons" is used to identify small-size enterprises, then almost all non-public enterprise can be taken as small-size ones. This judgment also coincides with the sample survey results, obtained by the research group in 4 big cities.

As far as the turnover is concerned, generally for whole branch, the SOEs have also a clear advantage - 16,416 million Dong per enterprise, in comparison to a figure of 209 million per cooperative; 1,332 million per private enterprise; and 28 million per unit engaged in handicrafts and small industry.(see Table 2)

Ho Chim Minh City has the indicator of "turnover per enterprise" higher than the national average. Particularly, the average turnover of households engaged in handicrafts and small industry in Hochiminh City is by 5.5 times higher than the respective general average, by 13.2 times higher than that in Hanoi; 14.7 times - compared to Haiphong; and 9.7 times - to Danang. For Haiphong and Danang, this indicator is lower, accounting only for about 1/2 of the general average. Meanwhile, the private enterprises in Hanoi have their average turnover by nearly 2 times higher than the average.

Concerning the total value of production, the trend of SOE's advantage is also evidently recorded - 5,634 million Dong per state-owned enterprise; 90 million Dong per cooperative; 461 million per private enterprise; and 11.7 million per unit engaged in handicrafts and small industry.

The above-given trend is also reflected through the indicator "total production value per enterprise" in 4 big cities, where up to 36.7% (i.e.6,650,323 over 18,116,895) of the total production value, generated by all industrial enterprises in the whole country, are concentrated, of which Ho Chi Minh City alone assumes up to 27% (i.e. 4,953,757 over 18,116,895).

The evident excess by the SOEs in the above criteria can be justified through different reasons. The most important of such reasons, besides certain advantages resulting from the macro-economic state management policies in favor of the SOEs, applied in the recent period (e.g. They have a trained labor force, a convenient location for production and business deployment, etc.), should comprise the fact that the capital resources of SOEs are by much higher. The Table 2 shows that, on average, the SOEs gave their available capital (9,042 million Dong) by 98 times higher than that of cooperatives (92 million Dong), by 13 times higher than that of private enterprises (713 million Dong), and by 800 times higher compared to that of individual households (11.3 mil. Dong).

By regions, enterprises in Ho Chi Minh City are better-off than those in other cities. More precisely, their respective figure is by 2.5 times higher than that of Haiphong, and by 11.5 times higher in comparison to that of Danang. It is noticeable that the capital resources of individual households engaged in handicrafts and small industry in Ho Chi Minh City are the best(71.8 million Dong per production unit), by 16.7 times higher than the respective figure of Hanoi, by 11 times higher than that of Haiphong, and by 12 times higher than that of Danang. In case of private enterprises, this indicator is comparable in 3 cities Hochiminh City, Hanoi and Haiphong (about 1.0-1.1 billion Dong).

By production branch, the SMEs are mainly involved in the following domains: building materials; wood and forestry products processing; ceramics, porcelain and glass; food processing; leather. The Table 3 presents the proportion of total production value, the non-public enterprises assume in the above-described production branches. It reveals that the small enterprises generate a great majority of production in food processing (i.e. 82%), wood and forestry products processing (77%), and then in the domain of ceramics, porcelain, glass and leather (53 - 55%).

(3) Trends of main sectors

1) Textile and sewing sector

This sector has a long history and the Vietnamese government fostered this sector long before unification as an export industry, based mainly in Hanoi, aiming particularly at the Soviet, East German and Czechoslovakian markets. In the 12 year period from 1975, the year of unification, to 1987, the sewing sector in Viet Nam enjoyed a great boom during which 58 million products were made for both the domestic and overseas markets. With this sound background, the textile and sewing sector has made steady progress in its adaptation to a market economy and has ensured it success as a growing sector. Garments currently made in Viet Nam are exported to 46 countries, led by the EU, Japan, Taiwan, South Korea and the US. The export value has rapidly increased, from 14.3 million dollars in 1991 to 18 million dollars in 1992, 360 million dollars in 1993 and 550 million dollars in 1994, with a staggering annual growth rate of more than 50%.

2) Food processing sector

The highest growing businesses in the food processing sector are beer and soft drink businesses. However, the production scale of these products does not fall into the category of small-to-medium size business. Those products of which quick production growth is expected are also beyond the reach of the production capability of SMEs. Likely products for SMEs this sector are those using farm products or marine products. To be more precise, cooking oil and processed dried fish or shellfish are the most promising products and their export volumes have been gradually increasing in recent years.

3) Chemical products sector

The products of SMEs in this sector are such household products as soap, detergent, paint and rubber tires. The factories producing these items tend to use simple facilities operated in a labor-intensive manner. The demand for these products is certainly increasing. A growing number of businesses wish to establish joint ventures with foreign businesses to improve their technology and to achieve the overall modernization of their operation to meet the changing life-style in Viet Nam under foreign influence and the increasing export demand. Another promising area with an increasing demand is plastics although only injection molding is currently conducted by a small number of businesses.

