

Development Policy on SMEs and Supporting Industries in Viet Nam

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I . Objective of the Research Project on SME Policy

Small and medium (manufacturing) enterprises (SMEs) have an important role to play in modernizing Vietnamese manufacturing and strengthening its international competitiveness, in expanding exports of industrial goods, and in providing jobs. This project sees SME development policy as a part of Viet Nam's overall industrialization strategy, and provides policy advice within that context.

II . Research Framework

(1) Identification of conditions currently prevailing in Vietnamese SMEs

- a. Questionnaire survey of SMEs (responses from 251 non-state manufacturing enterprises nationwide) conducted with the cooperation of DSI in March 1997.
- b. Research based on such papers and statistics as are available concerning SMEs.

(2) Research on the Vietnamese business environment for enterprises (based on interviews and on the analysis of written documents).

(3) Research on the policies and institutions for SMEs in nearby countries and regions like Japan, Taiwan, and the ASEAN countries.

(4) Studies of the international economic environment in which Viet Nam finds itself and observations on future directions to be taken in Viet Nam's industrial policy.

^{*} Section I ~ V

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III. Overview of Enterprises in Viet Nam and Profile of Conditions for SMEs

(1) Analysis of Vietnamese enterprises

According to *Statistical Yearbook 1995*, there were 32,088 registered enterprises in Viet Nam at the end of 1995 (excluding representative offices, cooperatives, and enterprise associations). Of this number, 25,754 were non-state enterprises; 6,310 state enterprises (including joint ventures with foreign companies).

During 1994 and 1995, the number of non-state enterprises grew by an average of 6,600 each year; the number of state enterprises by an average of 400 each year (see Table 3.1). Most of the non-state enterprises were "private enterprises," which had an average capitalization of only about 170 million dong (approximately \$15,000). State enterprises have been undergoing reorganization and consolidation since 1991 and there had been large declines in their total numbers, but in 1994 they began to grow again, primarily because of joint ventures with foreign companies. At the end of 1995, state enterprises run by the central government had an average capitalization of about 30.8 billion dong; those run by subcentral governments of about 4.7 billion dong. Capitalization for the new state enterprises created in 1994 and 1995 is about ten-fold higher than this, however. New central-government state enterprises in 1995 had an average capitalization of 143.4 billion dong; those at subcentral levels, 16.5 billion dong (see Table 3.1). The likely reason for the higher capitalization of new state enterprises is the size of the capitalization of joint ventures between foreign companies and state enterprises.

Table 3.1 Number of enterprises by type management and industry (whole country)

	As of the end of 1994		Newly Licensed in 1994		As of the end of 1995		Newly Licensed in 1995	
	No. of Enterprises	Average Capital (Bill. Dong)	No. of Enterprises	Average Capital (Bill. Dong)	No. of Enterprises	Average Capital (Bill. Dong)	No. of Enterprises	Average Capital (Bill. Dong)
Total	26,502	2.16	7,426	2.19	33,536	2.68	7,034	4.62
(by Type of Management)								
Private Sector	19,436	0.40	6,845	0.28	25,754	0.41	6,318	0.41
Private Enterprises	14,052	0.16	5,088	0.13	18,243	0.17	4,191	0.21
Company Limited	5,258	0.83	1,730	0.59	7,346	0.78	2,088	0.63
Stock Company	126	9.76	27	8.60	165	10.33	39	10.38
State Enterprises	5,835	8.29	338	41.72	6,310	12.31	475	61.63
Central Management	1,678	19.42	96	131.35	1,847	30.76	169	143.36
Local Management	4,157	3.80	242	6.16	4,463	4.67	306	16.49
Representative Bureau	946	-	180	-	1,111	-	165	-
Enterprise Association	285	3.89	65	228.9	337	5.06	52	11.50
(by Industry)	24,965	2.06	8,204	1.93				
Agriculture/Forestry	1,004	2.80	84	3.18				
Fishery	2,183	0.28	1,179	0.14				
Mining	84	19.40	11	60.61				
Manufacturing	8,866	2.07	2,683	0.81				
Electricity	239	70.14	33	324.20				
Construction	2,407	1.22	514	0.84				
Trade service	5,535	1.13	1,742	0.58				
Hotels	437	1.25	227	1.02				
Finance/Credit	4,210	0.40	1,731	0.14				

Source: Statistical Yearbook 1994, 1995 Statistical Publishing House

Table 3.2 contains part of the results of an enterprise census taken by the Government Statistics Office (GSO) and reflecting conditions as of July 1, 1995. This census represents a valuable first attempt to paint a clear picture of the different sectors of business in Viet Nam. Our analysis of Vietnamese enterprises will be based to a large extent on the findings of this census.

1) Breakdown of numbers by sector and industry

The census finds that there were 23,708 enterprises in Viet Nam on July 1, 1995, broken down as follows: 5,873 state enterprises (24.8%), 17,143 non-state enterprises (including cooperatives; 72.3%), and 692 foreign-capital enterprises (2.9%).

The breakdown by industry reveals that about 40% were in commerce and repairs, followed by 36% in manufacturing. Other industries include construction at 10%, hotels and restaurants at about 5%, and transportation and telecommunications at about 4%. State enterprises are found in virtually every industry, though their weight is highest in manufacturing, followed (in order) by commerce and repairs, construction, transportation and telecommunications, and hotels and restaurants. In comparison to the distribution of non-state enterprises, state enterprise distribution is marked by a heavy bias towards construction. About 47% of all non-state enterprises are in the commerce and repair sector, followed by 35% in manufacturing, and then construction, hotels and restaurants, and transportation and telecommunications in that order. Some 57% of cooperatives are in manufacturing; only 15% are in commerce. Viet Nam had only 118 joint-stock companies at the time of the census, 41% of which were in finance, with only 27% in manufacturing. A large portion of private enterprises and limited companies are in commerce and repairs.

Some 55% of all foreign-capital companies are in manufacturing, followed by hotels and restaurants (15%), transportation and telecommunications (5.5%), construction (4.6%), and commerce and repairs (4.3%). The census found that 83% of the wholly foreign-capital enterprises were in manufacturing, and that these enterprises were concentrated in areas like apparel, food and beverages, leather products, furniture, textiles, and woodworking. In addition to manufacturing, there were also substantial numbers of foreign-capital joint ventures in hotels and restaurants and real estate (including infrastructure construction). Non-state enterprises have entered into 59 joint ventures (8.5% of total foreign-capital enterprises), most of which are in manufacturing.

In addition to registered enterprises, the census also provides a general picture of household enterprises. It finds approximately 1.88 million household enterprises in the country, of which 790,000 (42.2%) are in commerce and repairs; 530,000 (28.3%) manufacturing; 270,000 (14.5%) hotels and restaurants; and 140,000 (7.5%) transportation, warehousing, and telecommunications. Only about 34% of these household enterprises have registered for business, and only about 43% are "tax-paying units." Household enterprises provided 3.24 million jobs in 1994, about 34.6% of that year's non-farm total (see Table 3.3).

Note that registered enterprises, including their branch offices, employ about 2.03 million workers, of which 74% (1.5 million) are with state enterprises, 21% (430,000) with non-state enterprises, and 4.8% (100,000) with foreign-capital enterprises.

2) Breakdown of sales by sector and industry

Table 3.4 contains enterprise sales figures (1994), broken down by economic sector and industry. By industry, 48.8% of all sales came from commerce and repairs, 23.5% from manufacturing, 5.8% from construction, and 5.1% from mining. State enterprises generated 75.8% of total sales, with only 15.6% coming from non-state enterprises, and 8.6% from foreign-capital enterprises. Commerce and repairs generated 65.3% of all non-state enterprise sales; manufacturing only 20.4%.

About half of the sales by foreign-capital enterprises were in the petroleum industry. Foreign-capital enterprises account for 80.5% of all sales by Viet Nam's mining industry. Manufacturing was responsible for 34% of the sales of foreign-capital enterprises, and foreign-capital enterprises accounted for 12.4% of Viet Nam's total manufacturing sales.

The weight of foreign-capital enterprises in the Vietnamese economy has increased since this census. According to the DSI-MPI statistical materials and *Statistical Yearbook 1996*, the share of industrial output accounted for by foreign-capital enterprises rose from 11.5% in 1994 to an estimated 25.1% in 1996. A great deal of this, it must be pointed out, is because petroleum production is counted entirely as foreign-capital enterprise production, but even looking at manufacturing alone, the share of foreign-capital enterprises went from 15.9% in 1995 to 17.6% in 1996.

Table 3.2 Number of enterprises by industry classified by sectors (as of July 1, 1995)

	SOE		Local SOEs		Private Total		Collectives		Private Enterprises		Stock Company		Liability		Foreign		JV with State		JV with Collectives		JV with Private		JV with Mixed							
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%						
Total Number of Enterprises	23,706	100.0	3,873	100.0	1,940	100.0	3,933	100.0	1,714	100.0	1,867	100.0	10,916	100.0	118	100.0	4,242	100.0	692	100.0	130	100.0	433	100.0	6	100.0	59	100.0	32	100.0
Mining	298	1.3	160	2.7	69	3.6	91	2.3	129	0.8	74	4.0	26	0.2	0	0.0	29	0.7	9	1.3	1	0.7	7	1.6	0	0.0	0	0.0	1	0.0
Manufacturing Total	15,777	36.2	2,122	36.1	774	39.9	1,348	34.0	6,073	35.4	1,007	57.2	3,822	33.0	32	27.1	1,157	27.3	382	55.2	124	82.7	235	46.9	1	29.9	12	3.5	0	0.0
Food, foodstuffs, drinks	3,200	13.5	400	6.8	101	5.2	299	7.6	2,727	15.9	63	3.5	2,361	21.6	10	8.5	291	6.9	73	10.5	17	11.3	44	10.2	0	0.0	7	2.0	0	0.0
Tobacco	28	0.1	24	0.4	5	0.3	19	0.5	3	0.0	3	0.2	0	0.0	0	0.0	0	0.0	1	0.1	0	0.0	1	0.2	0	0.0	0	0.0	0	0.0
Textile	417	1.8	136	2.3	37	2.9	79	2.0	232	1.5	131	7.0	63	0.6	5	4.2	135	3.2	29	4.2	10	6.7	12	2.8	0	0.0	4	1.2	0	0.0
Textile (excluding spinning, opening animals' skins, leather)	384	1.6	114	1.9	35	1.8	79	2.0	213	1.4	43	2.3	50	0.5	2	1.7	38	0.9	23	3.3	14	9.3	8	1.8	0	0.0	0	0.0	0	0.0
Leather goods	157	0.6	41	0.7	10	0.5	31	0.8	75	0.4	27	1.4	296	2.7	6	0.1	129	3.0	26	3.8	8	5.3	13	3.0	1	3.1	1	0.3	0	0.0
Wooden, bamboo, rice straw products	656	2.8	121	2.1	41	2.1	80	2.0	509	3.0	83	4.4	296	2.7	1	0.8	129	3.0	11	1.6	5	3.3	5	1.2	1	3.1	1	0.3	0	0.0
Paper products	198	0.8	44	0.7	15	0.8	29	0.7	143	0.8	14	0.7	4	0.0	0	0.0	8	0.2	3	0.4	0	0.0	3	0.7	0	0.0	0	0.0	0	0.0
Printing, printing, copying	203	0.9	174	3.0	66	3.4	108	2.7	26	0.2	14	0.7	4	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Cake, mineral oil products, molasses feed	3	0.0	1	0.0	0	0.0	1	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Chemicals, chemical products	290	1.2	147	2.5	64	3.3	83	2.1	121	0.7	33	1.8	34	0.3	2	1.7	52	1.2	22	3.2	7	4.7	15	3.5	0	0.0	0	0.0	0	0.0
Rubber, plastic products	228	1.0	43	0.7	19	1.0	24	0.6	109	1.0	73	4.0	34	0.3	1	0.8	59	1.4	14	2.0	5	3.3	8	1.8	0	0.0	0	0.0	0	0.0
Non-metal products	1,162	4.9	335	5.7	94	4.8	241	6.1	808	4.7	161	8.6	370	3.2	1	0.8	76	1.8	19	2.7	1	0.7	15	3.5	0	0.0	1	2.9	0	0.0
Metal	380	1.6	89	1.5	38	2.0	51	1.3	271	1.6	150	8.0	81	0.7	2	1.7	38	0.9	20	2.9	5	3.3	11	2.5	0	0.0	3	1.0	0	0.0
Metal Products (incl. machinery & equipment)	247	1.0	152	2.6	86	4.4	66	1.7	15	0.1	33	1.8	23	0.3	2	1.7	22	0.5	10	1.4	1	0.7	5	1.2	0	0.0	0	0.0	0	0.0
Machinery & equipment	6	0.0	3	0.1	3	0.2	0	0.0	2	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	0.1	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Office machines, computer, calculator	88	0.4	31	0.5	22	1.1	9	0.2	46	0.3	14	0.7	10	0.1	0	0.0	22	0.5	11	1.6	2	1.3	9	2.1	0	0.0	0	0.0	0	0.0
Electric machines & equipment	76	0.3	46	0.8	27	1.4	19	0.5	16	0.1	0	0.0	3	0.0	0	0.0	13	0.3	14	2.0	4	2.7	10	2.3	0	0.0	0	0.0	0	0.0
Radio, TV and communication equipment	23	0.1	11	0.2	8	0.4	3	0.1	8	0.0	1	0.1	4	0.0	0	0.0	3	0.1	6	0.9	3	2.0	3	0.7	0	0.0	0	0.0	0	0.0
Medical instruments, optical & clocks	87	0.4	41	0.7	22	1.1	19	0.5	38	0.2	16	0.9	17	0.2	0	0.0	5	0.1	8	1.2	2	1.3	6	1.4	0	0.0	0	0.0	0	0.0
Motor bikes, tractors	185	0.8	92	1.6	40	2.1	52	1.3	15	0.1	33	1.8	33	0.3	1	0.8	18	0.4	18	2.6	8	5.2	2	0.5	0	0.0	0	0.0	0	0.0
Other means of transport	441	1.9	53	0.9	12	0.6	41	1.0	356	2.1	95	5.0	349	3.0	2	1.7	112	2.6	32	4.6	13	8.7	11	2.5	0	0.0	7	2.0	0	0.0
Boat, warship, cables, chairs and others	7	0.0	1	0.0	1	0.1	0	0.0	6	0.0	2	0.1	4	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Re-processing	117	0.5	100	1.7	11	0.6	89	2.3	13	0.1	1	0.1	4	0.0	0	0.0	1	0.0	4	0.6	2	1.3	2	0.5	0	0.0	0	0.0	0	0.0
Electricity, Gas & Water	2,353	9.9	938	16.3	369	19.0	569	15.0	1,375	8.0	81	4.3	709	6.3	6	5.1	579	13.6	32	4.6	1	0.7	22	5.1	0	0.0	4	1.2	0	0.0
Construction	9,468	39.9	1,511	25.7	409	21.1	1,102	28.0	7,977	46.2	382	15.1	5,639	51.7	19	16.1	1,987	46.8	30	4.3	3	2.0	22	5.1	1	3.1	2	0.6	0	0.0
Trade, Repair Motor Bikes, Utensils	1,094	4.6	294	5.0	70	3.6	224	5.7	697	4.1	13	0.7	494	4.5	2	1.7	188	4.4	103	14.9	2	1.3	23	5.2	0	0.0	9	2.7	0	0.0
Hotel & Restaurant	579	3.7	304	5.2	112	5.8	192	4.9	528	3.1	233	12.6	130	1.2	6	5.1	157	3.7	38	5.5	7	4.7	27	6.2	0	0.0	3	0.9	0	0.0
Transport, Storage & Communication	206	0.9	36	0.6	14	0.7	22	0.6	157	0.9	96	5.1	13	0.1	0	0.0	6	0.1	1	0.1	1	0.7	0	0.0	0	0.0	0	0.0	0	0.0
Finance & Credit	17	0.1	7	0.1	3	0.2	4	0.1	9	0.1	2	0.1	2	0.0	0	0.0	0	0.0	1	0.1	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Science & Technology	521	2.2	266	4.5	95	4.9	171	4.3	190	1.1	10	0.5	50	0.5	4	3.4	126	3.0	65	9.4	5	3.3	50	11.5	2	5.9	2	0.6	0	0.0
Property, Advisory Services	8	0.0	1	0.0	0	0.0	1	0.0	6	0.0	2	0.1	3	0.0	1	0.8	1	0.0	1	0.1	0	0.0	1	0.2	0	0.0	0	0.0	0	0.0
Healthcare, social relief	8	0.0	2	0.0	0	0.0	2	0.1	4	0.0	2	0.1	2	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Education & Training	98	0.4	83	1.4	8	0.4	77	2.0	5	0.0	0	0.0	2	0.0	0	0.0	3	0.1	2	0.3	0	0.0	2	0.5	0	0.0	0	0.0	0	0.0
Culture & Sports	71	0.3	37	0.6	14	0.7	23	0.6	30	0.2	3	0.2	16	0.1	0	0.0	11	0.3	4	0.6	3	2.0	1	0.2	0	0.0	0	0.0	0	0.0
Private & Public Service																														

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.3 Number of business establishments by sectors and by industries (as of July 1, 1995)

Enterprise Total	Total Establishments	Mining	Manufacturing	Electricity/Gas/Water	Construction	Trade/Repair	Hotel/Restaurant	Transport/Communication	Finance	Science/Technology	Property/Consulting	Culture/Sports	Medicine/Health	Education/Training	Public Service	No. of		Total Employee
																Employee	Branch Employee	
Enterprise Total	23,708	298	3,577	117	2,355	9,468	1,094	870	206	17	521	3	8	98	71	1,345,403	689,452	2,034,855
Domestic Enterprises	23,016	289	3,195	113	2,323	9,438	991	832	193	16	456	7	6	90	67	1,263,439	673,594	1,937,023
SOEs	5,873	160	2,122	100	948	1,511	294	304	36	7	266	1	2	85	37	886,985	619,626	1,506,611
Central	1,940	69	774	11	359	409	70	112	14	5	95	0	0	8	14	469,694	388,063	857,757
Local	3,933	91	1,348	89	589	1,102	224	192	22	2	171	1	2	77	23	417,291	231,563	648,354
Private	17,143	129	6,073	13	1,375	7,927	697	528	157	9	190	6	4	5	30	376,454	55,658	430,112
Cooperative	1,867	74	1,067	1	81	282	13	235	96	2	10	1	2	0	3	87,771	6,195	93,966
Private Enterprise	10,916	26	3,822	11	709	5,639	494	130	13	1	50	3	0	2	16	127,819	5,034	132,853
Stock Company	118	0	32	0	6	19	2	6	48	0	4	1	0	0	0	13,072	7,133	20,205
Company Limited	4,242	29	1,152	1	579	1,987	188	157	0	6	126	1	2	3	11	147,792	35,296	183,088
Foreign Enterprises	692	9	382	4	32	30	103	38	13	1	65	1	2	8	4	81,964	15,868	97,832
100% Foreign	150	1	124	2	1	3	2	0	7	1	5	0	0	1	3	32,966	4,143	37,109
Joint with SOEs	433	7	203	2	22	22	83	27	6	0	50	1	2	7	1	40,953	8,844	49,797
Joint with COOP	6	0	1	0	2	1	0	0	0	0	2	0	0	0	0	105	47	152
Joint with Private	59	0	39	0	4	2	9	3	0	0	2	0	0	0	0	5,652	1,185	6,837
Joint with Mixed	32	1	12	0	3	2	7	2	0	0	5	0	0	0	0	1,367	1,443	2,810
Cooperation	12	0	3	0	0	0	2	6	0	0	1	0	0	0	0	921	206	1,127
Households	1,879,402	34,072	531,229	487	12,298	793,467	273,430	139,993	365	123	19,029	1,082	10,322	16,810	46,686	3,241,129	3,241,129	3,241,129
of which Registered	641,635	14,897	110,617	126	268	354,028	83,947	45,717	40	8	9,983	189	4,934	5,113	11,767	1,247,915	1,247,915	1,247,915
Paid Tax	802,943	20,713	143,001	158	243	441,255	112,568	48,450	25	5	10,802	117	3,998	6,256	15,352	1,512,507	1,512,507	1,512,507
Total Establishments	1,903,110	34,370	539,806	604	14,653	802,935	274,524	140,863	571	140	19,550	1,090	10,330	16,908	46,757	4,586,532	4,586,532	4,586,532

Note: Number of Establishments exclude branches of enterprises.

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.4 Turnover of enterprises by sectors and by industries (1994) (billion VND)

	Total	%	Mining	%	Manu- facturing	%	Electricity/ Gas/Water	%	Con- struction	%	Trade& Repair	%	Hotel/ Restaurant	%	Transport/ Communication	%	Others	%
Total	240,713	100.0	12,331	100.0	56,621	100.0	6,846	100.0	13,909	100.0	117,498	100.0	3,739	100.0	11,101	90.1	16,378	6.8
1. Enterprises with internal capital	220,088	91.4	2,409	19.5	49,597	87.6	6,840	99.9	13,810	99.3	117,110	99.7	2,717	72.7	10,178	82.6	14,117	81.9
State Enterprises	182,419	75.8	2,249	19.0	41,925	74.0	6,566	95.9	12,086	86.9	92,499	78.7	2,502	66.9	9,131	74.1	6,509	37.6
in which: Central	105,278	43.7	1,708	13.9	26,756	47.3	5,574	81.4	8,077	58.1	46,876	39.9	1,991	53.2	1,047	8.5	7,570	44.3
Local	77,141	32.0	640	5.2	15,169	26.8	992	14.5	4,009	28.8	45,623	38.8	214	5.7	922	7.5	2,191	12.7
Private Sector	37,670	15.6	61	0.5	7,670	13.5	273	4.0	1,723	12.4	24,611	20.9	7	0.2	586	4.8	455	2.6
Collective Enterprises	3,804	1.6	28	0.2	1,168	2.1	5	0.0	60	0.4	1,495	1.3	111	3.0	25	0.2	97	0.5
Private Enterprises	11,420	4.7	15	0.1	2,238	4.0	15	0.2	630	4.5	8,297	7.1	12	0.3	190	1.5	1,218	7.0
Stock Company	2,743	1.1	0	0.0	415	0.7	0	0.0	55	0.4	852	0.7	84	2.2	121	1.0	431	2.5
Limited Liability Company	19,703	8.2	18	0.1	3,849	6.8	253	3.7	978	7.0	13,967	11.9	84	2.2	121	1.0	431	2.5
2. Enterprises (with foreign investment)	20,625	8.6	9,922	80.5	7,024	12.4	5	0.0	99	0.7	388	0.3	1,023	27.4	1,226	9.9	938	5.4
100% foreign investment capital	2,013	0.8	3	0.0	1,766	3.1	0	0.0	0	0.0	59	0.0	0	0.0	0	0.0	185	1.1
Joint-venture with state sector	17,395	7.2	9,915	80.4	4,651	8.2	5	0.0	88	0.6	320	0.3	808	21.6	1,056	8.6	552	3.2
Joint-venture with collective sector	1	0.0	0	0.0	-	-	0	0.0	-	-	-	-	0	0.0	0	0.0	-	-
Joint-venture with private sector	455	0.2	3	0.0	378	0.7	0	0.0	9	0.0	7	0.0	30	0.8	5	0.0	23	0.1
Joint-venture with mixed economic sector	323	0.1	1	0.0	213	0.4	0	0.0	1	0.0	2	0.0	68	1.8	5	0.0	35	0.2
Cooperation	437	0.2	0	0.0	16	0.0	0	0.0	0	0.0	0	0.0	117	3.1	160	1.3	143	0.8

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

3) Breakdown of business indicators by sector and enterprise

Table 3.5 contains an overview of major business indicators for Vietnamese enterprises (all industries), broken down by economic sector. On July 1, 1995, the average Vietnamese enterprise employed 86 workers. State enterprises averaged 257 workers (central-government state enterprises 442; subcentral-government state enterprises 165), while non-state enterprises only employed 25 workers. Joint-stock companies employed an average of 171 workers, which was higher than the average for subcentral state enterprises, but the average for all non-state enterprises was brought down by the fact that enterprises in commerce and services (the largest group of non-state enterprises) only employed an average of 7.6 workers. Foreign-capital enterprises had an average of 141 workers. Of this group, wholly foreign-capital enterprises had the highest employment levels, averaging 247.

Average total capital (includes liabilities, capital, statutory reserves, and surpluses, and corresponds to "total fixed and liquid assets") was highest for foreign-capital enterprises at 68.3 billion dong, followed by state enterprises at 20.3 billion dong. Non-state enterprises had a mere 900 million dong in total capital, 1/22 that of state enterprises. This gap closes to about 1/2 when total capital per worker is considered. Foreign-capital enterprises had 483 million dong in capital per worker; state enterprises 79 million dong; and non-state enterprises 36 million dong. Note, however, that the gap between foreign-capital enterprises and state enterprises on these measures expands from 3.4 :1 to about 6:1. This is an indication of the extent to which state enterprises are over-staffed compared to non-state enterprises and foreign-capital enterprises. The overstaffing becomes even more pronounced when viewed in terms of workers versus machinery and equipment.

Turning to liabilities, state enterprises accounted for 83% of total liabilities. The average amount of liabilities per enterprise is 9.4 billion dong for state enterprises, 300 million dong for non-state enterprises, and 8.5 billion dong for foreign-capital enterprises. The ratio of liabilities to capital is 46.6% at state enterprises, 34.2% at non-state enterprises, and 12.5% at foreign-capital enterprises. In all cases, these are low levels compared to other countries in similar stages of growth, and this may be an indication that the financial system is not able to adequately respond to enterprise funding needs.

Table 3.5(1) Management indicators of enterprises by economic sectors

	Number of Enterprises 1995/7/1	%	Number of Employee 1995/7/1	%	Number of Average Employee	Fixed Assets 1994/12/31 (Billion Dong)	%	Average Fixed Assets (Billion Dong)	Machinery and Equipment (Billion Dong)	%	Capital Equipment Ratio (Billion Dong)	Liquid Assets 1994/12/31 (Billion Dong)	Investment in 1994 (Billion Dong)	%	Total Capital 1994/12/31 (Billion Dong)
Total	23,708	100.0	2,034,855	100.0	86	120,729	100.0	5.1	78,289	100.0	0.038	73,088	12,486	100.0	181,741
Domestic Enterprises	23,016	97.1	1,937,023	95.2	84	83,839	69.4	3.6	51,539	65.8	0.027	60,922	8,497	68.1	134,460
SOEs	5,873	24.8	1,506,911	74.1	257	76,140	63.1	13.0	47,529	60.7	0.092	51,828	7,864	63.0	118,933
Central	1,940	8.2	857,757	42.2	442	59,184	49.0	30.5	38,978	49.8	0.045	38,934	5,213	41.8	92,251
Local	3,933	16.6	649,154	31.9	165	16,956	14.0	4.3	8,550	10.9	0.013	12,894	2,650	21.2	26,702
Private	17,143	72.3	430,112	21.1	25	7,699	6.4	0.4	4,010	5.1	0.009	9,094	633	5.1	15,527
Cooperative	1,867	7.9	93,966	4.6	50	1,134	0.9	0.6	715	0.9	0.008	555	40	0.3	1,363
Private Enterprise	10,916	46.0	132,853	6.5	12	2,252	1.9	0.2	1,007	1.3	0.008	1,291	206	1.6	3,280
Stock Company	118	0.5	20,205	1.0	171	615	0.5	5.2	267	0.3	0.013	2,569	27	0.2	3,727
Company Limited	4,242	17.9	183,088	9.0	43	3,698	3.1	0.9	2,021	2.6	0.011	4,679	360	2.9	7,157
Foreign Enterprises	682	2.9	97,832	4.8	141	36,891	30.6	53.3	26,750	34.2	0.273	12,166	3,988	31.9	47,282
100% Foreign	150	0.6	37,109	1.8	247	3,632	3.0	24.2	3,083	3.9	0.083	2,603	813	6.5	6,716
Joint with SOEs	433	1.8	49,797	2.4	115	30,097	24.9	69.5	21,934	28.0	0.440	7,623	2,999	24.0	37,138
Joint with COOP	6	0.0	152	0.0	25	2	0.0	0.3	1	0.0	0.007	1	0	0.0	2
Joint with Private	59	0.2	6,837	0.3	116	810	0.7	13.7	556	0.7	0.081	376	145	1.2	1,167
Joint with Mixed	32	0.1	2,810	0.1	88	1,469	1.2	45.9	1,109	1.4	0.395	177	31	0.2	598
Cooperation	12	0.1	1,127	0.1	94	831	0.7	69.3	68	0.1	0.060	1,386	1	0.0	1,660

Note Exclude branches and Household

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.5(2) Management indicators of enterprises by economic sectors

	Average Total Capital per Employee (Billion Dong)	Total Capital 1994/12/31 (Billion Dong)	Liabilities (Billion Dong)	% Ave. Liability (Billion Dong)	Capital and Liability Ratio (%)	Sales in 1994 (Billion Dong)	% (Billion Dong)	Average Sales (Billion Dong)	Sales per Employee (Billion Dong)	Capital Turnover Ratio (%)	Tax Payment in 1994 (Billion Dong)	% (%)	Tax Payment per Sales (%)
Total	7.67	0.089	66,358	100.0	2.8	36.5	240,713	100.0	10.2	0.118	26,246	100.0	10.9
Domestic Enterprises	5.84	0.069	60,469	91.1	2.6	45.0	220,088	91.4	9.6	0.114	20,996	80.0	9.5
SOEs	20.25	0.079	55,153	83.1	9.4	46.4	182,419	75.8	31.1	0.121	20,156	76.7	11.0
Central	47.54	0.108	45,407	68.4	23.4	49.2	105,278	43.7	54.3	0.123	13,287	50.6	12.6
Local	6.79	0.041	9,746	14.7	2.5	36.5	77,141	32.0	19.6	0.119	6,849	26.1	8.9
Private	0.91	0.036	5,316	8.0	0.3	34.2	37,670	15.6	2.2	0.088	859	3.3	2.3
Cooperative	0.73	0.015	247	0.4	0.1	18.1	3,804	1.6	2.0	0.040	127	0.5	3.3
Private Enterprise	0.30	0.025	514	0.8	0.0	15.7	11,420	4.7	1.0	0.086	209	0.8	1.8
Stock Company	31.58	0.184	1,655	2.5	14.0	44.4	2,743	1.1	23.2	0.136	73.6	128	4.7
Company Limited	1.69	0.039	2,900	4.4	0.7	40.5	19,703	8.2	4.6	0.108	395	1.5	2.0
Foreign Enterprises	68.93	0.483	5,889	8.9	8.5	12.5	20,625	8.6	29.8	0.211	43.6	20.0	25.5
100% Foreign	44.77	0.181	776	1.2	5.2	11.6	2,013	0.8	13.4	0.054	136	0.5	6.8
Joint with SOEs	85.77	0.746	4,887	7.4	11.3	13.2	17,395	7.2	40.2	0.349	5,029	19.2	28.9
Joint with COOP	0.33	0.013	-	-	-	-	1	0.0	0.2	0.007	50.0	-	-
Joint with Private	19.78	0.171	186	0.3	3.2	15.9	455	0.2	7.7	0.067	39.0	45	9.9
Joint with Mixed	18.69	0.213	40	0.1	1.3	6.7	323	0.1	10.1	0.115	54.0	37	11.5
Cooperation	138.33	1.473	-	-	-	-	437	0.2	96.4	0.388	26.3	4	0.9

Note Exclude branches and Household

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Measuring labor productivity in terms of sales per worker, foreign-capital enterprises, and particularly joint ventures with state enterprises, are far and away the highest, with productivity averaging 2.9-times the level of state enterprises. One of the reasons why productivity is low at wholly foreign-capital enterprises is probably because they have only just started operations. At the end of 1994, there were still large numbers of projects that were not yet fully operable.

Labor productivity at state enterprises is about 37% higher than that at non-state enterprises. However, the picture changes completely when viewed in terms of the ratio of sales to total capital (the capital turn-over ratio). Non-state enterprises had an average capital turn-over ratio 58% higher than that averaged by state enterprises. On the other hand, the capital turn-over ratio is extremely low for foreign-capital enterprises. This is probably because many of the foreign-capital enterprises just started up or are in the process of starting-up, as was pointed out earlier.

State enterprises provide about 77% of enterprise tax payments (including sales taxes); foreign-capital enterprises, 20%; and non-state enterprises, a mere 3.3%. The ratio of tax payments to sales is highest for foreign-capital enterprises at 25.5%, followed by state enterprises at 11.0%, and non-state enterprises at 2.3%.¹ The reason the tax ratio is high for foreign-capital enterprises is because of the extremely large tax bills paid by joint ventures in the petroleum industry. Taxes paid by wholly foreign-capital enterprises are only 6.8% of sales. Similarly, the reason for the high tax ratio for state enterprises is because they are in businesses with high sales taxes (beer, soft drinks, tobacco products, etc.) and in industries in which they enjoy monopolies, and therefore high profits, for example, cement. The high tax ratio should not necessarily be taken as an indication of a high degree of management efficiency or a willingness to pay taxes.

4) Distribution of enterprises by capitalization, industry, and sector

Table 3.6 provides a distribution of enterprises by capitalization and sector. Some 70.3% of all registered enterprises in Viet Nam have total capital (equivalent to total assets) of less than 1.0 billion dong (about \$86,000 or ¥10 million). Were we to define all enterprises with total capital of less than 10.0 billion dong (about ¥100 million) as "small and medium enterprises," we would be looking at 92.5% of all enterprises in Viet Nam. By sector, 78.9% of state enterprises (64.0% of central-government state enterprises, 86.3% of subcentral-government state enterprises), 99.0% of non-state enterprises (but only 54.2% of joint-stock companies), and 48.7% of foreign-capital enterprises would be classified as "small and medium enterprises."

By industry, enterprises with more than 10.0 billion dong in capital congregate in tobacco, textiles, leather, petroleum products, chemicals, electrical equipment, radio and television, and medical equipment manufacturing. There are also comparatively high-capital enterprises in electric power, gas, and finance (see Table 3.7).

¹ The sales figures in this census are open to question. It is common for Vietnamese enterprises (even state enterprises) to substantially under-report their sales and profits in order to avoid taxes. The extent of the under-reporting is probably greatest for non-state enterprises, followed by state enterprises, and joint ventures between state enterprises and foreign-capital enterprises. For example, in 1990, the Government Statistics Office (GSO) did a study of 47,587 private enterprises and household enterprises to uncover the difference between reported figures and actual figures. It found a gap of 38.6% for sales, 47.3% for profits, and 42.8% for operating capital. (Nguyyen Hai Huu, *Doi Moi Co Che Qan Ly Doanh Nghiep Vua Nho Trong Nen Kinh Te Thi Truong O Viet Nam*, Nha Xuat Ban Chinh Tri Quoc Gia, Hanoi, 1995). Assuming the sales reporting gap to be 40% for non-state enterprises, 20% for state enterprises, and 10% for foreign-capital enterprises, then non-state enterprises would account for 17.9% of total sales rather than 15.6%, and their labor productivity and capital turn-over rates would also improve. On the other hand, the ratio of tax payments to sales would decline even further.

Table 3.6 Number of enterprises by sectors and by scale of total capital (as of Dec. 31, 1994)

	Total	%	%	<1,000 (Million D)	%	1,000-<5,000 (Million D)	%	5,000-<10,000 (Million D)	%	10,000≧ (Million D)	%
Total	23,708	100.0	100.0	16,673	70.3	4,183	17.6	1,083	4.6	1,769	7.5
Domestic Enterprises	23,016	97.1	100.0	16,547	71.9	4,076	17.7	979	4.3	1,414	6.1
SOEs	5,873	24.8	100.0	1,585	27.0	2,284	38.9	767	13.1	1,237	21.1
Central	1,940	8.2	100.0	253	13.0	672	34.6	314	16.2	699	36.0
Local	3,933	16.6	100.0	1,330	33.8	1,612	41.0	453	11.5	538	13.7
Private	17,143	72.3	100.0	14,972	87.3	1,792	10.5	212	1.2	177	1.0
Cooperative	1,867	7.9	100.0	1,644	88.1	184	9.9	24	1.3	25	1.3
Private Enterprise	10,916	46.0	100.0	10,383	95.1	485	4.4	34	0.3	14	0.1
Stock Company	118	0.5	100.0	17	14.4	33	28.0	14	11.9	54	45.8
Company Limited	4,242	17.9	100.0	2,928	69.0	1,090	25.7	140	3.3	84	2.0
Foreign Enterprises	692	2.9	100.0	126	18.2	107	15.5	104	15.0	355	51.3
100% Foreign	150	0.6	100.0	19	12.7	26	17.3	34	22.7	71	47.3
Joint with SOEs	433	1.8	100.0	77	17.8	58	13.4	53	12.2	245	56.6
Joint with COOP	6	0.0	100.0	6	100.0	0	0.0	0	0.0	0	0.0
Joint with Private	59	0.2	100.0	11	18.6	12	20.3	11	18.6	25	42.4
Joint with Mixed	32	0.1	100.0	11	34.4	8	25.0	4	12.5	9	28.1
Cooperation	12	0.0	100.0	2	16.7	3	25.0	2	16.7	5	41.7

Note Exclude branches and Household

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.7(1) Number of enterprises by industry classified by the value of total capital (as of July 1, 1995)

Total Number of Enterprises	Million VND															
	< 100	100-200	200-300	300-400	400-500	500-600	600-700	700-800	800-900	900-1000	1000-2000	2000-3000	3000-5000	5000-10000	10000-50000	50000-100000
Mining	23,208	5,154	2,486	2,343	1,467	999	1,461	1,211	2,111	1,006	1,066	801	579	207	15	5
Manufacturing Total	8,577	1,583	1,623	834	556	346	480	417	775	363	396	454	348	245	83	74
Food, foodstuffs, drinks	3,200	773	928	371	195	117	124	100	190	66	90	82	63	48	18	22
Tobacco	28	0	0	0	0	0	0	0	2	2	2	7	4	4	1	4
Tenails	417	68	42	29	22	20	28	16	41	21	15	30	38	17	17	13
Garnments, weaving, dyeing animal's skin, leather	384	43	13	12	23	15	28	24	62	46	33	35	28	15	5	2
Leather goods	137	12	9	3	6	3	5	8	13	5	12	20	13	17	7	2
Wooden, bamboo, rice straw products	656	118	117	67	45	34	41	45	64	27	34	32	20	9	1	2
Paper products	198	34	12	22	19	10	14	14	20	9	11	12	10	6	2	2
Publishing, printing, copying	203	14	10	7	8	5	15	29	49	22	18	8	8	8	0	0
Coal, mineral oil products, nuclear fuel	3	0	0	0	0	0	0	0	0	0	0	0	0	2	1	0
Chemicals, chemical products	290	22	15	17	11	12	20	17	40	20	26	31	23	25	6	3
Rubber, plastic products	726	38	15	14	14	14	17	17	29	13	11	22	13	8	3	0
Non-metal products	1,162	184	278	163	116	50	38	56	73	47	41	42	26	13	5	8
Metal	131	28	11	13	12	4	7	10	10	4	4	7	9	5	2	4
Metal Products (incl. machinery equipment)	380	76	62	37	28	15	29	19	40	15	18	22	30	9	0	0
Machinery & equipment	247	21	21	6	8	10	15	14	41	23	19	27	27	12	2	1
Office machines, calculator	6	1	0	0	0	1	0	0	1	1	0	2	0	0	0	0
Electric machines & equipment	88	11	3	3	4	2	7	6	9	4	10	11	6	8	3	1
Radio, TV and communication equipment	76	3	0	6	2	1	3	4	7	8	5	8	7	14	6	2
Medical instrument, optics & clocks	25	1	1	1	0	0	2	3	3	4	1	4	3	1	1	0
Motor bikes, trailer	87	13	9	7	2	2	4	6	9	5	8	9	4	6	1	2
Other means of transport	185	21	14	6	10	4	17	11	30	12	16	16	10	14	0	4
Bed, wardrobe, tables, chairs and others	441	100	61	46	31	25	31	26	42	9	22	27	15	4	2	0
Re-processing	7	2	2	0	0	2	0	0	0	0	0	0	1	0	0	0
Electricity, Gas & Water	117	10	6	5	2	4	4	3	21	8	9	20	8	9	2	6
Construction	2,555	180	151	196	160	117	241	251	591	168	184	145	109	56	18	8
Repairing of Motor Bikes, Utensils	9,468	3,013	2,048	907	571	363	519	368	525	234	254	243	191	147	34	30
Hotel & Restaurant	1,094	271	79	69	40	36	62	43	146	86	91	69	42	32	15	13
Transport, Stores & Communication	870	108	68	54	60	34	51	60	104	66	73	78	56	33	11	14
Finance & Credit	206	28	21	13	18	5	18	11	16	13	6	4	15	12	7	21
Science & Technology	17	2	4	1	0	1	1	1	3	3	0	1	0	0	0	0
Property, Advisory Service	521	101	64	33	42	32	38	26	55	28	16	26	17	24	11	9
Healthcare, social relief	8	3	1	1	0	1	0	1	0	0	0	0	1	1	0	0
Educative & training	8	2	1	1	0	1	0	0	2	1	7	7	8	1	0	0
Culture & Sports	98	1	6	4	5	7	7	7	16	6	7	18	8	3	1	2
Private & Public Service	71	18	6	8	1	1	4	5	7	5	4	5	3	4	0	0