2. Rural industries

State and other publicly-owned farms and cooperatives which once played a central role in agricultural production under the centrally planned economy in the past have been undergoing profound changes due to the reform policies under a market economy, including the enforcement of the new Land Act which designates individual farming households as basic production units and allows the individual ownership and management of farmland to a great extent.

To be more precise, the farming of state and other publicly-owned farms is now based on the principle of contracted production by farm workers, acknowledging the farming rights of individual works, and the main functions of farms are the collection and shipping of products, post-harvest aspects of agricultural production and farming guidance. Farms are run on a self-accounting basis and still play a key role in the distribution, processing and export/import of farm products.

In the case of cooperatives, while their transformation to more modern cooperatives is hoped for, many have either lost their function or remained as production control organizations to achieve production targets. Therefore, their modernization is regarded as a pending issue.

Under the new farming practice, a farming household or group of workers enters into a contract with a state or other publicly-owned farm to receive farmland which the farmer or group in question is entitled to farm for a specified period of time. Part of the harvest is paid to the farm as rent for the land and the sales receipt for the remaining harvest becomes the farmer's or group's income. Even though the products are often sold to the farm, there is no compulsory obligation for a farmer or group to do so. The farm may purchase not only the products produced on its farmland but also those produced by neighboring independent farmers for processing and marketing purposes. State or other publicly-owned farms play a major role in the production and processing of such export products as coffee, tea and rubber as well as some traditional craftwork using farm products and, therefore, they are an important feature of rural industries in Viet Nam.

Meanwhile, cooperatives have been struggling to find a new role since the introduction of the Doi Moi policy in 1988 to replace their old role as production control organizations. They are expected to assume the new role of providing market information, promoting technology extension, providing farming equipment and materials and providing managerial advice, etc. with a view to assisting their member farmers position as a vital part of the development of rural industries. Their transformation so far suggests that they have failed to meet these expectations in a satisfactory manner. Some 27,000 cooperatives were said to exist across the country in 1992. The sharp decline to the presently estimated 2,000 cooperatives since then must reflect their failure to change to meet the challenges of a new economic climate.

At present, visible industrial activities in rural areas are largely confined to the processing of some farm products and the manufacture of traditional craftwork by state and other publicly-owned farms as described earlier and small-scale rice mills operating throughout the country. The promotion of rural industries poses an urgent challenge to the Vietnamese government because of its absolute necessity to absorb the excess population in rural areas.

II. Bottlenecks to development of SMEs and rural industries in Viet Nam

1. Small and medium enterprises

As already pointed out, SMEs in Viet Nam have traditionally been components of the national economy and have greatly contributed to the country's material production. However, their production activities and status within the industrial structure have been far from stable in the recent period of upheaval, characterized by a series of wars and changes of the social system.

Under the present market economy system prompted by the introduction of the Doi Moi policy, SMEs are expected to not only stabilize and consolidate their status as components of the national industrial structure as soon as possible but also to increase their production capacity in view of the fact that the Vietnamese economy now needs to build industries to absorb the ever increasing labor force with a view to not only meeting the domestic demand but also stimulating the country's export activities. SMEs are expected to play an important role in the achievement of these objectives.

Under these circumstances, the Government of Viet Nam is showing a growing awareness of the importance of introducing measures designed to strengthen and foster SMEs so that they can play a greater role in the accelerated economic development of the country. However, the actual progress of the adoption of such measures has been slow up to now.

An interview survey was conducted as part of the Study by MPI staff on 15 representative SMEs in 4 major cities in Viet Nam (5 in Hanoi, 3 in Haiphong, 5 in Ho Chi Minh and 2 in Da Nang), mainly on the question of the present and future bottlenecks of business management. Although the small number of samples, necessitated by the time constraint, demands careful handling of the survey findings, the existence of the bottlenecks described below is clearly indicated based on the table of the survey findings and the MPI report on the same survey findings (see Table 4).

(1) Capital shortage and limited capital increase prospects

The average paid capital of the SMEs surveyed is approximately 1,100 million Dong (US$ 100,000) which is larger than the average paid capital of approximately 713 million Dong (US$ 70,000) for all private businesses in Viet Nam in 1992 but is stated by the owners of 12 of the 15 surveyed businesses to be too small to ensure efficient business management in the urban business environment. This inadequate level of capital is said by these owners to be the cause of the limited production capacity and the difficulty of introducing new technologies.

Even if these businesses plan to raise additional capital to solve the situation, they find it difficult to do so under the financing system of the present government and must, therefore, raise capital either through profit accumulation or personal connections.

The suggested lack of a financial system which is capable of assisting SMEs(particularly private businesses) operating in markets offering opportunities for business expansion poses an important task to be earnestly dealt with within the framework of the Vietnamese economy.

The concrete bottlenecks faced by SMEs in connection with the current financial system include the following.

(a) The high interest rate (the minimum rate can be said to be 10% per annum although the interest rate policy is under review) and maximum repayment period of one year make the use of loans for plant and equipment investment impossible.