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.7(2) Number of enterprises by industry classified by the value of total capital (as of July 1, 1995)

	<1000		1000-2000		2000-3000		3000-5000		5000-10000		10000-25	
	Million VND	%	Million VND	%	Million VND	%	Million VND	%	Million VND	%	Million VND	%
Total Number of Enterprises	16685	70.4	3117	13.1	1066	4.5	20566	88.0	2482	10.0	1083	4.6
Mining	148	0.9	75	25.2	26	8.7	289	83.6	49	16.4	21	7.0
Manufacturing Total	5859	68.1	1138	13.3	396	4.6	7373	86.0	1204	14.0	454	5.3
Food, foodstuffs, drinks	2621	81.9	256	8.0	90	2.8	2967	92.7	253	7.3	32	2.6
Tobacco	2	7.1	4	14.3	2	7.1	8	28.6	20	71.4	7	23.0
Textile	228	54.0	62	14.9	15	3.6	302	72.4	115	27.6	30	7.2
Garment, tanning, dyestuff animal's skin, leather	158	41.1	108	28.1	33	8.6	299	77.9	85	22.1	35	9.1
Leather goods	48	35.0	18	13.1	12	8.8	78	56.9	59	43.1	20	14.6
Wooden, bamboo, non-subtle products	467	71.2	91	13.1	34	5.2	592	90.2	64	9.8	32	4.9
Paper products	126	63.6	29	14.6	11	5.6	166	82.2	32	16.2	12	6.1
Printing, printing, copying	18	43.3	71	33.0	18	8.9	177	87.2	26	12.8	8	3.9
Coal, mineral oil products, nuclear fuel	0	0.0	0	0.0	0	0.0	0	0.0	3	100.0	0	0.0
Chemicals, chemical products	106	36.6	60	20.7	26	9.0	192	66.2	98	33.8	31	10.7
Rubber, plastic products	177	56.2	42	18.6	11	4.9	180	79.8	46	20.4	22	9.7
Non-metal products	907	78.1	120	10.3	41	3.5	1068	91.9	94	8.1	42	3.6
Metal	86	63.6	14	10.7	4	3.1	104	79.4	27	20.6	7	5.3
Metal Products (incl. machinery equipment)	266	70.0	55	14.5	18	4.7	339	89.2	41	10.8	22	5.8
Machinery & equipment	95	38.5	64	25.9	19	7.7	178	72.1	69	27.9	27	10.9
Office machine, computer, calculator	2	33.3	2	33.3	0	0.0	4	66.7	2	33.3	0	0.0
Electric machines & equipment	36	40.9	13	14.8	10	11.4	59	67.0	29	33.0	11	12.5
Radio, TV and communication equipment	19	23.0	15	19.7	5	6.6	39	51.3	37	48.7	8	10.5
Medical instrument, optics & clocks	8	32.0	7	28.0	1	4.0	16	64.0	9	36.0	4	16.0
Motor bikes, trailer	43	49.4	14	16.1	8	9.2	65	74.7	22	25.3	9	10.3
Other means of transport	83	44.9	42	22.7	16	8.6	141	76.2	44	23.8	16	8.6
Bed, wardrobe, tables, chairs and others	328	72.6	51	11.6	22	5.0	393	89.1	48	10.9	27	6.1
Re-processing	6	83.7	0	0.0	0	0.0	6	83.7	1	14.3	0	0.0
Electricity, Gas & Water	34	29.1	29	24.8	9	7.7	72	61.5	45	38.5	20	17.1
Construction	1276	54.2	559	23.7	184	7.8	2019	83.7	336	14.3	145	6.2
Repairing of Motor Bikes, Vehicles	7789	82.3	759	8.0	254	2.7	8802	93.0	665	7.0	249	2.6
Hotel & Restaurant	600	54.8	232	21.2	91	8.3	523	84.4	171	15.6	69	6.3
Transport, Stores & Communication	435	50.0	170	19.5	73	8.4	678	77.9	192	22.1	78	9.0
Finance & Credit	114	53.3	29	14.1	6	2.9	149	72.3	57	27.7	4	1.9
Science & Technology	10	58.8	6	35.3	0	0.0	16	94.1	1	5.9	0	0.0
Property, Advisory Service	356	64.5	83	15.9	16	3.1	435	83.5	87	16.7	26	5.0
Healthcare, social relief	7	87.5	0	0.0	0	0.0	7	87.5	1	12.5	0	0.0
Education & training	4	50.0	3	37.5	0	0.0	7	87.5	1	12.5	0	0.0
Culture & Sports	37	37.8	22	22.4	7	7.1	66	67.3	32	32.7	18	18.4
Press & Public Service	43	60.6	12	16.9	4	5.6	59	83.1	12	16.9	5	7.0

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

5) Enterprise profits and losses

Table 3.8 provides a breakdown by sector of enterprise profits and losses. Table 3.9 breaks profits and losses down by industry. About 80% of Viet Nam's state enterprises are turning profits, and only about 9% are in the red. This is an enormous improvement compared to January 1990, when a survey found 4,854 (about 40%) of 12,084 state enterprises to be in the red.²

Table 3.8 Number of profit or loss making enterprises (in Dec. 1994)

	Number of Enterprises						Value (Billion Dong)					
	Total Entp.	%	Profit Making	%	Loss Making	%	Profit Total	%	Loss Total	%	Net Profit	%
Total	23,708	100.0	17,606	74.3	2,172	9.2	14,014	100.0	1,056	100.0	12,959	100.0
Domestic Enterprises	23,016	100.0	17,402	75.6	1,974	8.6	8,133	58.0	719	68.1	7,414	57.2
SOEs	5,973	100.0	4,819	80.7	595	10.0	7,500	53.5	586	55.5	6,913	53.3
Central	1,940	100.0	1,634	84.2	142	7.3	5,596	39.9	415	39.3	5,180	40.0
Local	3,933	100.0	3,185	81.0	453	11.5	1,903	13.6	170	16.1	1,733	13.4
Private	17,143	100.0	12,583	73.4	1,379	8.0	634	4.5	133	12.6	502	3.9
Cooperative	1,867	100.0	1,312	70.3	127	6.8	97	0.7	14	1.3	83	0.6
Private Enterprise	10,916	100.0	9,081	83.2	398	3.6	220	1.6	18	1.7	203	1.6
Stock Company	118	100.0	83	70.3	19	16.1	148	1.1	12	1.1	136	1.0
Company Limited	4,242	100.0	2,107	49.7	835	19.7	169	1.2	89	8.4	80	0.6
Foreign Enterprises	692	100.0	204	29.5	198	28.6	5,882	42.0	337	31.9	5,545	42.8
100% Foreign	150	100.0	30	20.0	65	43.3	66	0.5	83	7.9	-17	-0.1
Joint with SOEs	433	100.0	146	33.7	99	22.9	5,767	41.2	217	20.5	5,549	42.8
Joint with COOP	6	100.0	4	66.7	1	16.7	-	-	-	-	-	-
Joint with Private	59	100.0	10	16.9	23	39.0	4	0.0	20	1.9	-15	-0.1
Joint wit Mixed	32	100.0	9	28.1	3	9.4	28	0.2	3	0.3	25	0.2
Cooperation	12	100.0	5	41.7	7	58.3	16	0.1	13	1.2	3	0.0

Note Exclude branches and Household

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Though their profit margins are slim, more than 70% of non-state enterprises are in the black, and only 8% in the red. However, there are some joint stock and limited companies that are in difficult straits. In general, foreign-capital enterprises are performing poorly. More than 40% of the wholly foreign-capital enterprises are in the red, and only about 20% are in the black. Similarly, about 30% of the joint ventures between state enterprises and foreign-capital are in the black, and more than 20% are in the red. Much of this poor performance by foreign-capital enterprises must be ascribed to the fact that they are just starting up. However, it may also be that many foreign-capital enterprises (especially in import substitution projects) are over-capitalized for the size of the market for their products, or that there are problems in the Vietnamese investment environment.

² John Heath, *Revitalizing Socialist Enterprise*, Routledge, 1993, pp. 209-210.

Table 9 Number of profit or loss making enterprises by industry (in 1994)

	Number of Total Entps.		Number of Profit Making		Number of Loss Making		Profit Total (Billion Dong)		Loss Total (Billion Dong)		Net Profit (Billion Dong)	
	Number	%	Number	%	Number	%	Profit	%	Loss	%	Profit	%
Total Number of Enterprises	23,708	100.0	17,606	74.3	2,172	9.2	14,014	100.0	1,056	100.0	12,958	100.0
Mining	298	1.3	202	67.8	40	13.4	5,323	38.0	8	0.8	5,315	41.0
Manufacturing Total	8,577	36.2	6,498	75.8	927	10.8	2,796	20.0	424	40.2	2,372	18.3
Food, foodstuffs, drinks	3,200	13.5	2,664	83.3	256	8.0	878	6.3	142	13.4	736	5.7
Tobacco	28	0.1	18	64.3	7	25.0	198	1.4	13	1.2	185	1.4
Textile	417	1.8	238	57.1	82	19.7	112	0.8	34	3.2	78	0.6
Garment, tanning, dyeing animal's skin, leather	384	1.6	197	51.3	108	28.1	86	0.6	24	2.3	62	0.5
Leather goods	137	0.6	74	54.0	32	23.4	34	0.2	21	2.0	13	0.1
Wooden, bamboo, rice strubble products	656	2.8	479	73.0	90	13.7	63	0.4	42	4.0	21	0.2
Paper products	198	0.8	111	56.1	34	17.2	32	0.2	26	2.5	6	0.0
Publishing, printing, copying	203	0.9	184	90.6	9	4.4	100	0.7	1	0.1	99	0.8
Coke, mineral oil products, nuclear fuel	3	0.0	3	100.0	0	0.0	34	0.2	0	0.0	34	0.3
Chemicals, chemical products	290	1.2	220	75.9	37	12.8	243	1.7	35	3.3	208	1.6
Rubber, plastic products	226	1.0	165	73.0	21	9.3	40	0.3	9	0.9	31	0.2
Non-metal products	1,162	4.9	959	82.5	78	6.7	552	3.9	7	0.7	545	4.2
Metal	131	0.6	92	70.2	6	4.6	61	0.4	2	0.2	59	0.5
Metal Products (excl. machinery equipment)	380	1.6	261	68.7	32	8.4	49	0.3	10	0.9	39	0.3
Machinery & equipment	247	1.0	179	72.5	29	11.7	69	0.5	12	1.1	57	0.4
Office machine, computer, calculator	6	0.0	5	83.3	0	0.0	1	0.0	0	0.0	1	0.0
Electric machines & equipment	88	0.4	63	71.6	9	10.2	64	0.5	1	0.1	63	0.5
Radio, TV and communication equipment	76	0.3	50	65.8	14	18.4	80	0.6	9	0.9	71	0.5
Medical instrument, optical & clocks	25	0.1	17	68.0	5	20.0	10	0.1	2	0.2	8	0.1
Motor bikes, trailers	87	0.4	70	80.5	6	6.9	13	0.1	2	0.2	11	0.1
Other means of transport	185	0.8	148	80.0	16	8.6	55	0.4	7	0.7	48	0.4
Bed, wardrobe, tables, chairs and others	441	1.9	297	67.3	56	12.7	23	0.2	27	2.6	4	0.0
Re-processing	7	0.0	4	57.1	0	0.0	0	0.0	0	0.0	0	0.0
Electricity, gas & water	117	0.5	91	77.8	15	12.8	486	3.5	56	5.3	430	3.3
Construction	2,355	9.9	1,847	78.4	147	6.2	605	4.3	23	2.2	582	4.5
Trade, repair motor bikes, animals	9,468	39.9	7,127	75.3	773	8.2	1,438	10.3	156	14.8	1,282	9.9
Hotel & restaurant	1,094	4.6	587	53.7	95	8.7	450	3.6	38	3.6	412	3.2
Transport, storage & communication	870	3.7	621	71.4	89	10.2	1,578	11.3	221	20.9	1,357	10.5
Finance & credit	206	0.9	172	83.5	15	7.3	874	6.2	112	10.6	762	5.9
Science & technology	17	0.1	12	70.6	1	5.9	1	0.0	-	-	-	-
Property, advisory service	521	2.2	333	63.9	43	8.3	290	2.1	15	1.4	275	2.1
Healthcare, social relief	8	0.0	2	25.0	1	12.5	8	0.1	-	-	-	-
Training & education	8	0.0	3	37.5	0	0.0	-	-	-	-	-	-
Culture & sports	98	0.4	62	63.3	21	21.4	155	1.1	2	0.2	153	1.2
Private & public service	71	0.3	49	69.0	5	7.0	11	0.1	1	0.1	10	0.1

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

State enterprises account for about 57% of net profits (total profits minus total losses); foreign-capital enterprises about 43%. However, almost all of the profits produced by foreign-capital enterprises are in the petroleum industry. When these profits are excluded, the net profits of foreign-capital enterprises are very minor. The net profits of non-state enterprises account for a mere 4% or so of the total. While a good deal of this is conceivably due to under-reporting, it is also a fact that non-state enterprises suffer from a frail economic base and, as will be discussed later, difficult economic conditions.

A breakdown of enterprise profits by industry shows that mining (principally petroleum) produces 41% of net profits, followed by 18% from manufacturing, and about 10% each for "transportation and telecommunications" and "commerce and repairs." In manufacturing, the loss-producing enterprises tend to be relatively large-capital state enterprises in tobacco products, textiles, apparel, leather, paper products, medical equipment, and radio and television. Many of these enterprises can be assumed to be suffering from competition with Chinese and smuggled products.

6) Regional and provincial distribution and enterprise performance

Table 3.10 provides a regional breakdown of GDP and enterprise distribution, number of workers per enterprise, total capital, and enterprise sales. It also provides regional comparisons of labor productivity and capital turn-over ratio. The figures indicate that 68.1% of all enterprises (excluding central-government state enterprises) are located in the south, 38.9% in the north. Compared to the north-south share of GDP, there would seem to be a slightly larger number of enterprises in the south than might be expected. The breakdown of enterprise categories indicates that the north has more state enterprises and collectives, while the south has more non-state enterprises. Note, in particular, that 84% of private enterprises are located in the south.

The north has 41.2% of total enterprise workers, which is high in comparison to its share of enterprises. However, when the number of workers per enterprise (excluding private enterprises) is examined, one finds that the state enterprises, collectives, joint-stock and limited companies, and foreign-capital enterprises in the south have more workers and are bigger in size. This becomes clearer when the share of total enterprise capital and average total capital are compared. Southern enterprises have an average capitalization of 4.55 billion dong, compared to 3.17 billion dong for northern enterprises. The average total capital for subcentral state enterprises, collectives, joint-stock and limited companies, and foreign-capital enterprises in the south is in all cases about double that for similar enterprises in the north.

The south accounts for 81% of total enterprise sales; the north only 19%. By geographical region, the "northeast south," where Ho Chi Minh City is located, accounts for 55% of sales; the Mekong River Delta, about 16%; and the Red River Delta, about 12%. The "northeast south" is, therefore, the uncontested leader. What is interesting to note is that about 40% of all private enterprises are located in the Mekong River Delta, and that this area also accounts for about 40% of total private enterprise sales. The development of small and medium enterprises in the Mekong River Delta is probably related to the region's high agricultural productivity, its strong entrepreneurial spirit, and its easy access to Ho Chi Minh City and foreign markets.

Table 3.10 Distribution & performance of enterprises by region

	North Total	North	Red	North	South Total	South			Mekong
		Mountain and Midland	River Delta	Central Coast		Central Coast	Central Highland	Northeast South	River Delta
GDP(% , 1995)	38.9	9.9	20.0	9.0	61.1	7.9	3.4	30.9	19.3
Number of All Enterprises(% , July 1995)	31.9	7.3	19.0	5.6	68.1	10.0	3.2	31.5	23.5
of which Local SOEs	55.2	16.6	25.3	13.3	44.8	11.5	4.4	17.4	11.5
Cooperatives	61.6	10.6	42.6	8.4	38.4	12.9	1.9	19.2	4.4
Private Ent.	16.3	5.1	7.5	3.7	83.7	11.1	3.5	29.2	39.9
Joint Stock & Limited Co.	36.7	3.6	30.2	2.9	63.3	5.3	1.8	51.7	4.4
Foreign Ent.	32.7	2.5	29.2	1.0	67.3	6.5	1.9	54.9	4.0
Number of Labor Force(% , July 1995)	41.2	9.5	23.8	7.9	58.8	9.1	2.8	36.0	10.9
of which Local SOEs	51.1	12.9	27.2	11.0	48.9	9.7	2.8	25.6	10.7
Cooperatives	48.8	6.4	35.2	7.2	51.2	16.6	2.3	27.9	4.4
Private Ent.	26.5	9.0	11.2	6.3	73.5	9.0	4.8	32.6	27.1
Joint Stock & Limited Co.	26.2	3.7	20.2	2.3	73.8	5.2	2.0	59.9	6.7
Foreign Ent.	18.5	2.8	14.6	1.1	81.5	6.4	2.1	67.8	5.2
Total Capital(% , 1994)	24.5	2.6	19.0	2.9	75.5	4.8	1.8	61.4	7.5
Average Capital(Million VND)	3,172	1,499	4,121	2,126	4,550	1,954	2,316	8,003	1,317
of which Local SOEs	4,284	2,489	5,834	3,573	9,875	5,325	4,038	14,971	8,973
Cooperatives	491	391	535	397	1,112	957	926	1,095	1,720
Private Ent.	423	366	485	377	277	214	453	376	206
Joint Stock & Limited Co.	1,582	996	1,712	964	3,028	1,178	1,334	3,281	2,996
Foreign Ent.	39,003	17,921	40,205	55,508	82,547	24,351	44,211	94,036	37,966
Total Turnover(% , 1994)	18.8	3.5	11.5	3.8	81.2	7.9	2.1	54.8	16.4
of which Local SOEs	23.7	5.1	12.8	5.8	76.3	10.1	2.8	44.8	18.6
Cooperatives	14.6	1.6	9.4	3.6	85.4	6.6	0.7	67.5	10.6
Private Ent.	11.3	2.5	6.3	2.5	88.7	12.4	3.5	33.1	39.7
Joint Stock & Limited Co.	12.2	1.1	10.5	0.6	87.8	4.7	0.8	72.2	10.1
Foreign Ent.	13.0	1.1	10.8	1.1	87.0	0.6	0.3	82.9	3.2
Turnover per Worker(Million VND, 1994)	52.6	42.5	55.5	56.2	158.7	99.4	86.0	175.1	173.0
of which Local SOEs	55.0	47.1	55.8	62.1	185.7	124.1	119.0	207.7	206.3
Cooperatives	12.1	10.2	10.9	20.2	67.5	16.1	12.5	98.0	97.8
Private Ent.	36.7	24.4	48.4	33.4	103.7	118.7	61.9	87.1	126.1
Joint Stock & Limited Co.	51.2	31.8	57.6	26.3	131.4	100.5	44.2	133.2	165.5
Foreign Ent.	147.8	79.6	156.4	206.9	225.2	18.7	34.6	258.0	129.2
Capital Turnover Ratio(1994)	1.2	2.0	0.9	2.0	1.6	2.5	1.8	1.4	3.3
of which Local SOEs	2.0	2.4	1.7	2.4	3.4	3.3	3.0	3.4	3.5
Cooperatives	1.0	0.8	0.8	2.2	4.1	1.1	0.8	6.5	2.8
Private Ent.	1.7	1.4	1.8	1.8	4.0	5.5	2.3	3.1	5.1
Joint Stock & Limited Co.	1.1	1.5	1.1	1.0	2.4	3.9	1.7	2.2	3.9
Foreign Ent.	0.3	0.7	0.3	0.6	0.5	0.1	0.1	0.5	0.6
Total Tax Payment(% , 1994)	16.3	2.4	9.8	4.1	83.7	6.8	1.1	65.5	10.3

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Labor productivity, as measured by sales per worker, is about triple in the south what it is in the north. Productivity is particularly high in the "northeast south" and the Mekong River Delta. The labor productivity of state enterprises in these regions is about 3.8-times the northern average; for collectives, about 6.7 times. Private enterprises in the Mekong River Delta had higher labor productivity than those in the "northeast south," and about 3.4-times the productivity of private enterprises in the north.

The capital turn-over ratio for all enterprises was 33% higher in the south than in the north, with the ratio particularly high for southern sub-central state enterprises, collectives, and private enterprises. Collectives in the "northeast south" and private enterprises along the "south central coast" and in the Mekong River Delta have capital turn-over ratios in excess of 500%.

This strong performance by southern enterprises owes much to the foreign-capital petroleum industry of Ba Ria Vung Tau province in the "northeast south," which accounts for about 84% of all taxes paid by southern enterprises. Nonetheless, there is a notable lack of contribution to the economy as a whole by northern enterprises.

2. Overview of Enterprises and Gross Industrial Production

(1) Industrial production trends broken down by sector

The census to which we have been referring provides a general picture of enterprises at a particular point in time but does not trace changes over time. To see these changes we must consult the industrial production statistics found in the *Statistical Yearbooks*. Table 3-11 provides a breakdown by ownership sector of business units engaged in industry (including electrical power and fuel) since 1985. The total number of state enterprises engaged in industry peaked in 1987 and declined during subsequent reorganizations and consolidations. By 1994, there were only 2,002. The size of the decline was largest for subcentral-government enterprises, where 983 enterprises were shed from the 1987 peak (40% reduction). On the other hand, only about 154 central-government enterprises were lost during this period (a reduction of about 23%).

Table 3.11 Number of industrial establishments by economic sectors (at January 1st of each year)

	State						Non-state		
	Total	%	Central	%	Local	%	Cooperative	Private Enterprises	Private Household
1985	3,050	100	711	23.3	2,339	76.7	35,629	902	
1986	3,141	100	687	21.9	2,454	78.1	37,649	567	
1987	3,157	100	682	21.6	2,457	77.8	33,962	490	
1988	3,111	100	681	21.9	2,430	78.1	32,034	318	318,557
1989	3,020	100	666	22.1	2,354	77.9	21,901	1,248	333,337
1990	2,672	100	589	22.0	2,173	81.3	13,066	770	376,900
1991	2,599	100	546	21.0	2,053	79.0	8,829	959	446,771
1992	2,268	100	537	23.7	1,731	76.3	5,723	1,114	368,000
1993	2,030	100	522	25.7	1,508	74.3	5,287	3,322	452,866
1994	2,002	100	528	26.4	1,474	73.6	1,648	4,909	493,046

Source Statistical Yearbook 1995, Statistical Publishing House

Among non-state enterprises, there has been a sharp decline in the number of collectives, which has plummeted from 37,649 in 1986 to a meager 1,648 in 1994. In China, cooperatives and township and village enterprises have been very robust within the market economy, as can be seen from Table 3.12, and this raises the question of why there has been such a drastic dismantling of collectives in Viet Nam. Perhaps the reasons are a lack of government assistance, a lack of leaders to support the collectives, a lack of incentives and sense of belonging for collective workers, and also an inability to withstand the dramatic changes that have taken place in the economic environment since 1989 ("shock therapy" economic reforms and the loss of the COMECON market).

Many of the collectives that were unable to adapt to the changes in the market environment were replaced by private enterprises and household enterprises. The number of non-state enterprises engaged in industry has risen sharply since 1993 and by 1994 was at 4,909. The number of household enterprises engaged in industry began to rise in 1989, experienced a temporary decline in 1992, and then began to rise again in 1993. The 1992 decline was probably related to the loss of the COMECON market in 1991.

Table 3.13 provides a breakdown of industrial production values (1989 prices) by economic sector. Between 1990 and 1995, total industrial production rose by a real average of 13.7%, but growth was higher for the state enterprise sector than the non-state enterprise sector. Growth was particularly strong for the central-government state enterprise sector, and as a result, the share of industrial production accounted for by the state enterprise sector began to rise in 1990 and had reached about 72% by 1995.

However, the state enterprise sector includes joint ventures between foreign capital and state enterprises, and it has recently been demonstrated that the production growth rate was not all that high for the state enterprise sector once joint ventures are excluded. According to DSI-MPI data, the average growth rate for industrial production by state enterprises excluding joint ventures with foreign capital was 12.7%, while the average growth rate for foreign-capital enterprises over this same period was 81.3%, and that of the non-state enterprise sector 14.2% (see Table 3.14).

The reason that the average growth rate for real production by the non-state enterprise sector found in Table 3.13 is only 10%, which is less than that of the state enterprise sector, is because of the sharp decline in production by collectives (which declined by about 30% a year between 1990 and 1995). In contrast, industrial production by household enterprises, which accounted for about 77% of total non-state industrial production, rose by an average of 12.3% during the 1990-1994 period. Also, though their share of total industrial production is still small, industrial production by non-state enterprises rose at astounding real annual rates of 71.7% during this period.

Table 3.12 Development of village industry in China (1980-95)

Total Production	(Unit: 100 Million RMB, Current Price)														
	Agriculture %	Industry %	Construction %	Transport %	Trade/Restaurant %	Total Number of Establishments (10,000 unit)	Number of Employee	Average Employee	Number of Employee	Average Employee					
1980	657	100	39	5.9	509	77.5	60	9.1	25	3.8	23	3.5	143	3,000	21.0
1985	2,728	100	59	2.2	1,827	67.0	310	11.4	41	1.5	483	17.7	1,223	6,979	5.7
1990	8,462	100	142	1.7	6,050	71.5	952	11.3	648	7.7	669	7.9	1,850	9,265	5.0
1995	68,915	100	1,018	1.5	51,259	74.4	6,336	9.2	4,117	6.0	6,185	9.0	2,203	12,862	5.8
Av. Growth Rate(%)(90/95)	52.1		48.2		53.3		46.1		44.7		56.0		3.6		6.8

Source: China Statistical Yearbook, 1996

Table 3.13 Gross output of industry by sectors in Viet Nam (at constant price of 1989)

	Total			State			Non-State									
	Total %	Central %	Local %	Total %	Coop. %	Private %	Total %	Coop. %	Household %							
1990	14,011	100	9,746	69.6	6,438	45.9	3,038	21.7	4,535	32.4	1,279	9.1	137	1.0	3,120	22.3
1991	15,471	100	10,560	68.3	7,435	48.1	3,164	20.5	4,872	31.5	747	4.8	229	1.5	3,896	25.2
1992	18,117	100	12,779	70.5	9,155	50.5	3,624	20.0	5,338	29.5	515	2.8	513	2.8	4,310	23.8
1993	20,412	100	14,642	71.7	10,602	51.9	4,041	19.8	5,769	28.3	434	2.1	826	4.0	4,509	22.1
1994	23,214	100	16,797	72.4	12,128	52.2	4,669	20.1	6,417	27.6	255	1.1	1,191	5.1	4,971	21.4
1995	26,584	100	19,082	71.8	13,824	52.0	5,258	19.8	7,503	28.2	216	0.8	na	na	na	na
Ave. Growth Rate(%)(1990-1995)	13.7		14.4		15.5		11.6		10.6		-30.0		*71.7		*12.3	

Notes: Total industrial production of Private and Household sector was 7,286 billion dong. Its breakdown is not available

Source: Statistical Yearbook 1995, 1996, Statistical Publishing House, Hanoi.

Table 3.14 Gross industrial production by economic sectors in Viet Nam and China

	China (100 Million RMB, Current Price)				Viet Nam (Billion VND, 1994 Price)													
	Total	%	State	%	Collectives	%	Private	%	Foreign/ Stock Co.	%	Total	%	State	%	Non- state	%	Foreign	%
1980	5,154	100	3,916	76.0	1,213	23.5	1	0.0	24.0	0.5								
1985	9,716	100	6,302	64.9	3,117	32.1	180	1.9	117.0	1.2								
1990	23,925	100	13,064	54.6	8,523	35.6	1,290	5.4	1048.0	4.4								
1994	76,609	100	26,201	34.2	31,434	41.0	8,853	11.6	10121.0	13.2	75,189	100	45,453	60.5	21,063	28.0	8,671	11.5
1995	91,895	100	31,220	34.0	33,623	36.6	11,821	12.9	15231.0	16.6	99,621	100	51,708	51.9	24,434	24.5	23,479	23.6
1996 (est)											113,700	100	57,740	50.8	27,460	24.2	28,500	25.1
Ave. Growth Rate % (1990/95)	30.9		19		31.6		55.7		70.8									

Notes

Viet Nam: 1) Non-state includes Collectives, all types of Private Enterprises and Households.

2) Percentage figure of 1990 is based on the 1989 price.

3) The figure of foreign sector in 1990 is estimated from the value of fuel industry.

Source China Statistical Yearbook 1995, 1996

Viet Nam: Statistical Yearbook 1996 and Data of DSI-MPI

(2) Comparisons with China

Table 3.14 traces changes in the share of industrial production (by value) in China and Viet Nam accounted for by the state enterprise sector, the non-state enterprise sector, and the foreign-capital enterprise sector. Note that the state enterprise sector's (excluding joint ventures with foreign capital) share of industrial production in Viet Nam declined from 60.5% in 1990 to 50.8% in 1995. This was the result of sharp expansions in the production of foreign-capital enterprises, which saw their share of total industrial production rise from 11.0% to 25.1% over the same period. On the other hand, the share of industrial production by non-state enterprises in Viet Nam has been declining year by year, going from 32.4% in 1990 to 24.2% in 1995.

In China, the state enterprise sector's share of industrial production declined much more quickly than it has in Viet Nam. Over a ten-year period, the state enterprise sector shed about 31 percentage points, going from 64.9% of total industrial production in 1985 to only 34.0% in 1995. Production growth for the Chinese collectives sector, non-state enterprise sector, and foreign-capital enterprise sector was in all cases higher than for the state enterprise sector. During the 1990-1995 period, industrial production by non-state enterprises in China grew by an average of 55.7% per year (nominal rate), while foreign-capital enterprises posted average growth rates of 70.8%. Compared to Viet Nam, the non-state enterprise sector in China (including township and village enterprises) has been stronger in its development. The collectives sector and the non-state enterprise sector combined accounted for about 50% of Chinese industrial production in 1995. The non-state sector has, therefore, been troublingly slow to develop in Viet Nam, at least in comparison to China.

(3) Production trends broken down by industry and sector

Table 3.15 divides Vietnamese industrial production into the state enterprise sector (including joint ventures with foreign capital) and the non-state enterprise sector, with further breakdowns by industry within those sectors. The years 1990 and 1995 are compared. In 1995, the state enterprise sector had a predominant share (70% or greater) of eight industries: electric power, fuel, steel, non-ferrous metals, electrical and electronic machinery, chemicals, chemical fertilizers, processed food, and printing. The non-state enterprise sector had a relatively high share of production in the machinery and equipment, miscellaneous metal products, lumber and woodworking, paper and pulp, glass and ceramics, foodstuffs, textile products, sewn products, and leather products industries.

The state enterprise sector's share of overall industrial production has risen since 1990. During this period, the non-state enterprise sector's share of production rose in nine out of eighteen industries: ferrous and non-ferrous metals, miscellaneous metal products, lumber and woodworking, paper and pulp, textile products, sewn products, leather products, and processed foods. However, these sectors that saw growth in non-state production only account for 21.9% of total Vietnamese industrial product (1995).

Table 3.16 provides more detailed sectorial classifications of the breakdown by industrial field of 1994 industrial production. Household enterprises, which account for the majority of industrial production by the non-state enterprise sector, were responsible for 21% of total Vietnamese industrial production, and 77% of non-state enterprise sector industrial production. By industrial field, household enterprises are the source of 71% of Viet Nam's production of miscellaneous metal products, 64% of lumber and woodworking products, 61% of foodstuffs, and 51% of leather products.

Table 3.15 Gross industrial outputs by industrial activities and sectors
(at constant price of 1989, billion dong)

	1990					1995					Non-State Share			
	Total	%	%	State %	Non-State %	Total	%	%	State %	Non-State %				
Electricity	1046	7.5	100	1046	100.0	0	0.0	1840	7.0	100	1839	99.9	1	0.1
Fuels	1551	11.1	100	1549	99.9	2	0.1	4293	16.2	100	4287	99.9	6	0.1
Ferrous Metal	120	0.9	100	111	92.5	9	7.5	376	1.4	100	341	90.7	35	9.3
Non-Ferrous Metal	99	0.7	100	86	86.9	13	13.1	180	0.7	100	144	80.0	36	20.0
Equipment/Machinery	598	4.3	100	322	53.8	276	46.2	973	3.7	100	578	59.4	395	40.6
Electric/Electronics	272	1.9	100	208	76.5	64	23.5	514	1.9	100	404	78.6	110	21.4
Other Metallic Prod.	325	2.3	100	80	24.6	245	75.4	438	1.7	100	85	19.4	353	80.6
Chemicals/Fertilizers	921	6.6	100	659	71.6	262	28.4	2299	8.7	100	1741	75.7	558	24.3
Construction Materials	1000	7.1	100	609	60.9	391	39.1	2143	8.1	100	1441	67.2	702	32.8
Wood/Wood Products	573	4.1	100	146	25.5	427	74.5	899	3.4	100	135	15.0	764	85.0
Cellulose/Paper	311	2.2	100	258	83.0	53	17.0	572	2.2	100	333	58.2	239	41.8
Glass/Ceramics	146	1.0	100	62	42.5	84	57.5	291	1.1	100	142	48.8	149	51.2
Food	469	3.3	100	118	25.2	351	74.8	888	3.4	100	203	22.9	685	77.1
Foodstuff	4571	32.6	100	2969	65.0	1602	35.0	7331	27.7	100	5469	74.6	1862	25.4
Textile Products	1259	9.0	100	850	67.5	409	32.5	1773	6.7	100	1063	60.0	710	40.0
Sewing Products	202	1.4	100	124	61.4	78	38.6	646	2.4	100	375	58.0	271	42.0
Tanning/Leather Prod.	94	0.7	100	57	60.6	37	39.4	254	1.0	100	100	39.4	154	60.6
Printing	97	0.7	100	79	81.4	18	18.6	278	1.1	100	256	92.1	22	7.9
Others	357	2.5	100	144	40.3	213	59.7	475	1.8	100	210	44.2	265	55.8
Total	14011	100	100	9477	67.6	4534	32.4	26463	100	100	19146	72.4	7317	27.6
A.	11414	100	100	6882	60.3	4532	39.7	20330	100	100	13020	64.0	7310	36.0

Notes A=Exclude Electricity and Fuels

Source Statistical Yearbook 1995, General Statistics Office

Table 3.16 Gross industrial output by industry and by breakdown of sectors (1994)
(at constant price of 1989, billion dong)

				State			Non-State										
	Total	%	%	Total	%	%	Total	%	Coop. %	Private %	Household %						
Electricity	1,478	6.4	100	1,477	99.9	1,474	99.7	3	0.2	1	0.1	0.5	0.0	0	0.0	1	0.0
Fuels	3,799	16.4	100	3,793	99.8	3,773	99.3	20	0.5	6	0.2	1	0.0	-	-	5	0.1
Ferrous Metal	294	1.3	100	267	90.8	258	87.8	9	3.1	27	9.2	1	0.3	2	0.7	24	8.2
Non-Ferrous Metal	167	0.7	100	133	79.6	92	55.1	41	24.6	34	20.4	2	1.2	-	-	31	18.6
Equipment/Machinery	876	3.8	100	516	58.9	334	38.1	182	20.8	360	41.1	14	1.6	38	4.3	308	35.2
Electric/Electronics	493	2.1	100	385	78.1	281	57.0	104	21.1	108	21.9	1	0.2	29	5.9	77	15.6
Other Metallic Prod.	483	2.1	100	91	18.8	51	10.6	40	8.3	393	81.4	23	4.8	28	5.8	342	70.8
Chemicals/Fertilizers	1,987	8.6	100	1,499	75.4	886	44.6	613	30.9	489	24.6	17	0.9	64	3.2	408	20.5
Construction Materials	1,957	8.4	100	1,330	68.0	1,039	53.1	291	14.9	627	32.0	49	2.5	65	3.3	513	26.2
Wood/Wood Products	803	3.5	100	128	15.9	38	4.7	90	11.2	675	84.1	21	2.6	143	17.8	512	63.8
Cellulose/Paper	442	1.9	100	301	68.1	176	39.8	125	28.3	140	31.7	13	2.9	36	8.1	92	20.8
Glass/Ceramics	281	1.2	100	133	47.3	98	34.9	35	12.5	148	52.7	13	4.6	23	8.2	112	39.9
Food	780	3.4	100	174	22.3	8	1.0	166	21.3	605	77.6	1	0.1	129	16.5	475	60.9
Foodstuff	6,311	27.2	100	4,713	74.7	2,542	40.3	2,171	34.4	1,598	25.3	28	0.4	322	5.1	1,247	19.8
Textile Products	1,624	7.0	100	992	61.1	771	47.5	221	13.6	632	38.9	55	3.4	115	7.1	461	28.4
Sewing Products	556	2.4	100	349	62.8	150	27.0	199	35.8	207	37.2	6	1.1	115	20.7	86	15.5
Tanning/Leather Prod.	213	0.9	100	94	44.1	26	12.2	68	31.9	119	55.9	3	1.4	9	4.2	108	50.7
Printing	242	1.0	100	231	95.5	104	43.0	127	52.5	11	4.5	1	0.4	2	0.8	8	3.3
Others	430	1.9	100	191	44.4	28	6.5	163	37.9	240	55.8	6	1.4	73	17.0	161	37.4
Total	23,214	100	100	16,797	72.4	12,128	52.2	4,669	20.1	6,417	27.6	255	1.1	1,192	5.1	4,971	21.4

Source Statistical Yearbook 1995, SPH

3. Overview of Manufacturing Enterprises

In this section, we will use the enterprise census referred to earlier but focus in on manufacturing for more detailed analysis. On July 1, 1995, there were 8,577 enterprises in Viet Nam that were engaged in manufacturing. Of this number, 2,122 (24.7%) were state enterprises (excluding joint ventures with foreign capital), 6,073 (70.8%) non-state enterprises (collectives, private enterprises, joint stock companies, limited companies), and 382 (4.5%) foreign-capital enterprises. (see Table 3.17) By industrial field, 3,200 of these enterprises (37.3%) were in foodstuffs, food processing, and beverages. Of this number, 2,727 were non-state enterprises. One would assume that most of the non-state enterprises are engaged in rice milling. After foodstuffs and processed foods, non-metal products has the largest number of enterprises, at 13.5% of the total, most of which are probably factories producing bricks, aggregate, and gravel for the construction industry. When these two groups are excluded, Viet Nam's total number of manufacturing enterprises is only 4,215.