(b) The strict conditions attached to loans, requiring safe collateral, and complicated loan procedure make it impossible for SMEs to obtain loans given their financial and managerial strength.

(c) There is hardly any linkage between banks and businesses.

(2) Limited scope for introduction of new technologies

Most of the currently operating SMEs in Viet Nam conduct their production activities with antiquated equipment/machinery which is almost from the age of handicrafts and/or is well beyond their period of depreciation. Two-thirds of the businesses surveyed expressed a desire to increase their production capacity through the introduction of modern equipment/machinery. This survey finding is shared by the joint survey conducted by the German SMEs Association and the Technonet Asia Organization on 86 Vietnamese SMEs(36 in Hanoi and 50 in Ho Chi Minh) in December, 1994.

The survey findings suggest that although the shortage of funds described earlier is the main reason for the failure of SMEs to achieve their strong desire for modern equipment/machinery, the lack of information on the availability of new technologies is also said to play a part in such failure.

The questionable quality of the products made using antiquated, poor equipment/machinery is said to have frequently hampered new business opportunities.

Most managers of SMEs would like to see the implementation of appropriate government measures and to obtain the vital information required to solve the current situation and the survey finding that some businesses are considering the establishment of business links with foreign businesses underlines the eagerness to improve their business performance among SMEs in Viet Nam.

Table 4 Bottlenecks faced by SMEs in 4 areas of Viet Nam

	1	2	3	4	5
Area	Hanoi	Hanoi	Hanoi	Hanoi	Hanoi
Type of business	wooden products	cosmetic products	bag with supply	industrial electronic equipment	noodle
Type of enterprise	state-owned	state-owned	non-state	state-owned	non-state
Date of establishment	1972	1966	24,394.00	February,1989	Apr-93
Capital	300,000$	80,000$	40,000$	90,000$	
# of Employees	170	140	30-00	35	30
Average income per month	45$	37,3$	45$		40$
Annual Sales	163,200$	38,700$	10,000$	100,000$	62,000$
capital		☹ high interest rate discourage borrowing.	☹ quite difficult to borrow money	☹ difficult to borrow money for technology, high interest rate(1.95%/M)	☹ borrowing money is up to 30,000US$, so difficult to invest in new equipment
technology	☹ equipment are old	☹ no money to produce new package		☹ same as above	☹ same as above
market		☹ great demand but lack of production ability	☹	☹ hasn't known how to contact with the market	☹ price of products is decreasing
training					
land			☹ lack of land to improve production	☹	☹ Lack of land to expand business
infrastructure	☹	☹	☹	☹	☹
problems and recommendation		company has to pay tax once a month before having money from selling	8% gross sales tax and 35% profit tax are very high	gross sales tax is too high(4%)	gross sales tax is too high(6%)

	6	7	8	9	10
Area	Hai Phong	Hai Phong	Hai Phong	QN-DN	QN-DN
Type of business	TV, cassette, video	garment for export and domestic market	weighing machine and metal product	carton package	fertilizer, package, paint, construction material
Type of enterprise	state-owned	non-state	non-state	non-state	state-owned
Date of establishment	April,1979	Apr-89	Mar-93	September,1992	October,1975
Capital	1.2mil$	43,000$	13,300$	10,000$	810,000$
# of Employees	132	60	30	37	360
Average income per month	40$	24-33$	23$	40-50$	
Annual Sales	2.8mil$	10,300$	20,000$	37,000$	800,000$
capital	☹ lack of capital to import materials, but easy to borrow money from bank	☹ can't borrow money from bank because of no property	☹ can't borrow money from bank because of no property	☹ state bank require houses as collateral, so they borrow money from private bank at bad condition(2.33%/M)	
technology			☹ technology is backward	☹ equipment are old	
market	☹ price of products is decreasing because of competition		☹ lack of information on the market		☹ competition with imported products
training			☹ need to retrain all staff and workers		
land		☹ Government doesn't allow to use an open space in the factory		☹ Lack of land to expand business	
infrastructure	☹	☹	☹	☹	☹
problems and recommendation	8% gross sales tax and 15% import tax for materials are too high	Government has to help SMEs on capital matters	Government should take care of cooperatives	Government should apply value-added tax to create chances for domestic production(instead of sales tax)	Government should decrease gross sales tax to improve competitiveness