There are about 1 million workers employed in Vietnamese manufacturing, 68.8% of which are with state enterprises, 23.8% with non-state enterprises, and 7.4% with foreign-capital enterprises. Among the industries with the highest numbers of workers are: foodstuffs, food processing, and beverages; apparel; textiles; non-metal products; leather products; and lumber and woodworking.

The foreign-capital enterprises engaged in manufacturing employed about 74,000 workers as of July 1, 1995. Though non-state enterprises account for about 70% of the total number of enterprises, they are generally small-scale operations and only contribute about 24% of total jobs. The average number of workers for state enterprises was 324, followed by 193 for foreign-capital enterprises, and 39 for non-state enterprises. However, non-state enterprises in leather products, apparel, and tobacco average 180-320 employees.

State enterprises account for 58.5% of total capital, foreign-capital enterprises 30.7%, and non-state enterprises 10.7%. Average total capital per enterprise was about 41.0 billion dong for foreign-capital enterprises, 14.0 billion dong for state enterprises, and 900 million dong for non-state enterprises. The average foreign-capital enterprise therefore has about 2.9-times the capital of the average state enterprise. Non-state enterprises average only 1/16 the capital of state enterprises. However, the difference between state and non-state enterprises shrinks to just 2:1 when total capital per worker is considered. As we have already pointed out, state enterprises carry far more workers per unit capital than do non-state and foreign-capital enterprises.

Turning to liabilities, state enterprises make up about 64% of the total, non-state enterprises about 13%, and foreign-capital enterprises about 23%. The ratio of liabilities to total capital is about 36% for non-state enterprises, about 33% for state enterprises, and about 22% for foreign-capital enterprises, all of which are low. Among state enterprises, the industrial sectors with comparatively high ratios of liabilities to capital include textiles, apparel, leather products, publishing, and office equipment. Among non-state enterprises, the ratio is notably high for the apparel industry.

Table 3.17(1) Management indicators of enterprises in manufacturing industry by industries and by economic sectors

	Number of Enterprises (July 95)			SOE			Private			FDI			Number of Employees (July 95)			SOE			Private			FDI			Number of Average Employees		
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
Manufacturing Total	8,577	100.0	100	2,122	24.7	6,073	70.8	382	4.5	999,620	100.0	100	687,961	68.8	238,041	23.8	73,618	7.4	117	324	39	193	58	322	16	156	
Food, foodstuffs, drinks	3,200	37.3	100	400	12.5	2,727	85.2	73	2.3	184,575	18.4	100	128,814	69.9	44,195	24.0	11,366	6.2	58	430	190	73	392	430	190	73	
Tobacco	28	0.3	100	24	85.7	3	10.7	1	3.6	10,963	1.1	100	10,319	94.1	571	5.2	73	0.7	298	685	92	279	298	685	92	279	
Textile	417	4.9	100	136	32.6	252	60.4	29	7.0	124,465	12.5	100	93,136	74.8	23,249	18.7	8,080	6.5	354	722	183	298	354	722	183	298	
Garment, tanning, dyeing animal's skin, leather	384	4.5	100	114	29.7	233	60.7	37	9.6	135,976	13.6	100	82,296	60.5	42,646	31.4	11,034	8.1	602	967	329	313	602	967	329	313	
Leather goods	137	1.6	100	41	29.9	73	53.3	23	16.8	82,416	8.2	100	39,653	48.1	24,053	29.2	18,710	22.7	86	210	53	163	86	210	53	163	
Wooden, bamboo, rice strubble products	656	7.6	100	121	18.4	509	77.6	26	4.0	56,370	5.6	100	25,380	45.0	26,741	47.4	4,249	7.5	123	362	43	198	123	362	43	198	
Paper products	198	2.3	100	44	22.2	143	72.2	11	5.6	24,299	2.4	100	15,914	65.5	6,212	25.6	2,173	8.9	82	91	27	56	82	91	27	56	
Publishing, printing, copying	203	2.4	100	174	85.7	26	12.8	3	1.5	16,672	1.7	100	15,795	94.7	710	4.3	167	1.0	616	1,674	NA	68	616	1,674	NA	68	
Coke, mineral oil products, nuclear fuel	3	0.0	100	1	33.3	0	0.0	2	66.7	1,847	0.2	100	1,674	90.6	37	2.0	1.6	7.4	147	249	36	78	147	249	36	78	
Chemicals, chemical products	290	3.4	100	147	50.7	121	41.7	22	7.6	42,681	4.3	100	36,606	85.8	4,560	10.2	1,715	4.0	77	262	90	64	77	262	90	64	
Rubber, plastic products	226	2.6	100	43	19.0	169	74.8	14	6.2	17,298	1.7	100	11,275	65.2	5,129	29.7	894	5.2	96	258	29	81	96	258	29	81	
Non-metal products	1,162	13.5	100	335	28.8	808	69.5	19	1.6	111,395	11.1	100	86,576	77.7	23,273	20.9	1,546	1.4	127	581	18	125	127	581	18	125	
Metal	131	1.5	100	23	17.6	96	73.3	12	9.2	16,583	1.7	100	13,359	80.6	1,724	10.4	1,500	9.0	67	193	27	40	67	193	27	40	
Metal Products (etc), machinery & equipment	380	4.4	100	89	23.4	271	71.3	20	5.3	25,285	2.5	100	17,170	67.9	7,216	28.9	799	3.2	179	264	39	84	179	264	39	84	
Machinery & equipment	247	2.9	100	152	61.5	85	34.4	10	4.0	44,205	4.4	100	40,056	90.6	3,313	7.5	836	1.9	54	50	30	111	54	50	30	111	
Office machine, computer, calculator	6	0.1	100	3	50.0	2	33.3	1	16.7	321	0.0	100	150	46.7	60	18.7	111	34.6	159	376	34	70	159	376	34	70	
Electric machines & equipment	88	1.0	100	31	35.2	46	52.3	11	12.5	14,007	1.4	100	11,663	83.3	1,572	11.2	772	5.5	131	150	83	126	131	150	83	126	
Radio, TV and communication equipment	76	0.9	100	46	60.5	16	21.1	14	18.4	9,963	1.0	100	6,883	69.1	1,321	13.3	1,759	17.7	150	228	86	93	150	228	86	93	
Medical instrument, optics & clocks	25	0.3	100	11	44.0	8	32.0	6	24.0	3,756	0.4	100	2,510	66.8	690	18.4	556	14.8	134	223	29	179	134	223	29	179	
Motor bikes, trailers	87	1.0	100	41	47.1	38	43.7	8	9.2	11,677	1.2	100	9,135	78.2	1,108	9.5	1,434	12.3	185	330	34	115	185	330	34	115	
Other means of transport	185	2.2	100	92	49.7	85	45.9	8	4.3	34,191	3.4	100	30,394	88.9	2,875	8.4	922	2.7	70	171	47	150	70	171	47	150	
Bed, wardrobe, tables, chairs and others	441	5.1	100	53	12.0	356	80.7	32	7.3	30,710	3.1	100	9,078	29.6	16,846	54.9	4,785	15.6	24	85	85	13	24	85	85	13	
Re-processing	7	0.1	100	1	14.3	6	85.7	0	0.0	165	0.0	100	85	51.5	80	48.5	0	0.0	7	85	13	0	7	85	13	0	

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.17(2) Management indicators of enterprises in manufacturing industry by industries and by economic sectors

	Total Capital (Dec.31,94) (Billion VND)		SOE		Private		FDI		Average Total Capital (Billion VND)		SOE		Private		FDI		Total Capital per Employee (Million VND)		SOE		Private		FDI		
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
Manufacturing Total	51,420	100.0	30,093	58.5	5,526	10.7	15,501	30.7	6.00	14.18	0.91	41.36	51.4	43.7	2.3	214.6									
Food, foodstuffs, drinks	11,925	23.2	5,234	43.9	1,601	13.4	5,090	42.7	3.73	13.09	0.59	69.73	64.7	40.6	3.6	447.3									
Tobacco	1,058	2.1	1,018	96.2	20	1.9	20	1.9	37.79	42.42	6.67	20.00	96.5	98.7	3.5	274.0									
Textile	5,687	11.0	4,447	78.6	269	4.8	941	16.6	13.57	32.70	1.07	32.45	45.5	47.7	1.2	116.5									
Garment, tanning, dyeing animal's skin, leather	2,562	5.0	1,089	42.5	1,013	39.5	460	18.0	6.67	9.55	4.35	12.43	18.8	13.2	2.4	41.7									
Leather goods	2,853	5.5	722	25.3	298	10.4	1,833	64.2	20.82	17.61	4.08	79.70	34.6	18.2	1.2	98.0									
Wooden, bamboo, non-storable products	2,251	4.4	1,434	63.7	444	19.7	373	16.6	3.43	11.85	0.87	14.35	39.9	56.5	1.7	87.8									
Paper products	1,504	2.9	1,171	77.9	127	8.4	206	13.7	7.29	8.27	0.35	10.33	61.9	73.6	2.0	94.8									
Publishing, printing, copying	1,479	2.9	1,439	97.3	9	0.6	31	2.1	57.00	48.00	0	61.50	92.6	28.7	0.9	904.4									
Coke, mineral oil products, nuclear fuel	171	0.3	100	48	23.1	0	0.0	123	71.9	10.51	16.24	1.60	21.27	71.4	65.2	4.4	272.9								
Chemicals, chemical products	3,048	5.9	2,387	78.3	193	6.3	468	15.4	4.06	11.42	1.20	16.07	53.1	43.5	3.9	251.7									
Rubber, plastic products	918	1.8	100	491	53.5	202	22.0	225	24.5	5.71	15.96	0.37	51.89	59.5	61.7	1.3	637.8								
Non-metal products	6,633	12.9	5,246	80.6	391	4.5	986	14.9	13.67	39.74	0.94	65.58	108.0	68.4	5.2	524.7									
Metal	1,791	3.5	1,000	914	51.0	90	5.0	787	43.9	2.00	4.60	0.51	10.70	30.1	23.8	1.9	267.8								
Metal Products (excl. machinery & equipment)	1,596	2.7	1,102	73.9	98	7.0	196	14.0	5.65	7.25	1.15	19.60	31.6	27.5	3.0	294.4									
Machinery & equipment	23	0.0	100	13	56.5	-	10	43.5	3.83	4.33	-	10.00	71.7	86.7	-	90.1									
Office machines, computer, calculator	961	1.7	505	58.7	89	10.3	267	31.0	9.78	16.29	1.93	24.27	61.5	43.3	5.7	346.9									
Electric machines & equipment	2,361	4.6	1,000	923	39.1	101	4.3	1,337	56.6	31.07	20.07	6.31	95.30	237.0	134.1	7.6	760.1								
Radio, TV and communication equipment	188	0.4	100	53	28.2	13	6.9	122	64.9	7.52	4.82	1.63	20.33	50.1	21.1	1.9	219.4								
Medical instrument, optics & clocks	846	1.6	100	285	33.7	26	3.1	535	63.2	9.72	6.95	0.68	66.88	72.5	31.2	2.3	373.1								
Motor bikes, tractors	2,208	4.3	100	868	39.3	48	2.2	1,292	58.5	11.94	9.43	0.56	161.50	64.6	28.6	1.7	1,401.3								
Other means of transport	912	1.8	100	182	20.0	443	48.6	287	31.5	2.07	3.43	1.24	8.97	29.7	20.0	2.6	60.0								
Bed, wardrobe, tables, chairs and others	14	0.0	100	12	85.7	2	14.3	0	0.0	2.00	12.00	0.33	0	84.8	141.2	2.5	0.0								
Re-processing																									

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.17(3) Management indicators of enterprises in manufacturing industry by industries and by economic sectors

	Liabilities		SOE		Private		FDI		Capital and Liability Ratio		FDI	
	(Billion VND)	%	%	%	%	%	(%)	(%)	(%)	(%)	(%)	(%)
Manufacturing Total	15,305	100.0	9,767	63.8	1,997	13.0	3,541	23.1	29.8	32.5	36.1	29.7
Food, foodstuffs, drinks	3,558	23.2	1,889	53.1	475	13.4	1,194	33.6	29.8	36.1	29.7	23.5
Tobacco	115	0.8	112	97.4	3	2.6	0	0.0	10.9	11.0	13.0	0.0
Textile	2,725	17.8	2,452	90.0	97	3.6	176	6.5	48.2	55.1	36.1	18.7
Garment, tanning, dyeing animal's skin, leather	1,267	8.3	487	38.4	741	58.5	39	3.1	49.5	44.7	73.1	8.5
Leather goods	680	4.5	350	51.2	81	11.9	232	36.9	23.9	48.5	27.2	13.7
Wooden, bamboo, rice strubble products	637	4.2	435	68.3	90	14.1	112	17.6	28.3	30.3	20.3	30.0
Paper products	172	1.1	135	78.5	36	20.9	1	0.6	11.4	11.5	28.3	0.5
Publishing, printing, copying	684	4.5	680	99.4	3	0.4	1	0.1	46.2	47.3	33.3	3.2
Coal, mineral oil products, nuclear fuel	31	0.2	0	0.0	0	0.0	31	100.0	18.1	0.0	0.0	25.2
Chemicals, chemical products	993	6.2	727	76.3	65	6.8	161	16.9	31.3	30.5	33.7	34.4
Rubber, plastic products	243	1.6	174	71.6	42	17.3	27	11.1	26.5	35.4	20.8	12.0
Non-ferrous products	1,136	7.4	1,013	89.2	36	3.2	87	7.7	17.1	18.9	12.0	8.8
Metal	555	3.6	243	43.8	29	5.2	283	51.0	31.0	26.6	32.2	36.0
Metal Products (incl. machinery & equipment)	142	0.9	79	55.6	22	15.5	41	28.9	18.7	19.3	15.9	19.2
Machinery & equipment	267	1.7	240	89.9	27	10.1	0	0.0	19.1	21.8	27.6	0.0
Office machine, computer, calculator	14	0.1	8	57.1	-	-	6	42.9	60.9	61.5	-	60.0
Electric machines & equipment	127	0.8	107	84.3	17	13.4	3	2.4	14.8	21.2	19.1	1.1
Radio, TV and communication equipment	975	6.4	311	31.9	38	3.9	626	64.2	41.3	33.7	37.6	46.8
Medical instrument, optics & clocks	22	0.1	4	18.2	7	31.8	11	50.0	11.7	7.5	53.8	9.0
Motor bikes, trailers	179	1.2	29	16.2	5	2.8	145	81.0	21.2	10.2	19.2	27.1
Other means of transport	536	3.5	224	41.8	10	1.9	302	56.3	24.3	25.8	20.8	23.4
Bed, wardrobe, tables, chairs and others	268	1.8	59	22.0	169	63.1	40	14.9	29.4	32.4	38.1	15.9
Re-processing	12	0.1	12	100.0	0	0.0	0	0.0	85.7	100.0	0.0	0.0

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.17(4) Management indicators of enterprises in manufacturing industry by industries and by economic sectors

	Sales in 1994 (Billion VND)		SOE		Private		FDI		Sales per employee (Million VND)		SOE		Private		FDI		Capital Turnover Ratio	SOE	Private	FDI
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%				
Manufacturing Total	66,475	100.0	100	49,156	73.9	10,162	15.3	7,157	10.8	66.5	71.5	42.7	97.2	1.29	1.63	1.84	0.45			
Food, foodstuffs, drinks	19,589	29.5	100	12,581	64.2	4,272	21.8	2,756	14.0	106.2	97.7	96.7	240.7	1.64	2.40	2.67	0.54			
Tobacco	3,620	5.4	100	3,543	97.9	62	1.7	15	0.4	330.2	343.3	108.6	205.5	3.42	3.48	3.10	0.75			
Terrile	5,055	7.6	100	3,553	70.3	947	18.7	555	11.0	40.6	38.1	40.7	68.7	0.89	0.80	3.52	0.59			
Cerment, tanning, dyeing animal's skin, leather	3,358	5.1	100	2,307	68.7	664	19.8	387	11.5	24.7	23.0	15.6	35.1	1.31	2.12	0.66	0.84			
Leather goods	1,985	3.0	100	1,033	52.0	321	16.2	631	31.8	24.1	26.1	13.3	33.7	0.70	1.43	1.08	0.34			
Wooden, bamboo, rice stubble products	2,091	3.1	100	873	41.8	1,001	47.9	217	10.4	37.1	34.4	37.4	51.1	0.93	0.61	2.25	0.38			
Paper products	1,663	2.5	100	1,273	76.5	194	11.7	196	11.8	106.2	110.0	25.4	89.8	1.20	1.21	2.00	0.48			
Publishing, printing, copying	1,770	2.7	100	1,737	98.1	18	1.0	15	0.8	883.2	871.6	0.0	-	9.56	30.40	0.00	1.43			
Coals, mineral oil products, nuclear fuel	1,635	2.5	100	1,459	89.2	0	0.0	176	10.8	148.6	155.4	84.6	167.3	2.08	2.38	1.91	0.61			
Chemicals, chemical products	6,343	9.5	100	5,687	89.7	369	5.8	287	4.5	84.5	78.3	98.7	80.5	1.59	1.80	2.50	0.32			
Rubber, plastic products	1,461	2.2	100	883	60.4	506	34.6	72	4.9	57.8	68.2	20.0	48.5	0.97	1.10	1.55	0.08			
Non-metal products	6,442	9.7	100	5,901	91.6	466	7.2	75	1.2	142.4	123.4	52.2	415.3	1.32	1.80	1.00	0.79			
Metal	2,361	3.6	100	1,648	69.8	90	3.8	623	26.4	35.1	31.7	32.3	132.7	1.17	1.33	1.71	0.50			
Metal Products (excl. machinery & equipment)	887	1.3	100	545	61.4	236	26.6	106	12.0	243.0	426.7	16.7	117.1	3.39	4.92	-	1.30			
Machinery & equipment	1,600	2.4	100	1,384	86.5	166	10.4	50	3.1	36.2	34.6	50.1	59.8	1.15	1.26	1.69	0.26			
Office machine, computer, calculator	78	0.1	100	64	82.1	1	1.3	13	16.7	73.0	70.0	35.6	195.6	1.19	1.62	0.63	0.57			
Electric machines & equipment	1,023	1.5	100	816	79.8	56	5.5	151	14.3	216.1	273.1	87.3	89.3	0.91	2.04	1.15	0.12			
Radio, TV and communication equipment	2,153	3.2	100	1,880	87.3	116	5.4	157	7.3	35.7	40.2	10.1	46.8	0.71	1.91	0.54	0.21			
Medical instrument, optics & clocks	134	0.2	100	101	75.4	7	5.2	26	19.4	48.6	32.2	21.7	174.3	0.67	1.03	0.92	0.47			
Motor bikes, trailers	568	0.9	100	294	51.8	24	4.2	250	44.0	45.3	40.3	27.5	266.8	0.70	1.41	1.65	0.19			
Other means of transport	1,549	2.3	100	1,224	79.0	79	5.1	246	15.9	35.9	39.9	33.6	36.1	1.21	1.99	1.38	0.60			
Bed, wardrobe, tables, chairs and others	1,101	1.7	100	562	32.9	566	51.4	173	15.7	60.6	82.4	37.5	-	0.71	0.58	1.50	0.00			
Re-processing	10	0.0	100	7	70.0	3	30.0	0	0.0											

Source: Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.17(5) Management indicators of enterprises in manufacturing industry by industries and by economic sectors

	Tax Payment in 1994 (billion VND)		SOE		Private		FDI		Tax Payment per Sales		SOE		Private		FDI		
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
Manufacturing Total	7,689	100.0	100	6,398	83.2	249	4.5	942	12.3	11.6	13.0	3.4	13.2	3.2	23.5	21.0	53.3
Food, foodstuffs, drinks	2,460	32.0	100	1,680	68.3	137	5.6	643	26.1	12.6	13.4	3.2	23.5	33.1	33.2	21.0	53.3
Tobacco	1,197	15.6	100	1,176	98.2	13	1.1	8	0.7	6.9	8.2	4.5	2.3	4.1	4.9	2.4	2.1
Textile	347	4.5	100	291	83.9	43	12.4	13	3.7	3.4	3.9	6.2	1.1	6.2	10.8	2.2	6.0
Garment, tanning, dyeing animal's skin, leather	137	1.8	100	113	82.5	16	11.7	8	5.8	7.5	8.2	3.1	7.1	9.4	9.5	5.6	6.7
Leather goods	67	0.9	100	40	59.7	20	29.9	7	10.4	25.3	27.2	0.0	9.7	5.2	5.3	3.8	6.6
Wooden, bamboo, rice strubble products	129	1.7	100	94	72.9	22	17.1	13	10.1	5.2	6.7	2.6	5.6	5.2	6.7	2.6	5.6
Paper products	125	1.6	100	105	84.0	6	4.8	14	11.2	19.9	21.3	3.2	9.3	5.4	5.1	1.1	6.7
Publishing, printing, copying	167	2.2	100	165	98.8	1	0.6	1	0.6	5.9	6.4	3.4	8.5	9.9	9.5	9.0	26.0
Coal, mineral oil products, nuclear fuel	414	5.4	100	397	95.9	0	0.0	17	4.1	7.7	7.8	0.0	7.7	6.3	7.1	1.8	3.3
Chemicals, chemical products	333	4.3	100	300	90.1	14	4.2	19	5.7	12.8	13.4	11.2	7.6	4.5	5.0	14.3	0.0
Rubber, plastic products	76	1.0	100	59	77.6	13	17.1	4	5.3	14.1	13.9	4.2	15.2	9.1	6.3	2.5	25.2
Non-metal products	1,281	16.7	100	1,259	98.3	15	1.2	7	0.5	4.3	4.0	8.6	4.0	4.3	8.6	1.6	4.0
Metal	127	1.7	100	84	66.1	1	0.8	42	33.1	5.9	6.4	3.4	8.5	7.7	7.8	0.0	7.7
Metal Products (excl. machinery & equipment)	52	0.7	100	35	67.3	8	15.4	9	17.3	9.9	9.5	9.0	26.0	9.9	9.5	9.0	26.0
Machinery & equipment	159	2.1	100	131	82.4	15	9.4	13	8.2	7.7	7.8	0.0	7.7	7.7	7.8	0.0	7.7
Office machine, computer, calculator	6	0.1	100	5	83.3	0	0.0	1	16.7	6.3	7.1	1.8	3.3	6.3	7.1	1.8	3.3
Electric machines & equipment	64	0.8	100	58	90.6	1	1.6	5	7.8	12.8	13.4	11.2	7.6	4.5	5.0	14.3	0.0
Radio, TV and communication equipment	276	3.6	100	251	90.9	13	4.7	12	4.3	14.1	13.9	4.2	15.2	9.1	6.3	2.5	25.2
Medical instruments, optics & clocks	6	0.1	100	5	83.3	1	16.7	0	0.0	14.1	13.9	4.2	15.2	9.1	6.3	2.5	25.2
Motor bikes, trailers	80	1.0	100	41	51.3	2	1.4	62	44.0	4.3	4.0	8.6	4.0	4.3	8.6	1.6	4.0
Other means of transport	141	1.8	100	77	54.6	2	1.4	62	44.0	4.3	4.0	8.6	4.0	4.3	8.6	1.6	4.0
Bed, wardrobe, tables, chairs and others	47	0.6	100	31	66.0	9	19.1	7	14.9	4.3	4.0	8.6	4.0	4.3	8.6	1.6	4.0
Re-processing																	

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 2.69 in the enterprise census provides a breakdown by industrial field of the investments (cumulative total for 1993 to June 1996) of 292 leading state enterprises (209 central-government state enterprises, 83 subcentral-government state enterprises) and the sources from which they raised their funds. State enterprises engaged in manufacturing raised 50.7% of their investment funding from bank borrowings, 24.4% from reinvestments of profits, and the remaining 24.9% from fiscal programs. Fiscal programs provided more than 40% of invested funds in the foodstuffs and food processing, tobacco, and paper industries. It being extremely difficult for them to borrow from banks, non-state enterprises must rely primarily on reinvestments of their profits. Even still, when borrowings from friends and relatives or from informal financial organizations are included, the non-state enterprises have a higher ratio of liabilities to capital than do the state enterprises.

State enterprises account for a high 74% of total sales; non-state enterprises a mere 15%. However, non-state enterprises do produce 30-50% of sales for the lumber and woodworking, rubber and plastic, and furniture industries. Foreign-capital enterprises have a comparatively high share of sales in the motorcycle, metal, and leather products industries.

Labor productivity, as measured by sales per worker, is highest at the foreign-capital enterprises, a reflection of their high capitalization. They are followed by state enterprises and non-state enterprises in that order. If the productivity of non-state enterprises is considered 1, state enterprises have productivity of 1.7 and foreign-capital enterprises 2.3. However, non-state enterprises have the highest capital productivity, with a capital turn-over ratio of 1.84, compared to 1.63 for state enterprises and 0.45 for foreign-capital enterprises. The capital turn-over ratio is extremely high for non-state enterprises in the foodstuffs and food processing, tobacco, textiles, lumber and woodworking, and rubber and plastics industries. By contrast, the capital turn-over ratio is extremely low for state enterprises in textiles and woodworking.

Turning to tax payments (including profit taxes and sales taxes), state enterprises account for 83% of the total, foreign-capital enterprises about 12%, and non-state enterprises a meager 4.5%. Three industries provide particularly high tax revenues: foodstuffs, food processing, and beverages (mainly beer); non-metal products (mainly cement); and tobacco. Together, these three account for 64.3% of tax payments. All three are either monopolies or oligopolies, or heavy taxed. The ratio of taxes to sales is highest for foreign-capital enterprises at 13.2%, followed by state enterprises at 13.0% and non-state enterprises at 3.4%.

4. The role of SMEs in Vietnamese manufacturing

(1) Definition of SMEs

There is no clear definition of what constitutes a "small and medium enterprise" (SME) in Viet Nam. Below are some representative opinions.³

1) *Definition used by the Viet Nam Industrial and Commercial Bank:* Enterprises with capital of between 5.0 billion dong and 10.0 billion dong (about \$500,000-1,000,000) and/or 500-1,000 employees are "medium enterprises;" those with less than 5.0 billion dong in capital and/or 500 employees are "small enterprises."

2) *Definition used by Ho Chi Minh City:* Enterprises with less than 1.0 billion dong (\$100,000) in capital and/or 100 employees are "small enterprises;" those with 1.0-10.0 billion dong in capital

³ Nguyen Dinh Phan, "Development of Small and Medium Business on the Process of Industrialization and Modernization in Viet Nam," paper for the MPI Workshop, March 1, 1996 and Nguyen Tbi Anh Thu, "Small and Medium Industrial Enterprises in Viet Nam," March 1996.

and/or 100-500 employees are “medium enterprises.”

The definition used by Dr. Nguyen Hai Huu, the director of the Social Sponsoring Department of MOLISA and an expert on SME issues Viet Nam is:⁴

	Capital	Employees
Manufacturing		
SMEs	Less than 10.0 billion dong	Not more than 500
Of which, small	Less than 1.0 billion dong	Not more than 100
Commerce and services		
SMEs	Less than 5.0 billion dong	Not more than 250
Of which, small	Less than 500 million dong	Not more than 50

Note that in all cases, the definition of “capital” is not statutory capital but “total capital,” which is equivalent to total value of assets.

For reference, Japan defines SMEs as follows (“capital” refers to statutory capital):⁵

Sector	Number of Employees or Amount of Capital
Industry and mining	Not more than 300 or Not more than ¥100 million
Wholesaling	Not more than 100 or Not more than ¥30 million
Retailing and services	Not more than 50 or Not more than ¥10 million

The author has discussed with several Vietnamese experts the significance of setting the cut off line for SMEs at 10.0 billion dong (about ¥100 million) and 500 employees, especially given the fact that Viet Nam is at a much lower stage of economic development than Japan. The reply is that Viet Nam has many labor-intensive industries and even enterprises with 500 employees have very little in the way of assets. Many of these enterprises are also technologically backwards and require government assistance as “economically weak” actors. The figure of 10.0 billion dong is, furthermore, total assets; statutory capital will not even be 1/10th of that, and given Viet Nam’s lack of legal and accounting infrastructure, there would be problems with casting the definition in terms of statutory capital.

Also note that the definitions above are not clear on whether the amount of capital and number of employees are to be joined with “and” or “or,”—whether both conditions need to be fulfilled or only one. Obviously, an “or” conjunction would greatly widen the number of enterprises considered SMEs. Researchers like Drs. Huu and Phan are in favor of “or,” which is what the Japanese definition uses.

Viet Nam’s definition of “rural enterprise” is also ambiguous. The author believes an acceptable definition to be: “an SME or household enterprise engaged in manufacturing and located in a rural village (an area other than a town with population in excess of 20,000).”

(2) Profile of SMEs

In this paper, we follow Dr. Huu’s definition of SMEs in categorizing Viet Nam’s manufacturing enterprises. As shown in Table 3.18, 96.7% of Vietnamese manufacturing enterprises (8,577 enterprises, including state enterprises, collectives, non-state enterprises, and foreign-capital

⁴ Nguyen Hai Huu, “Renovation on SMEs Monitoring Mechanism in the Market Economy in Viet Nam,” National Politic Edition, Hanoi, 1995.

⁵ In 1973, the law was amended with respect to capital. Prior to the amendments, SMEs were industrial and mining companies with less than ¥50 million and commercial service companies with less than ¥10 million in capital.

enterprises) are SMEs. Some 96.7% of the country's enterprises have no more than 500 employees, and 91.3% have less than 10.0 billion dong in total capital. By industrial field, there are comparatively high numbers of large enterprises with 501 or more employees in tobacco, apparel, and leather products. "Large" enterprises defined in terms of capital tend to concentrate in the tobacco, textiles, leather products, petroleum products, chemicals, machinery and equipment, electrical equipment, radio and television, and medical equipment industries.

Table 3.18 Number of all enterprises in manufacturing industry by scale of employee and total capital

	Total No. of Enterprises (July 1, 1995)		By No. of Employee				By Scale of Total Capital (Mil. Dong)			
	No.	%	1-200	201-500	1-500	501 <	< 5000	5000 ≤	< 10000	10000 ≤
			%	%	%	%	%	%	%	%
Manufacturing Total	8,577	100.0	89.7	7.0	96.7	3.3	86.0	14.0	91.3	8.7
Food, foodstuffs, drinks	3,200	37.3	94.4	3.8	98.2	1.8	92.7	7.3	95.3	4.7
Tobacco	28	0.3	73.2	12.2	85.4	14.6	28.6	71.4	53.6	46.4
Textile	417	4.9	78.8	11.7	90.5	9.5	72.4	27.6	79.6	20.4
Garment, tanning, dyeing animal's skin, leather	384	4.5	66.8	21.2	88.0	12.0	77.9	22.1	87.0	13.0
Leather goods	137	1.6	50.0	19.3	69.3	30.7	56.9	43.1	71.5	28.5
Wooden, bamboo, rice stubble products	656	7.6	92.9	5.6	98.5	1.5	90.2	9.8	95.1	4.9
Paper products	198	2.3	91.1	5.5	96.6	3.4	83.8	16.2	89.9	10.1
Publishing, printing, copying	203	2.4	97.7	2.0	99.7	0.3	87.2	12.8	91.1	8.9
Coke, mineral oil products, nuclear fuel	3	0.0	86.7	6.7	93.4	6.6	0.0	100.0	0.0	100.0
Chemicals, chemical products	290	3.4	88.6	9.3	97.9	2.1	66.2	33.8	76.9	23.1
Rubber, plastic products	226	2.6	94.8	4.0	98.8	1.2	79.6	20.4	89.4	10.6
Non-metal products	1,162	13.5	91.5	7.1	98.6	1.4	91.9	8.1	95.5	4.5
Metal	131	1.5	86.7	7.9	94.6	5.4	79.4	20.6	84.7	15.3
Metal Products (excl. machinery & equipment)	380	4.4	95.0	3.7	98.7	1.3	89.2	10.8	95.0	5.0
Machinery & equipment	247	2.9	80.2	13.8	94.0	6.0	72.1	27.9	93.0	17.0
Office machine, computer, calculator	6	0.1	100.0	0.0	100.0	0.0	66.7	33.3	100.0	0.0
Electric machines & equipment	88	1.0	85.0	12.2	97.2	2.7	67.0	33.0	79.5	20.5
Radio, TV and communication equipment	76	0.9	85.8	12.3	98.1	1.9	51.3	48.7	61.8	38.2
Medical instrument, optics & clocks	25	0.3	85.7	8.6	94.3	5.7	64.0	36.0	80.0	20.0
Motor bikes, trailer	87	1.0	89.1	8.8	97.9	2.1	74.7	25.3	85.1	14.9
Other means of transport	185	2.2	85.2	11.1	96.3	3.7	76.2	23.8	84.9	15.1
Bed, wardrobe, tables, chairs and others	441	5.1	95.6	3.1	98.7	1.3	89.1	10.9	95.2	4.8
Re-processing	7	0.1	100.0	0.0	100.0	0.0	85.7	14.3	85.7	14.3

Notes

- 1) Total Number of Enterprises as of July 1, 1995 which include SOEs, all kind of Private Enterprises and Foreign Enterprises.
 - 2) Percentage share of the number of enterprises by scale of the employee is based on the figure of the data which include branches of above mentioned enterprises as of July 1, 1995.
 - 3) Percentage share of the number of enterprises by scale of total capital is based on the figure of Dec. 31, 1994.
- Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

When SMEs are broken down by number of employees, about 71% of all SMEs have no more than 50 employees. About 32% of the total are micro-enterprises with 1-10 employees; 39% have 11-50 employees (see Table 3.19). Enterprises with 51-200 employees account for about 19% of the SME total; those with 201-500 employees, 7%. Broken down by industrial field, about 85% of the SMEs in the foodstuffs, food processing, and beverages industry, which has the highest number of SMEs of any industrial field, are micro-enterprises with 10 employees or less. Most of these enterprises are probably rice mills. Enterprises are a bit larger in tobacco, textiles, apparel, and leather products. In most other industrial fields, SMEs tend to be in the 11-50 employee range.

Table 3.20 examines the number of workers in manufacturing enterprises (including those at branches) in terms of enterprise size (as defined by number of employees). Note that 60.7% of the approximately 1 million workers employed in manufacturing work for SMEs.

In addition to enterprises proper, Viet Nam also has about 530,000 household enterprises engaged in

manufacturing, which provide a total of 1.23 million jobs (see Table 3.21 and Table 3.22). Household enterprises tend to be found in industries like foodstuffs, food processing, and beverages, apparel, lumber and woodworking, non-metal products, metal products, and furniture. They employ, on average, 2.3 people, but there are 161 household enterprises with 51 or more employees, including some with more than 500. These enterprises do not register for several reasons, among them the complexity of the permit process and taxation. We consider it important that the government include these household enterprises, with their latent capacity, among the enterprises eligible for SME programs, providing them with encouragement to formally organize and assistance in future growth.

(3) Industrial goods exports and non-state SMEs

Table 3.23 analyzes Vietnamese industrial goods exports in terms of the economic sectors that produce them. The left side of the table categorizes industrial goods exports by major product categories. We also use the SITC categories found in the trade statistics of the Government Statistics Office (GSO) to calculate industrial goods in terms of SITC 5-8 (see Table 3.24). These calculations indicate that Vietnamese industrial goods exports grew at an annual rate of 39.3% during the 1991-1995 period, which was higher than the growth rate for exports as a whole (27.1% per year). As a result, industrial goods' share of total Vietnamese exports rose from 24.1% in 1991 to 34.8% in 1995. The major products among industrial goods exports are: sewn products (SITC 83 travel goods and handbags, SITC 84 apparel, and SITC 85 footwear), textiles (SITC 65), wood products (SITC 63), and miscellaneous manufactured goods (SITC 89).

The right side of Table 3.23 contains the total production of industrial fields producing export goods, and a breakdown of production by "state enterprise sector" (including joint ventures with foreign capital) and "non-state enterprise sector." The value of production in these fields is only worth about 19% of total Vietnamese industrial production (1995), but they play an extremely important role in Vietnamese industrial goods exports. These are also fields in which the non-state enterprise sector is strong and, in fact, produced more, by value, than the state enterprise sector in 1995. The fact that most of the enterprises in these fields are SMEs also indicates how indispensable the promotion of non-state SMEs will be to the expansion of industrial goods exports as a whole.