	11	12	13	14	15
Area	HCMC	HCMC	HCMC	HCMC	HCMC
Type of business	plastic products	jacket,shirt,sport wear	rubber processing machines	carton package	jacket
Type of enterprise	non-state	non-state	state-owned	non-state	non-state
Date of establishment	1989	Jun-91	Jun-93	1994	1991
Capital	179,000$	20$	390,000$	99,000$	300,000$
# of Employees	36	85	138	30	300
Average income per month		30-60$	69$	40$	43$
Annual Sales		120,000$	1.27mil$	110,000$	136,000$
capital	☹ quite difficult to raise capital	☹ private enterprises allowed to borrow money up to 20,000$ in a year if having collateral	☹ quite difficult to borrow money, interest rate is quite high(1.75%/M)	☹ can't afford new equipment in spite of increasing demand	☹ when borrowing money from bank, property is required, interest rate is quite high
technology	☹ equipment becoming old		☹ machines are old to enhance exports	☹ equipment becoming old	
market	☹ due to old equipment, selling mainly in domestic market		☹ have to be competitive with many companies in other province		
training					
land					☹ leasing land from another company, but District wants to pick up the land
infrastructure	☹	☹	☹	☹	☹
problems and recommendation		Although the gross sales tax in garment, 40% profit tax is too high	hope to borrow money at low rate from government, improve tax system	hope to have assistance from government on borrowing money to expand production	hope to borrow money from government, hope to have assistance from government on land problem

Legend: ☹ bottlenecks for business development [illegible]

(3) Shortage of marketing information and competition with illegally imported products

The development of SMEs in Viet Nam has been obstructed by the insufficient provision of marketing information which is manifest in the form of the difficulty of conducting production planning due to a shortage of market-related information, in turn caused by the immaturity of industrial associations to support SMEs, and also the difficulty of forecasting the required production level to meet the demand and the required standard quality, in turn caused by the difficulty of establishing the consumption demand, in both the quantitative and qualitative aspects. What has made the situation worse is the confusion in the domestic market caused by the huge inflow of illegally imported products which has caused strong concern in recent years. Unless the government urgently tackles this problem in an appropriate manner, the economic activities of SMEs, which must be encouraged, will greatly suffer.

(4) Taxation system and tariff system, etc. designed to foster small-to-medium size businesses

Many managers of SMEs have expressed the opinion that the current systems, including the taxation and tariff systems, have unfair elements in their dealing with private businesses compared to their treatment of state-run businesses. (This point requires elaboration in a further study as the details of such unfair treatment have not been sufficiently clarified by the present Study).

In any case, there are grounds to call for a review of the present legal and other systems and the introduction of new measures to encourage SMEs(particularly private businesses).

(5) Lack of technical expertise

The school attendance rate and general educational standard in Viet Nam suggest that the proportion of skilled workers is approximately 40% of the entire workforce. SMEs(particularly private businesses) in Viet Nam are not in a position to employ such skilled workers, however, mainly because their poor financial strength necessitates a low wage base. The fact that small and medium enterprise find it difficult to have access to the vocational training opportunities provided by the government or industrial associations also contributes to their difficulty of breaking the present situation in which they cannot foster high grade engineers and administrative staff of their own.

(6) Constraints on business expansion programs

In addition to the constraints posed by the low wage base described above, there is also a physical constraint in urban areas in that it is difficult to obtain land for business expansion and this is increasingly becoming a major constraint with the advancement of urbanization. The situation has become so critical that there is now a strong call by public bodies for the establishment of suburban industrial parks for SMEs. (Here again, the opinion that private businesses are at a disadvantage in obtaining land compared to state-run businesses is voiced.)

(7) Lack of infrastructure

Another problem is that the lack of infrastructure in urban areas obstructs business activities. The study findings have revealed various problems in both the production and distribution fields, including qualitative and quantitative problems of the water supply facilities, an unstable power supply (especially in southern Viet Nam) and serious traffic congestion due to the inadequate road network. One example of the adverse effects of the infrastructure shortage is the report that an electrical manufacturer in Haiphong has missed a JV opportunity with an overseas manufacturer because of the lack of infrastructure.

The above analysis results illustrate the qualitative side of the bottlenecks to the development of SMEs found by the present Study. It is hoped that a follow-up study will be conducted to establish further details of these bottlenecks as the limited number of samples examined by the present Study due to the time factor did not allow elaboration of the initial findings on the bottlenecks.

2. Rural industries

Almost 80% of the country's total population live in rural communities which are also a key component of Vietnamese society due to food production for not only domestic consumption but also for export, mainly rice, as an important national revenue source.

Since the introduction of the Doi Moi policy in 1988, the Government has been implementing a comprehensive agricultural development strategy which aims at achieving the increased production of not only food products but also agricultural products for industrial use with a view to facilitating the combined development of agriculture and the manufacturing industry. Moreover, stock raising is also considered part of this strategy to achieve the all-round development of rural communities.

Despite active efforts made by the government, the achievements of this strategy are not yet very noticeable due to the limited farming area per household (estimated national average of 0.77 ha) and other unfavorable conditions. Under the present circumstances, farming households cannot be expected to save and the envisaged combined development of agriculture with other industries appears to be still far from becoming a reality.

The ultimate objective of socioeconomic development in Viet Nam seems to be the establishment of a diversified economic structure in which farmers and other people conducting agriculture-related activities enjoy a high income and good living standard in an affluent rural environment. In this sense, the development of rural industries is an important policy issue for the government.

For the present Study, MPI staff conducted an interview survey on the perceived bottlenecks for the development of typical rural industries in provinces near 4 major cities in Viet Nam (Hanoi, Haiphong, Da Nang and Ho Chi Minh). Although the limited number of samples and the geographical bias involved in this survey make it difficult to clarify the national picture, the findings are still deemed useful to shed light on such bottlenecks as described next. (It is hoped that a more detailed and comprehensive survey will be conducted in the near future.)

(1) Lack of business capital

Rural businesses, possibly classified in the category of such cottage industries as family-run rice polishing mills and agricultural tool repair shops, etc., are currently found in many rural areas but the lack of capital accumulation by these businesses and the lack of a financial system to provide them with starting capital have prevented their further growth.

In addition to some 7,000 agricultural credit unions, the Agricultural Development Bank of Viet Nam has a branch network throughout the country, providing loans for the agricultural, forestry and fisheries sectors, state farms and cooperatives, etc. The limited nature of the total funds available for loans and the preferential treatment of state enterprises and state farms mean that only 10% of the total loan amount went to individual farming households in 1993, underlining the ineffectiveness of these loan facilities to promote rural industries. In more recent years (since 1994), the southern provinces around Ho Chi Minh are said to be seeing an increase of stock raising-related rural industries as many joint ventures established through direct investment by foreign companies have sought local subcontractors. This linkage with foreign companies moving into Viet Nam through direct investment can be regarded as a viable strategy to promote rural industries. Unfortunately, however, this strategy has the inherent limitation that it is only feasible in areas near a large city and with relatively developed basic infrastructure (described later). For the nationwide promotion of rural industries, the likely way forward is the diversification of agricultural products, followed by encouragement of industries to process diverse products.

(2) Absence of basic infrastructure (particularly roads)

It is probably no exaggeration to say that the largest bottleneck which has kept rural communities in Viet Nam out of the process of modernization and the market economy is the lack of access to markets due to the absence of a reliable road network. The key ingredient of the strategy to break up the monoculture-dominated economic structure and to diversify the rural economy is the creation of distribution, information exchange and human exchange networks to facilitate access to markets and to disseminate market information. In short, the development of local roads to link rural areas to consumption areas is a precondition for the development of rural industries.