Table 3.19 Number of enterprises in manufacturing classified by the number of employee (as of July 1, 1995)

	Total	%	1-10	%	11-50	%	51-100	%	101-200	%	201-500	%	501<	%
Manufacturing Total	11,473	100.0	3,630	31.6	4,448	38.8	1,254	10.9	955	8.3	798	7.0	388	3.4
Food, foodstuffs, drinks	3,909	34.1	2,027	51.9	1,288	32.9	204	5.2	173	4.4	150	3.8	67	1.7
Tobacco	41	0.4	2	4.9	12	29.3	7	17.1	9	22.0	5	12.2	6	14.6
Textile	591	5.2	121	20.5	173	29.3	94	15.9	78	13.2	69	11.7	56	9.5
Garment, tanning, dyeing animal's skin, leather	584	5.1	86	14.7	111	19.0	85	14.6	108	18.5	124	21.2	70	12.0
Leather goods	212	1.8	31	14.6	33	15.6	18	8.5	24	11.3	41	19.3	65	30.7
Wooden, bamboo, rice strubble products	906	7.9	217	24.0	414	45.7	140	15.5	71	7.8	51	5.6	13	1.4
Paper products	271	2.4	48	17.7	130	48.0	47	17.3	22	8.1	15	5.5	9	3.3
Publishing, printing, copying	348	3.0	100	28.7	137	39.4	63	18.1	40	11.5	7	2.0	1	0.3
Coke, mineral oil products, nuclear fuel	15	0.1	2	13.3	5	33.3	5	33.3	1	6.7	1	6.7	1	6.7
Chemicals, chemical products	472	4.1	122	25.8	182	38.6	64	13.6	50	10.6	44	9.3	10	2.1
Rubber, plastic products	326	2.8	107	32.8	148	45.4	35	10.7	19	5.8	13	4.0	4	1.2
Non-metal products	1,502	13.1	175	11.7	878	58.5	185	12.3	136	9.1	106	7.1	22	1.5
Metal	165	1.4	50	30.3	67	40.6	13	7.9	13	7.9	13	7.9	9	5.5
Metal Products (excl. machinery & equipment)	520	4.5	179	34.4	224	43.1	60	11.5	31	6.0	19	3.7	7	1.3
Machinery & equipment	318	2.8	56	17.6	106	33.3	44	13.8	49	15.4	44	13.8	19	6.0
Office machine, computer, calculator	10	0.1	6	60.0	1	10.0	2	20.0	1	10.0	0	0.0	0	0.0
Electric machines & equipment	147	1.3	32	21.8	55	37.4	26	17.7	12	8.2	18	12.2	4	2.7
Radio, TV and communication equipment	106	0.9	19	17.9	35	33.0	22	20.8	15	14.2	13	12.3	2	1.9
Medical instrument, optics & clocks	35	0.3	6	17.1	13	37.1	7	20.0	4	11.4	3	8.6	2	5.7
Motor bikes, trailers	137	1.2	36	26.3	48	35.0	20	14.6	18	13.1	12	8.8	3	2.2
Other means of transport	298	2.6	40	13.4	124	41.6	57	19.1	33	11.1	33	11.1	11	3.7
Bed, wardrobe, tables, chairs and others	551	4.8	164	29.8	260	47.2	55	10.0	48	8.7	17	3.1	7	1.3
Re-processing	9	0.1	4	44.4	4	44.4	1	11.1	0	0.0	0	0.0	0	0.0

Note Include branches of enterprises

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.20 Number of workers in manufacturing classified by the number of employee (as of July 1, 1995)

	Total	%	1-10	%	11-50	%	51-100	%	101-200	%	201-500	%	501 <
Manufacturing Total	999,620	100.0	20,941	2.1	108,935	10.9	89,220	8.9	136,324	13.6	251,442	25.2	392,758
Food, foodstuffs, drinks	184,375	18.4	11,283	6.1	28,268	15.3	14,444	7.8	24,471	13.3	47,825	25.9	58,084
Tobacco	10,963	1.1	15	0.1	239	2.2	534	4.9	1,190	10.9	1,353	12.3	7,632
Textile	124,465	12.5	595	0.5	4,622	3.7	6,756	5.4	11,168	9.0	21,791	17.5	79,533
Garment, tanning, dyeing animal's skin, leather	135,976	13.6	442	0.3	3,306	2.4	6,320	4.6	15,951	11.7	39,830	29.3	70,127
Leather goods	82,416	8.2	177	0.2	865	1.0	1,352	1.6	3,607	4.4	14,257	17.3	62,158
Wooden, bamboo, rice stubble products	56,370	5.6	1,426	2.5	10,320	18.3	9,970	17.7	9,863	17.5	15,687	27.8	9,104
Paper products	24,299	2.4	287	1.2	3,305	13.6	3,304	13.6	3,095	12.7	4,544	18.7	9,764
Publishing, printing, copying	16,672	1.7	523	3.1	3,770	22.6	4,388	26.3	5,386	32.3	2,029	12.2	576
Coal, mineral oil products, nuclear fuel	1,847	0.2	11	0.6	141	7.6	316	17.1	195	10.6	211	11.4	973
Chemicals, chemical products	42,681	4.3	698	1.6	4,778	11.2	4,658	10.9	7,639	17.9	12,992	30.4	11,916
Rubber, plastic products	17,298	1.7	705	4.1	3,706	21.4	2,416	14.0	2,606	15.1	3,967	22.9	3,898
Non-metal products	111,395	11.1	1,217	1.1	21,023	18.9	13,171	11.8	18,991	17.0	32,477	29.2	24,516
Metal	16,583	1.7	274	1.7	1,722	10.4	932	5.6	1,792	10.8	4,682	28.2	7,181
Metal Products(excl. Machinery & equipment)	25,285	2.5	1,104	4.4	5,693	22.5	4,061	16.1	4,375	17.3	5,799	22.9	4,253
Machinery & equipment	44,205	4.4	348	0.8	2,776	6.3	3,189	7.2	7,088	16.0	13,618	30.8	17,186
Office machine, computer, calculator	321	0.0	42	13.1	11	3.4	157	48.9	111	34.6	0	0.0	0
Electric machines & equipment	14,007	1.4	169	1.2	1,407	10.0	1,769	12.6	1,759	12.6	5,827	41.6	3,076
Radio, TV and communication equipment	9,963	1.0	84	0.8	943	9.5	1,543	15.5	2,113	21.2	4,186	42.0	1,094
Medical instrument, optics & clocks	3,756	0.4	44	1.2	327	8.7	540	14.4	560	14.9	767	20.4	1,518
Motor bikes, trailers	11,677	1.2	228	2.0	1,255	10.7	1,480	12.7	2,618	22.4	3,813	32.7	2,283
Other means of transport	34,191	3.4	259	0.8	3,571	10.4	4,069	11.9	4,625	13.5	10,813	31.6	10,854
Bed, wardrobe, tables, chairs and others	30,710	3.1	992	3.2	6,792	22.1	3,799	12.4	7,121	23.2	4,974	16.2	7,032
Re-processing	165	0.0	18	10.9	95	57.6	52	31.5	0	0.0	0	0.0	0

Note Include employee of the enterprises's branches

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.21 Number of household in manufacturing industry classified by the scale of workers (as of July 1, 1995)

	Total	%	%	1-5	%	6-10	%	11-50	%	51-100	%	101+	%
Manufacturing Total	531,229	100.0	100.0	506,447	95.3	18,213	3.4	6,407	1.2	119	0.0	43	0.0
Food, foodstuffs, drinks	159,366	30.0	100.0	154,751	97.1	3,460	2.2	1,141	0.7	12	0.0	2	0.0
Tobacco	186	0.0	100.0	181	97.3	4	2.2	1	0.5	0	0.0	0	0.0
Textile	44,388	8.4	100.0	43,219	97.4	840	1.9	285	0.6	24	0.1	19	0.0
Garment, tanning, dyeing animal's skin, leather	82,292	15.5	100.0	81,389	98.9	704	0.9	180	0.2	12	0.0	7	0.0
Leather goods	3,579	0.7	100.0	3,211	89.7	259	7.2	101	2.8	4	0.1	4	0.1
Wooden, bamboo, rice stubble products	121,695	22.9	100.0	119,054	97.8	2,312	1.9	317	0.3	11	0.0	1	0.0
Paper products	972	0.2	100.0	734	75.5	153	15.7	83	8.5	1	0.1	1	0.1
Publishing, printing, copying	2,356	0.4	100.0	2,225	94.4	114	4.8	17	0.7	0	0.0	0	0.0
Coke, mineral oil products, nuclear fuel	47	0.0	100.0	42	89.4	2	4.3	3	6.4	0	0.0	0	0.0
Chemicals, chemical products	1,470	0.3	100.0	1,320	89.8	112	7.6	36	2.4	0	0.0	0	0.0
Rubber, plastic products	2,344	0.4	100.0	1,724	73.5	470	20.1	146	6.2	3	0.1	1	0.0
Non-metal products	27,604	5.2	100.0	17,930	65.0	6,137	22.2	3,488	12.6	42	0.2	7	0.0
Metal	1,296	0.2	100.0	1,009	77.9	221	17.1	66	5.1	0	0.0	0	0.0
Metal Products (excl. machinery & equipment)	31,535	5.9	100.0	29,859	94.7	1,477	4.7	196	0.6	3	0.0	0	0.0
Machinery & equipment	1,610	0.3	100.0	1,476	91.7	107	6.6	27	1.7	0	0.0	0	0.0
Office machine, computer, calculator	2	0.0	100.0	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0
Electric machines & equipment	3,511	0.7	100.0	3,397	96.8	85	2.4	29	0.8	0	0.0	0	0.0
Radio, TV and communication equipment	85	0.0	100.0	60	70.6	19	22.4	6	7.1	0	0.0	0	0.0
Medical instrument, optics & clocks	126	0.0	100.0	100	79.4	15	11.9	10	7.9	1	0.8	0	0.0
Motor bikes, trailers	523	0.1	100.0	472	90.2	42	8.0	9	1.7	0	0.0	0	0.0
Other means of transport	1,756	0.3	100.0	1,389	79.1	306	17.4	51	2.9	0	0.0	1	0.1
Bed, wardrobe, tables, chairs and others	43,852	8.3	100.0	42,391	96.7	1,262	2.9	193	0.4	6	0.0	0	0.0
Re-processing	644	0.1	100.0	511	79.3	111	17.2	22	3.4	0	0.0	0	0.0

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.22 Number of household employee by scale of workers in manufacturing industry

	Total	%	1-10	%	11-50	%	51-100	%	101-200	%	201-500	%	501+	%
Manufacturing Total	1,234,116	100.0	1,105,562	89.6	111,455	9.0	8,212	0.7	4,464	0.4	1,874	0.2	2,549	1.2
Food, foodstuffs, drinks	321,343	26.0	300,540	93.5	19,757	6.1	809	0.3	237	0.1	0	0.0	0	0.0
Tobacco	323	0.0			11	3.4	0	0.0	0	0.0	0	0.0	0	0.0
Textile	97,177	7.9	85,438	87.9	5,338	5.5	1,775	1.8	2,137	2.2	478	0.5	2,011	11.2
Garment, tanning, dyeing animal's skin, leather	125,444	10.2	119,886	95.6	3,643	2.9	827	0.7	638	0.5	450	0.4	0	0.0
Leather goods	11,968	1.0	8,671	72.5	1,816	15.2	333	2.8	215	1.8	395	3.3	538	47.4
Wooden, bamboo, rice stubble products	284,578	23.1	277,977	97.7	5,514	1.9	837	0.3	0	0.0	250	0.1	0	0.0
Paper products	4,757	0.4	2,963	62.3	1,534	32.2	60	1.3	200	4.2	0	0.0	0	0.0
Publishing, printing, copying	5,109	0.4	4,863	95.2	246	4.8	0	0.0	0	0.0	0	0.0	0	0.0
Coke, mineral oil products, nuclear fuel	161	0.0	124	77.0	37	23.0	0	0.0	0	0.0	0	0.0	0	0.0
Chemicals, chemical products	4,290	0.3	3,706	86.4	584	13.6	0	0.0	0	0.0	0	0.0	0	0.0
Rubber, plastic products	11,280	0.9	8,372	74.2	2,518	22.3	210	1.9	180	1.6	0	0.0	0	0.0
Non-metal products	163,824	13.3	99,618	60.8	60,498	36.9	2,655	1.6	752	0.5	301	0.2	0	0.0
Metal	5,213	0.4	4,251	81.5	962	18.5	0	0.0	0	0.0	0	0.0	0	0.0
Metal Products(exci. machinery& equipment)	79,875	6.5	76,530	95.8	3,104	3.9	241	0.3	0	0.0	0	0.0	0	0.0
Machinery & equipment	4,565	0.4	4,119	90.2	446	9.8	0	0.0	0	0.0	0	0.0	0	0.0
Office machine, computer, calculator	8	0.0	8	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Electric machines & equipment	6,891	0.6	6,316	91.7	575	8.3	0	0.0	0	0.0	0	0.0	0	0.0
Radio, TV and communication equipment	492	0.0	319	64.8	173	35.2	0	0.0	0	0.0	0	0.0	0	0.0
Medical instrument, optics & clocks	513	0.0	295	57.5	158	30.8	60	11.7	0	0.0	0	0.0	0	0.0
Motor bikes, trailers	1,527	0.1	1,404	91.9	123	8.1	0	0.0	0	0.0	0	0.0	0	0.0
Other means of transport	7,015	0.6	6,039	86.1	871	12.4	0	0.0	105	1.5	0	0.0	0	0.0
Bed, wardrobe, tables, chairs and others	95,247	7.7	91,609	96.2	3,233	3.4	405	0.4	0	0.0	0	0.0	0	0.0
Re-processing	2,516	0.2	2,202	87.5	314	12.5	0	0.0	0	0.0	0	0.0	0	0.0

Source Ket Qua, Kinh Te Hanh Chinh Su Nghiep, Nam 1995, Nha Xuat Ban Thong Ke, Hanoi, 10-1996

Table 3.23 Major manufactured goods exports by economic sectors

SITC	Export ('000 US\$)										Gross Output (Billion Dong)										
	1991		1992		1993		1994		1995		1990		1995		1995						
	%		%		%		%		%		Total %/GIO	%	State %	Non-state %	Total %/GIO	%	State %	Non-state %			
61 Tanning & Leather Products	7,554	1.5	10,854	15.095	32,788	49,611	2.6	94	0.7	100	57	60.6	37	39.4	254	1.0	100	100	39.4	154	60.6
63 Wood Products	2,516	0.5	2,207	54,529	64,204	91,655	4.8	573	4.1	100	146	25.5	427	74.5	899	3.4	100	135	15.0	764	85.0
64 Cellulose & Paper	1,604	0.3	599	2,794	4,422	19,237	1.0	311	2.2	100	258	83.0	53	17.0	572	2.2	100	333	58.2	239	41.8
65 Textile Products	48,689	9.7	38,683	39,784	47,412	138,032	7.3	146	1.0	100	62	42.5	84	57.5	291	1.1	100	142	48.3	149	51.2
66 Glass & Ceramics	1,257	0.3	2,399	6,849	18,686	30,211	1.6	1,259	9.0	100	850	67.5	409	32.5	1,773	6.7	100	1,063	60.0	710	40.0
83,84,85 Sewing Products	147,673	29.4	219,593	319,807	595,409	1,352,620	71.4	202	1.4	100	124	61.4	78	38.6	646	2.4	100	375	58.0	271	42.0
89 Miscellaneous Manufactured Products	240,647	47.9	212,053	231,076	343,655	45,845	2.4	357	2.5	100	144	40.3	213	59.7	475	1.8	100	210	44.2	265	55.8
Total	449,940	89.6	486,388	669,934	1,106,576	1,727,231	91.2	2,942	21.0	100	1,641	55.8	1,501	44.2	4,910	18.6	100	2,358	48.0	2,552	52.0
Manufactured Goods Exports Total	502,147	100.0	546,998	741,795	1,321,271	1,893,692	100.0														
% Share of Manufactured Goods to Total Exports	24.1		21.2	24.8	32.6	34.8															

Notes

- 1) Sewing Products include travel goods/handbag, clothing and footwear
- 2) %/GIO means % against gross industrial output

Source GSO Trade Statistics and Statistical Yearbook 1994, 1995

Table 3.24 Viet Nam's exports by SITC (1991-95)

SITC	1991	%	1992	%	1993	%	1994	%	1995	%
0 Food & live animal	752,407	36.1	976,161	37.8	1,054,233	35.3	1,419,625	35.0	2,008,895	36.9
1 Beverage & tobacco	4,237	0.2	3,462	0.1	3,383	0.1	3,038	0.1	6,251	0.1
2 Crude materials	194,551	9.3	181,583	7.0	202,535	6.8	297,455	7.3	337,136	6.2
3 Mineral fuels, lubricants	631,280	30.2	867,733	33.6	976,881	32.7	1,002,331	24.7	1,214,008	22.3
4 Animal & vegetable oils and fats	2,445	0.1	4,743	0.2	6,332	0.2	10,546	0.3	13,775	0.3
5 Chemicals	13,387	0.6	9,458	0.4	10,456	0.4	15,300	0.4	37,328	0.7
6 Manufactured goods by materials	93,368	4.5	100,174	3.9	154,540	5.2	218,107	5.4	376,343	6.9
7 Machinery and transport equipment	6,561	0.3	5,720	0.2	24,723	0.8	148,241	3.7	76,628	1.4
8 Miscellaneous manufactured articles	388,831	18.6	431,646	16.7	552,076	18.5	939,623	23.2	1,403,393	25.8
Total	2,087,067	100.0	2,580,680	100.0	2,985,159	100.0	4,054,266	100.0	5,448,951	100.0

Source GSO

IV. The Business Environment for SMEs in Viet Nam

1. Distinguishing Features

Viet Nam is in the transition from a centrally-planned to a market economy, and its business environment is therefore, on the whole, at a disadvantage to those of other ASEAN countries. Among the major problems facing enterprises in Viet Nam are a plethora of restrictions and regulations, government meddling, an inefficient financial system, a complex and heavy tax system, and a backwards business support system. These are problems that Viet Nam's state enterprises also face to one degree or another, but the business environment is far more severe for non-state enterprises, and particularly for SMEs and household enterprises. Among the specific problems confronting household enterprises are: 1) the administrative procedures for enterprise establishment permits, enterprise registration, land acquisition, and building permits; 2) bank lending; 3) procurement of capital goods and raw materials; 4) obtaining export licenses; 5) transportation; 6) customs clearance procedures; 7) obtaining technology and market information; 8) obtaining management expertise; and 9) taxation.

Table 4.1 illustrates the problems in the Vietnamese business environment in terms of the degree of seriousness for different groups of enterprises: state enterprises, large non-state enterprises, small and medium non-state enterprises, rural enterprises, household enterprises, and general non-state enterprises in the north and in the south. The degree of seriousness reflects the author's perceptions formed from interviews in Viet Nam with enterprises, government officials, and researchers. They may not always be accurate, but they do capture general trends.

It should be clear from this that non-state enterprises face more problems than do state enterprises, and that the business environment is much more severe for SMEs and household enterprises. The main restrictions and regulations that are in place raise transaction costs to a point that makes it difficult for enterprises to develop. SMEs in particular do not enjoy the breadth of options that larger enterprises do in bringing down their transaction costs, which makes the problems more serious for them.

This table makes it appear as if there were no great differences in the business environments in which northern and southern non-state enterprises find themselves, but we should point out that even if they are ranked equally as "very difficult" or "somewhat difficult," the degree of difficulty will generally be higher in the north, especially when it comes to administrative procedures and bank lending. Among the reasons that the business environment is more severe in the north than in the south is the fact that the north was under a centrally planned economy longer, and the attitudes of the government and bank officials responsible for issuing permits and loans have still not been completely reconciled to market economics.

We have already noted the large gaps in enterprise performance between the north and south and the tendency of the north to lag behind in economic development. A compounding of a number of factors is behind this, among the most prominent of which are: the degree of past capital accumulation, access to foreign funding (network of overseas Chinese and Vietnamese to draw on), degree of infrastructure construction, access to foreign markets (including foreign language proficiency and access to foreign networks), and access to large domestic markets (Ho Chi Minh City). In all of these areas, southern businessmen enjoy a predominant advantage. Unless remedied, the gaps between south and north will continue to widen, which could over the long term trigger a chaotic movement of population from the north to the south. The economic gaps will also widen between those with connections to overseas Chinese and Vietnamese and those without. Improvements need to be made in the business environment of the north, and particularly in the area of administrative procedures, in order to rectify these gaps.

We have also pointed out that the non-state enterprise sector in Viet Nam (including the collectives sector) has been slow to develop in comparison with China. According to a recent CIEM report,⁶ the non-state enterprise sector's share of total capital investment has been in decline in recent years (see Chart 4.1). The Five-year Plan for 1996-2000 looks for a total investment of \$41.0-42.0 billion, of which 30-33% is to come from the domestic non-state sector. The current sluggish performance for non-state investments could therefore be a problem, and the reason why non-state investments are low is probably because of the poor business environment and the lack of government assistance programs for non-state enterprises.

Chart 4.2 illustrates the relationship between the problems confronting Viet Nam's SMEs and their causes. It was created by Viet Nam's small business policy-makers, and contains a number of useful insights.

Table 4.1 Matrix of Viet Nam's business environment

	Private Sector						
	SOE	Big firms	SME	Household	Rural Industry	North	South
Business registration	⊙	○	△	△	△	△	○
Access to the land	⊙	△	×	×	×	×	△
Access to the bank loan	⊙	△	×	×	×	×	△
To use land use right as collateral for loan	⊙	△	×	×	×	×	×
To use land use right as investment capital	⊙	×	×	×	×	×	×
Joint venture with FDI	⊙	×	×	×	×	×	×
Direct Export	⊙	△	×	×	×	×	×
Access to the overseas market information	○	△	×	×	×	×	×
Access to the information on technology	△	△	×	×	×	×	×
Access to the information on laws & regulations	○	○	○	○	○	○	○
Tax system and regulation (actual)	△	△	△	△	△	△	△
Access to the management information	△	△	×	×	×	×	×
Hiring skilled staffs & workers	△	△	×	×	×	×	×
Training opportunity for staffs & workers	○	○	×	×	×	×	×
Customs procedure	○	×	×	×	×	×	×
Access to raw materials	○	△	△	△	△	△	△

Notes ⊙: very easy, ○: rather easy, △: rather difficult, ×: very difficult

⁶ CIEM, Viet Nam's Economy in 1996, A Policy Analysis, Hanoi, February 1997.