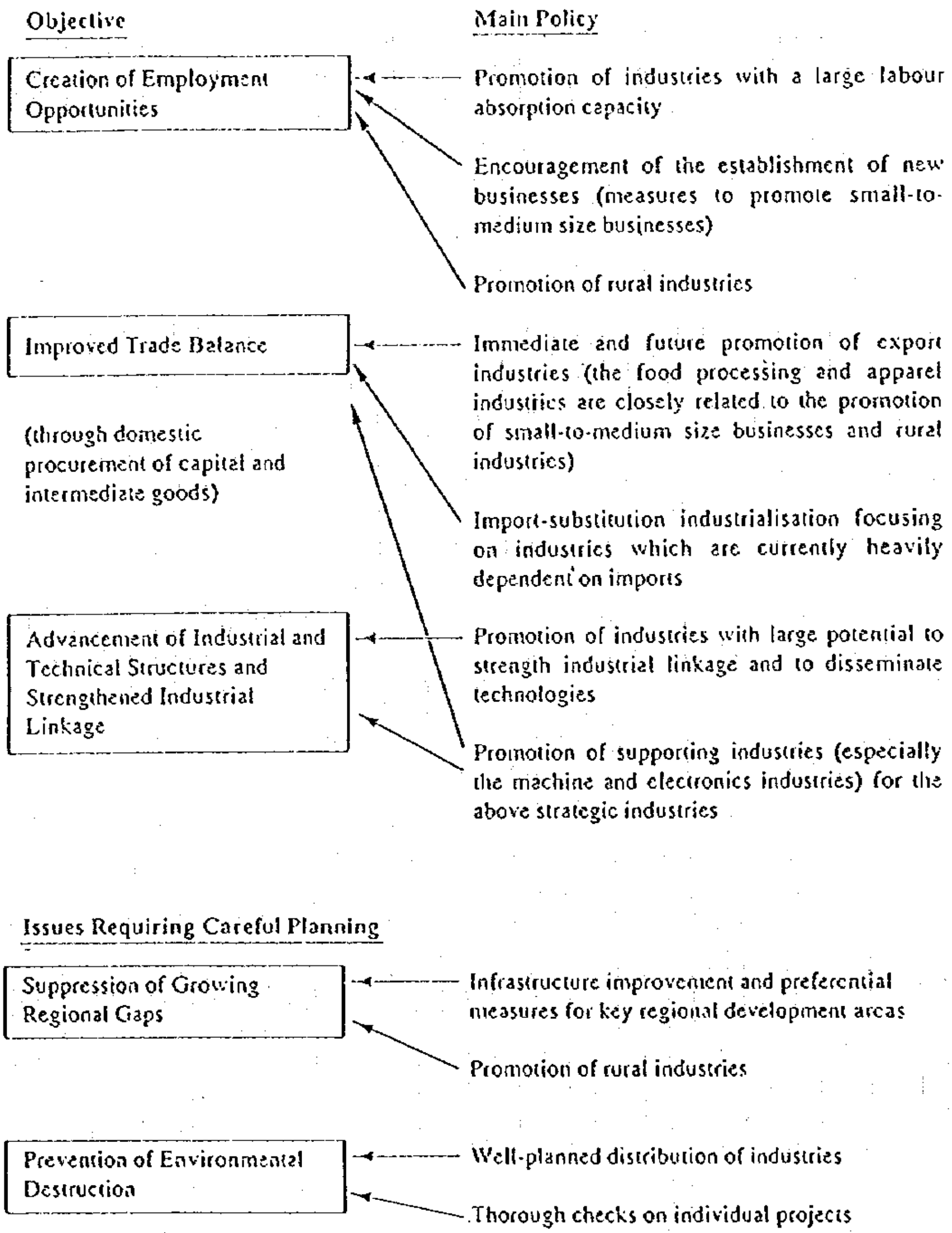

Figure 1 Position of promotion of small and medium enterprises and rural industries in industrialization process of Viet Nam

(3) Shortage of manpower in traditional craftwork sector

Rural areas in Viet Nam have long boasted the tradition of high quality handicrafts (stone-crafts, pottery and rattan work, etc.) and it is not unusual for an entire village to be involved in craftwork in one way or another to form local industries. The gradual decline of craftwork under the previous centrally planned socialist economic system and the shortage of people willing to learn craftwork skills under the present market economy system have made it essential to foster new manpower to preserve the traditional craftwork sector. In addition, a distribution system for handicrafts in the domestic market and for export must be properly established.

Having identified the qualitative bottlenecks described above, it is hoped that a further study will be conducted to establish a more detailed picture of the bottlenecks given the importance of promoting rural industries for the development of rural communities in Viet Nam.

III. Necessity to promote SMEs and rural industries in Viet Nam

The findings of the careful examination of the development processes of NIEs and ASEAN countries clearly suggest that the Government of Viet Nam must promote the development of SMEs and rural industries as a key issue to achieve the goal of import-substitution industrialization and to facilitate the growth of export-oriented industrialization in the ongoing process of Viet Nam's economic development under a market economy regime. Policies designed to assist the development of SMEs and rural industries will generate the following positive effects.

(1) Increased employment opportunities

The introduction of a government policy to provide immediate and future employment opportunities to absorb the surplus labor in rural communities in Viet Nam is an urgent socioeconomic task for the government. The development of SMEs and rural industries will be a crucial component of such a policy.

(2) Contribution to improved trade balance

Import-substitution industrialization and the promotion of export industries will obviously improve Viet Nam's international trade balance.

(3) Stronger industrial linkage and increased dissemination of technologies through market competition

Industrial linkage will be strengthened through the stage of multiple-layered development involving businesses in different sectors while technologies will be further advanced and widely disseminated to produce more added-value. At the same time, the stronger industrial linkage and increased dissemination of technologies will foster industries to support those industries (particularly the machine and electronics industries) of which the development is a strategic target of the Government of Viet Nam.

The policies designed to encourage SMEs and rural industries described above must be accompanied by other policies aiming at assisting infrastructure development and providing incentives for the well-planned distribution of industries to rectify regional gaps. These additional policies are important to avoid the detrimental effects of development on the environment.

The linkage of the above-mentioned policies is schematically shown in Figure 1.

List of Members of Research Group

		Viet Nam Side		Japan Side
	Leader	Nguyen Quang Thai	Leader	Shigeru Ishikawa
Macroeconomy Group	Chief	Nguyen Quang Thai	Chief	Shigeru Ishikawa
		Nguyen Xuan Tien		Shinichi Watanabe
		Phan Ngoc Mai Phuong		Shigeaki Fujisaki
		Le Duc Thuy		Mitsuo Ezaki
		Doung Duc Ung		Akira Kohsaka
		Le Dang Doanh		
		Nguyen Buu Quyen		
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Fiscal and Monetary Policy Group	Chief	Lai Quang Thuc	Chief	Ryokichi Hirono
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		Vo Dai Luoc		Eiji Tajika
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Industrial Policy Group	Chief	Pham Quang Ham	Chief	Yasutami Shimomura
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		Nguyen Dinh Phan		Masahiko Ebashi
		Nguyen Gia Hao		Kenichi Ohno
		Nguyen Thien Tong		Shujiro Urata
		Ho Quang Minh		Osamu Nariai
		Nguyen Tu Nhat		
		Nguyen Tien Hiep		
		Nguyen Quang Dung		
Agricultural and Rural Development Group	Chief	Nguyen Xuan Thao	Chief	Yonosuke Hara
		Le Hong Thai		Yumio Sakurai
		Nguyen Thai Nguyen		Retangieppu Kuriki
		Cao Duc Phat		Yoichi Izumida
		Nguyen The Nha		

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Industrial Policy Group	Koichi Ohno	Koichiro Fukui
Agricultural and Rural Development Group	Yoichi Izumida	Seiji Shindo

Secretariat: Ikufumi Tomimoto, Takaaki Ohiwa, Hiroyuki Mori

Record of the Vietnamese-Japanese Conferences in Phase 1 of the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in Viet Nam

1. Preliminary Conference in Hanoi for Project Formation (May 1995)

Main academic members of the Japanese side participated in this conference. It was agreed that the project be proceeded as joint Japanese-Vietnamese study for the two year period ; the first year as Phase 1 and the second year as Phase 2. In this conference, the Viet Nam delegates requested that the Japanese academic members make, in a few months, comments and policy suggestions on the early version of the draft new Five-year Plan, which should be prepared soon. The Japanese side accepted this request, calling it as the request for "Urgent Proposal."

2. The First Hanoi Workshop (August 1995)

— Urgent proposal for the Initial Draft of the Five-year Plan and discussion on research topics for joint study project

Monday, Aug. 28 (8th Floor, JICA Viet Nam Office)

Opening Sessions	
1. Opening remarks	Masaru Todoroki
Vietnamese side	Vo Hong Phuc
Japanese side	Norio Hattori
Session 1 (Macroeconomy)	
1. On Initial Draft Five-year Plan	
(1) Feasibility to achieve targets of macroeconomics growth	Shigeru Ishikawa
(2) State enterprise reform	Koji Haruta
2. Vietnamese presentation on the planning model	Nguyen Quang Thai
Underlying beneath Initial Draft of Five-year Plan	
Session 2 (Industrial policy)	
1. Urgent comments on the Five-year Plan	Yasutami Shimomura
2. Comments on Initial Draft of Five-year Plan on ASEAN, AFTA and APEC on the relationship	Shujiro Urata
between the economic growth of neighboring countries and that of Viet Nam	Kenichi Ohno
3. Vietnamese presentation	
Session 3 (Fiscal and monetary policy)	
1. Urgent proposals on Five-year Plan	Ryokichi Hirono
	Toshihiko Kinoshita
2. Vietnamese Presentation	Lai Quang Thuc

Tuesday, Aug. 29

Session 4 (Agricultural and rural development)	
1. Urgent proposals on Five-year Plan	Yonosuke Hara
2. Vietnamese presentation	
Session 5	
Discussion	
Session 6, 7	
Discussions	
-With the aim at clarifying priority of joint research work during phases 1 and 2	
-Questions	

3. The Consultation Meeting in Tokyo on Research Designs (November 1995)
— Discussion on the sub-topics for research groups of the joint study

Monday, Nov. 27 (Meeting Room C, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and introduction of the members and other attendants of Japanese side	Shigeru Ishikawa
2. Introduction of the members of the Vietnamses side	Nguyen Thai Nguyen
3. Introduction of the New Five-year Plan of Viet Nam	Nguyen Quang Thai
4. Question & answer	
5. Consultation on the topics and research plan of the study	
(1) Review of the prior consultation of 22nd October	
(2) Vietnamese comments on the Japanese proposal on the research plan	
6. Presentation on the research plan & preparation of each sub-committee	
(1) Macroeconomy	Shigeru Ishikawa
(2) Fiscal and monetary policy	Ryokichi Hirono
(3) Industrial policy	Yasutami Shimomura
(4) Agricultural and rural development	Yonosuke Hara
(5) Question & answer	
7. Presentation by the Japanese side on the final research plan	

Tuesday, Nov. 28

1. Sub-committee of macroeconomy	
(1) Growth, inflation and deficit of international balance of payment – Analysis by standard type models	Mitsuo Ezaki
(2) Development and environment in industrializing Asia : An economic point of view	Shigeaki Fujisaki
2. Sub-committee of agricultural and rural development	
(1) Viet Nam : Agricultural and rural development	Yonosuke Hara
(2) Issues of rural finance – Examples of Japan and Thailand	Yoichi Izumida
3. Sub-committee of fiscal and monetary policy	
(1) On the foreign saving mobilization, management of foreign debts and control of exchange rate	Toshihiko Kinoshita
(2) A research plan for two phases	Shinichi Watanabe
(3) Economic transition and fiscal manegement of Viet Nam - Further issues to be discussed	Eiji Tajika
4. Sub-committee level discussion on the research plan	
5. Sub-committee of industrial policy	
(1) Proper choice of industry and technologies and the dualistic economy	Masahiko Ebashi
(2) Relation between Vietnamese economy and participation to AFTA and APEC	Koichi Ohno
6. Wrap-up session	
(1) Discussion and agreement on the fiscal research plan	
(2) Consultation on the additional comments on the New Five-year Plan of Viet Nam	
(3) Any other matters relevant to the subject	

4. Tokyo Workshop (January 1996)

— General comments on the Draft Five-year Plan (CG Version) and agreement on Sub-topics of the joint study

Sunday, Jan. 28 (Meeting Room A, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and overview	Shigeru Ishikawa
Introduction of the members of the Japanese side	
2. Introduction of the members of the Vietnamese side	Le Duc Thuy
Introduction	
1. Comments on Five-year Plan	Le Duc Thuy
2. Selected issues in the New Vietnameses Five-year Plan : Experiences of Japan and China	Shigeru Ishikawa
3. Disparity issues — Experiences of integrated regional development planning in Japan	Ryoichi Yamagishi
Macroeconomy	
1. Issues on macroeconomics in Viet Nam	Le Duc Thuy
2. Simulation analysis on growth versus stabilization	Shinichi Watanabe
3. Recommendation on industrialization and the protection of environment to Viet Nam — Based on Japanese experience	Masashi Hattori
4. Discussion	
Fiscal and monetary policy	
1. Fiscal and tax reform towards year 2000	Tran Van Ta
2. Mobilization of domestic savings	Ryokichi Hirono
3. Economic transition and fiscal management of Viet Nam : Further issues to be studied	Eiji Tajika
4. Research on mobilization of domestic savings	Shinichi Watanabe
5. Medium and long term finance in Viet Nam — Situation analysis and approach towards improvement	Kazuyuki Mori
6. External debt and FDI	Toshihiko Kinoshita
7. Discussion	

Monday, Jan. 29

Industrial policy	
1. On some issues of industrial development orientation in Viet Nam	Pham Quang Ham
2. Comments on the selection of the five capital intensive industries	Yasutami Shimomura
3. Outlook of the international market conditions and issues related to investment into the five capital intensive industries	Koichiro Fukui
4. Impact on Vietnamese economy by joining in AFTA	Koichi Ohno
5. Future direction of APEC after OSAKA meeting : Implication for Viet Nam	Masahiko Ebashi
6. Discussion	
Agricultural and rural development	
1. Vietnamese problems in agricultural sector and the possible measures	Nguyen Xuan Thao
2. On improvement of agricultural productivity in Viet Nam	Yonosuke Hara
3. Financial organizations in rural area : Asian experience and its possible application to Viet Nam	Yoichi Izumida
4. Discussion	
1. Remarks	Vo Hong Phuc
2. Wrap-up and closing remarks	Shigeru Ishikawa Le Duc Thuy

5. The Second Hanoi Workshop (March 1996)
— Discussion on results of the Joint Research

Friday, March 1 (MPI Training Center)

Opening remarks	
1. MPI	Vo Hong Phuc
2. Embassy of Japan	Shiro Sadoshima
3. JICA	Masaru Todoroki
I. Macroeconomy	
(1) Macroeconomy and poverty in Viet Nam	Shigeru Ishikawa
Comments	Nguyen Quang Thai
(2) Macroeconomy and regional development	Nguyen Quang Thai
Comments	Shigeru Ishikawa
(3) Result of macro model analysis (Growth and stability)	Shinichi Watanabe
Comments	Nguyen Buu Quyen
(4) Environmental problems in Viet Nam	Le Dang Doanh
Comments	Shigeaki Fujisaki
(5) General discussion	
II. Industrial policy	
(1) Some issues on industrial policy	Pham Quang Ham
Comments	Kenichi Ohno
(2) Participation in AFTA and APEC	Koichi Ohno
Comments	Ho Quang Minh
(3) Small and medium size enterprises and agricultural industry	Nguyen Dinh Phan
Comments	Masahiko Ebashi
(4) General discussion	

Saturday, March

II. Industrial policy (Cont'd from March 1)	
(5) Five capital-intensive industries and possible problem for new investment	Koichiro Fukui
Comments	Ngo Dinh Giao
III. Fiscal and monetary policy	
(1) Financial reform toward 2000	Lai Quang Thuc
(2) Taxation reform in Viet Nam	Tran Van Ta
(3) Comment on fiscal and monetary policy	Vo Dai Luoc
(4) Comments by Japanese experts	
(4) - 1 Overall comments	Ryokichi Hirono
(4) - 2 Comments on the management of foreign capital mobilization	Toshihiko Kinoshita
(4) - 3 Comments on the domestic saving mobilization	Shinichi Watanabe
(4) - 4 Comments on the fiscal mobilization	Kazuyuki Mori
(5) General discussion	
IV. Agricultural and rural development	
(1) Diversification of agriculture in Viet Nam	Nguyen Xuan Thao
Comment : with special emphasis on the development of food crop	Seiji Shindo
(2) Development in the rural credit system of Viet Nam	Dang Tho Xuong
Comments from the perspective of the cooperatives and rural credit system	Yoichi Izumida
(3) Comments on agricultural improvement	Yonosuke Hara
Proposal of agricultural policy comments	Yumio Sakurai
(4) General discussion	
V. Discussion	
Conclusion	Shigeru Ishikawa Nguyen Quang Thai
Closing remarks	Vo Hong Phuc