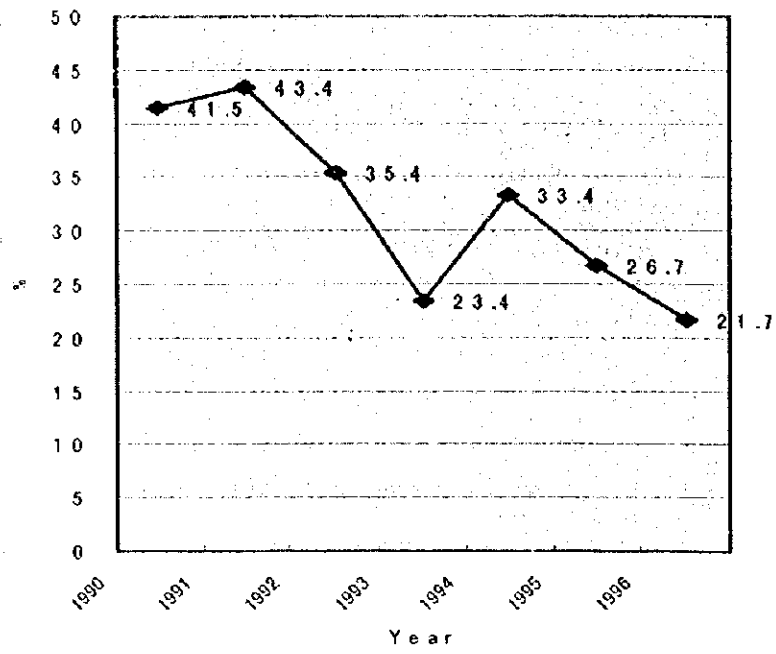


Chart 4.1 Share of private investment to the total capital investment

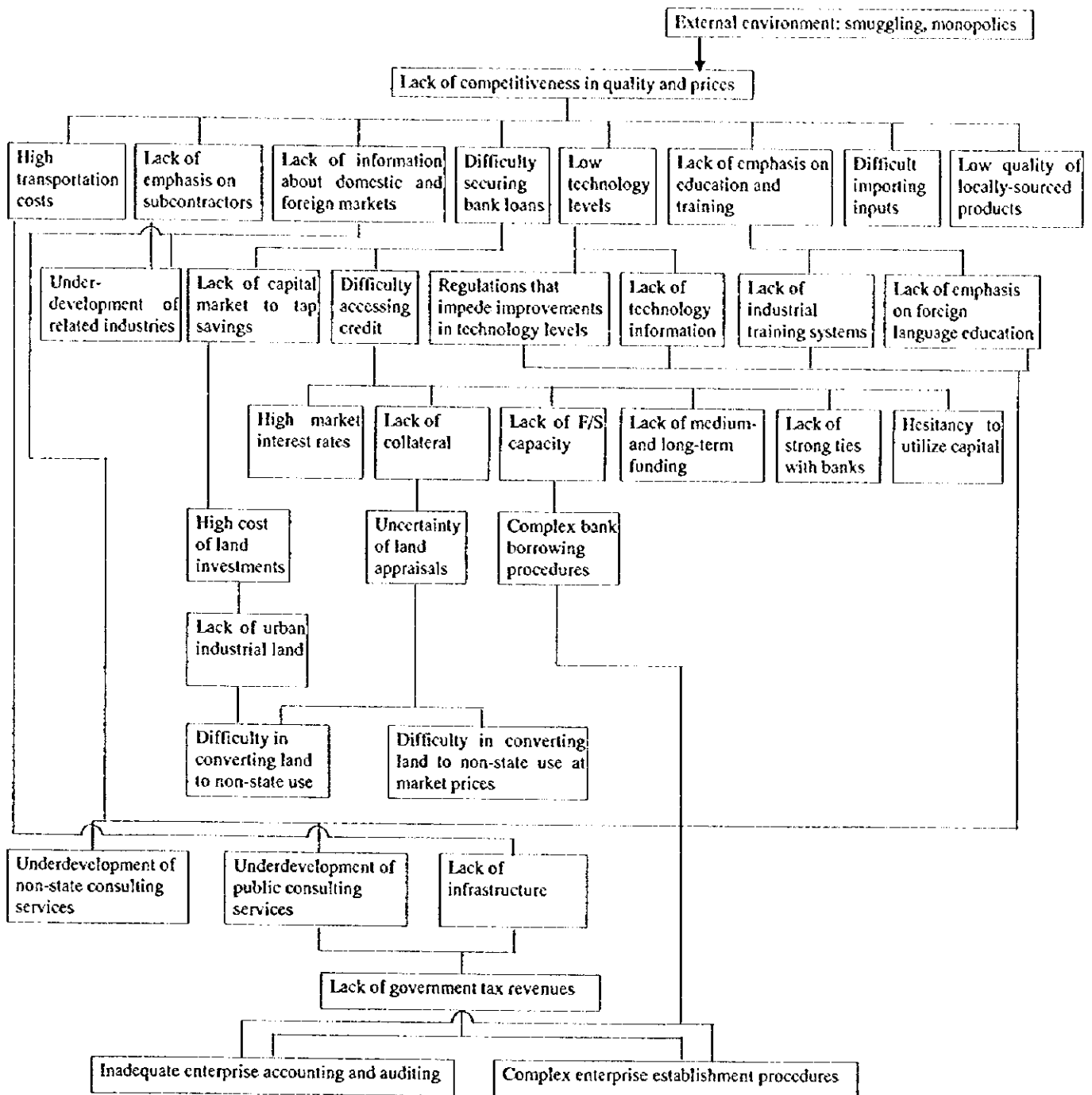


Chart 4.2 Schematic diagram of the relationships among problems confronting Vietnamese SMEs

Source Nguyen Hai Huu, *Doi Moi Co Che Qan Ly Doanh Nghiep Vua Nho Trong Nen Kinh Te Thi Truong O Vier Nam*, Nha Xuat Ban Chinh Tri Quoc Gia, Hanoi, 1995.

2. The development of non-state enterprises in Viet Nam

Viet Nam has been gradually liberalizing the economic activities of non-state enterprises ever since it first permitted the non-state enterprise sector to manufacture products in August 1979. A cabinet decision in March 1988 (27/HDBT) permitted the non-state enterprise sector to hire workers, borrow money from banks, and enter into joint ventures with foreign capital. That July, Politburo Decision No. 16 (No. 16/NQTW) entitled "Renewal of Business Mechanisms and Policies for the Non-State Economic Sector" guaranteed non-state enterprises: 1) imports of machinery and equipment using foreign currency earned by exporting enterprises; 2) direct contracts between exporting enterprises and foreign buyers; 3) protection of patents and trademarks; and 4) equal treatment to state enterprises in supplies of raw materials and machinery and equipment.

Then, in 1990 the Joint-Stock Companies Law and the Private Enterprise Law were passed by the legislature to establish the legal groundwork for the activities of non-state enterprises. This was followed in June 1991 by explicit statements in the "Development Strategy to 2000" issued by the Party Congress of: 1) freedom to engage in business activities, 2) guarantees of appropriate income and ownership rights, and 3) equal treatment before the law.

The government of Viet Nam's policies for non-state enterprises up to this time were not so much a positive encouragement of non-state enterprise activities as they were a more negative lifting of restrictions and liberalization. The switch to government support for non-state enterprises did not come until the passage of the Domestic Investment Promotion Law on June 22, 1994 (which took effect on January 1, 1995). In the concomitant orders to this law issued on May 12, 1995, there are tax breaks for investments in priority areas, including jobs and poverty programs, modern technology, and undeveloped regions. Also in May 1995, the central bank developed provisional rules for the establishment and operation of leasing companies as a means of improving the capital investment environment for enterprises that were unable to borrow from banks. In August of that year, the rules were changed to allow all enterprises to borrow from foreign lenders as long as they had permits from the central bank and Ministry of Finance. In September, the Ministry of Finance established a State Investment Promotion Fund to encourage investments by non-state enterprises.

But while the government of Viet Nam has expanded its non-state enterprise support programs in recent years, the assistance available to non-state enterprises is still extremely limited. Even the Domestic Investment Promotion Law, which was supposed to provide assistance to non-state enterprises, appears not to provide much incentive in actual practice because the conditions for tax breaks—number of jobs created, location, and the like—are too strict. The conditions on lending from the State Investment Encouragement Fund are also too strict, and many commentators point out that it is difficult to actually secure loans. While it is obviously too much to expect Viet Nam, which until very recently did not permit any economic activities except by state enterprises and collectives, to suddenly prepare the same business environment as other ASEAN countries, there still needs to be more of an effort to reduce the prejudice and misunderstandings towards non-state enterprises, and at the very least to remove the impediments to development created by administrative procedures. Doing so is vital for Viet Nam's own industrialization and modernization.

V. The Need for an SME Promotion Policy

1. The Objectives of SME Promotion Policies in Other Countries

Countries around the world, not just in Asia, have policies to support small business. However, the objectives of an SME promotion policy will be different depending on the country's stage of economic development. Most of the ASEAN countries were quick to adopt SME policies, but full-fledged SME promotion was not seen until the 1980s. The purposes of these policies were to create jobs and to expand industrial goods exports, but recently the priority has shifted to developing supporting industries. Ever since the Plaza Accord of 1985 triggered an influx of foreign investment, industrialization has proceeded at a rapid pace in these countries, but their supporting industries have not developed, so domestic supplies of intermediates and parts have been inadequate. This has forced countries to rely on imports, which has rendered them unable to halt the expansion in their current account deficits. ASEAN countries therefore judged the development of supporting industries to be indispensable to sustained economic development.

By contrast, South Korea and Taiwan are at a higher stage of economic development than the ASEAN countries. In these countries, the purpose of SME policies is both to modernize supporting industries and to develop SMEs and entrepreneurs in high-tech fields.

In Japan and the United States, where high levels of economic development have given rise to a diversification of economic activities and values as well as a heavy information-orientation, the purposes of an SME policy are different still. Large companies are unable to respond quickly to new needs, so these countries see value in developing SMEs and entrepreneurs (venture businesses) with advanced technology.

But while there are differences in the objectives of SME policies in different countries at different stages of development, they can generally be summarized in the following points:

1) To develop "competitive market"

In order to develop "market," the development of healthy private enterprises is inevitable. Because, market does not function well where monopoly or oligopoly exist and the competition is imperfect. In this sense, it is important to promote SMEs so that it will take part in the market as new players, which will contribute to promote healthy competition in the market.

2) To increase international competitiveness and to correct its dual economic structure

Existence of the modern sector and the backward traditional sector without much linkages is not desirable for a country from the point of view of both social and economic efficiency. It is also a big problem in terms of its competitiveness, if SMEs which have the role to support modern industrial sector are left behind.

3) To expand exports

In general, the role of SMEs in export of manufacturing goods is significantly important, especially when the country is in a less developed stage. Because, the labor intensive products generally have a comparative advantage in such a stage of development.

4) To create employment, to alleviate poverty and regional income gaps, and to improve the capital efficiency of its whole economy. SMEs have the ability to create jobs, and they also make extremely efficient use of capital. Being small in size, it is easy to locate them in outlying areas that may lack infrastructure and markets. This is one of the reasons why SMEs are often said to be suited to developing countries that lack capital and infrastructure.

5) To protect from economic and social disruptions which possibly be caused by the collapse of many weak and unorganized SMEs

- 6) To develop venture business as a technological innovator

2. The Necessity for Viet Nam

Table 5.1 shows the definition and the role of SMEs in manufacturing industry of Asian countries. Though the definition of SME differ by country, the role of SMEs in its economy are significant, especially in its employment generation. If SME in Viet Nam is defined as "the enterprise not more than 500 employees or with its total capital(total assets) less than 10 billion dong," the total number of SMEs in manufacturing industry in Viet Nam was only 8,300, however, the number of employment in SMEs in 1995 was already bigger than the Philippines'.

Reflecting a shorter history of industrialization and the restricted participation by private sector in its industry in the past, the absolute number of manufacturing enterprises is still so small when compared with other ASEAN countries. In order to accelerate industrialization, Viet Nam should encourage more its entrepreneurs to put up their own enterprises.

In Viet Nam, the necessity of the policy to support SMEs could be summarized as follows:

- 1) To expand exports and to improve peoples life by way of supplying competitive products to the quickly changing domestic and foreign market
(SMEs, especially the private SMEs have the comparative advantage in its flexibility and dynamism in terms of response to the changing economic and social environment).
- 2) To raise capital and labor productivity
(In general, capital efficiency in SMEs is higher than the big firms, however, labor productivity is low. In an economy of scarce capital, Viet Nam should make more use of SMEs to attain high but sustainable economic growth. Also, there is a lot of space for SMEs to raise its labor productivity by the government support such as de-regulations and the extension of credit and information on technology & market).
- 3) To create employment
(Because of its high absorption capacity of employment, SMEs will continue to play a greater role for absorption of excess labor in rural area. This will help to alleviate poverty in rural area and to decrease the regional income gaps. It also should not be discounted the important role of education through the job).
- 4) To develop and strengthen its supporting industry
(In Japan and Taiwan, SMEs play an important role to supply intermediate goods to the big firms. The development of modern and specialized SMEs, especially in the supporting industry for machinery is inevitable to supply competitive products to both domestic and foreign market. Such supporting industries, if successfully developed, will play an important role not only in Viet Nam but also in ASEAN region).
- 5) To upgrade its industrial structure
(Dynamism of the private SMEs will continue to create new business in various field, This continuous move by the private SMEs will be the engine of industrial shift toward more advanced industrial structure).

Table 5.1 Definition and the role of SMEs in manufacturing industry of Asian countries

	Total Enterprises (,000)	No. of SMEs (,000)	SME Share (%)	SME Employment (,000)	SME Share (%)	SME Production (%)	Year	Note	Definition of SMEs in Manufacturing
Japan	856.6	852.3	99.5	10,396	73.8	51.8	1991		≤ 300 Employee or ≤ 100 Million (= US\$ 9 Million) in Legal Capital
Singapore	3.5	2.7	77.6	55	35.2	NA	1991		Local Equity 30% < and < S\$ 12 Million (= US\$ 8.5 Million) Fixed Assets
Korea	297.7	296.2	99.5	2,762	65.3	45.8	1992		≤ 300 Employee
Taiwan	159.2	156.0	98.0	1,734	76.7	* 39.4	1992	* Sales	≤ NT\$40 Million in Paid Capital and ≤ NT\$120 (= US\$ 4.5 Million) Total Asset
Malaysia	28.3	26.2	92.6	760	40.2	* 19.6	1994	* Value Added	SME: ≤ MR2.5 Million (= US\$ 1 million) in Shareholders' Fund
Thailand	* 64.1	63.2	98.6	1,281	73.8	NA	1991	* Excluding Rice Mill	SME: < 200 Employee and < 100 Million Baht (= US\$ 4 Million) in Invested Capital
Philippines	78.6	77.8	98.9	545	50.0	* 26.3	1988	* Sales	< 200 Employee and ≤ 40 Million Pesos (= US\$ 1.5 Million) Total Assets excl. Land
Vietnam	8.6	8.3	96.7	607	60.8	NA	1995		≤ 500 Employee or < 10 Billion Dong (= US\$ 0.86 Million) Total Assets

Note: Malaysia and Thailand use the term of SMI (Small and Medium Industries) which means the SMEs operating in industry.

Source: "The APEC Survey on Small and Medium Enterprises 1994", APEC Committee on Trade and Investment, Ministry of Economic Affairs, Chinese Taipei.

Finally, in other Asian countries, SMEs basically do not always face such problems which SMEs in Viet Nam are confronting; nevertheless, the Asian Governments have been extending various support. The rationale for Asian countries creating special promotion programs for SMEs is that their size puts SMEs at a disadvantage to large enterprises in terms of ability to recruit personnel, raise funds, market products, and develop technology. They are also often placed at a disadvantage in negotiating the terms of business dealings. Therefore, even though they have a great deal of latent capacity, they are unable to compete with large enterprises. SME promotion is therefore seen as a necessary component in industrial and social policy that supplements the "incompleteness of the market."

Considering the importance of SMEs for its economic development as mentioned, Viet Nam should guarantee its better business environment and extend further support for SMEs, which at least be competitive with other ASEAN countries.

Supplement

Below is the profile of the sample used in the small and medium enterprise questionnaire survey (the sample's positioning within Vietnamese manufacturing).

A questionnaire survey of SMEs engaged in manufacturing was conducted between February and March 1997 in conjunction with DSI-MPI (parts of the survey were also conducted as interviews). The questionnaires were divided among staff members of the MPI, the Viet Nam Economic Association, and the Institute of Social Sciences in Ho Chi Minh City, who visited enterprises directly and asked them to respond.

The original plan was to narrow the survey sample to non-state manufacturing enterprises engaged in exports (non-state and collective SMEs and relatively large household enterprises); but limiting the survey to exporters risked not having a large enough sample, so non-exporting enterprises were also included.

The five tables which follow contain breakdowns of the 251 enterprises responding to the survey and their position within the context of all Vietnamese manufacturing enterprises.

(1) Breakdowns by industrial field (Table S.1)

The enterprises responding to the survey represent only 4.1% of all non-state manufacturing enterprises in Viet Nam, but it should be pointed out that about 45% of Viet Nam's non-state manufacturing enterprises are in the foodstuffs, food processing, and beverage sectors, and most of these are rice millers. When these enterprises are excluded, the sample actually accounts for a relatively large portion of non-state manufacturing enterprises. Since the main focus of the survey was on exporters, there was a bias towards food processing, apparel, metal products, woodworking, furniture, and plastics. In some industrial fields, the enterprises surveyed represent anywhere from 10% to about 30% of all enterprises. (However, multiple responses were allowed, and these must be discounted when viewing the results.)

Table S.1 Character of the surveyed enterprises in manufacturing by industrial field

By industry	No. of sample firms	%	Total No. of private manufacturing firms	%	Share of sample to total (%)
Food/Drinks	38	13.3	2,727	44.9	1.4
Textile	9	3.1	252	4.1	3.6
Garment	34	11.9	233	3.8	14.6
Leather Goods	10	3.5	73	1.2	13.7
Wood/Bamboo products	21	7.3	509	8.4	4.1
Rubber/Plastic	22	7.7	169	2.8	13.0
Non Metal Products	19	6.6	808	13.3	2.4
Metal Products	34	11.9	271	4.5	12.5
Machinery/Equipments	12	4.2	85	1.4	14.1
Electric machines/Parts	8	2.8	46	0.8	17.4
Radio/TV/Communication Equipments	4	1.4	16	0.3	25.0
Medical Instruments	3	1.0	8	0.1	37.5
Motor bikes, Trailers	8	2.8	38	0.6	21.1
Other Transport equipments	5	1.7	85	1.4	5.9
Furniture	27	9.4	356	5.9	7.6
Others	30	10.5	397	6.5	7.6
Unknown	2	0.7			
Total	251*	100.0	6,073	100.0	4.1

Notes * = Because of the duplicate answers, total exceeds the number of samples.

(2) Breakdown by province and city (Table S.2)

Viet Nam's non-state manufacturing enterprises tend to congregate in and around Ho Chi Minh City, but we spread our sample out among different regions of the country in order to get as broad a picture as possible of the problems that enterprises face. As a result, in Hanoi, Hai Phong, Da Nang, and Can Tho Provinces, the enterprises in our sample represent between 10% and 30% of all local manufacturing enterprises.

Table S.2 Character of the surveyed enterprises in manufacturing by region

By region	No. of Sample Firms	%	Total No. of Private Firms in Provinces* (1995/7/1)	%	Estimated No. of Private Mnfg. Firms in Provinces** (1995/7/1)	%	Share of Sample (%) to the Total Mnfg. Firms
Hanoi	58	23.1	1,596	9.3	565	9.3	10.3
Hai Phong	34	13.5	397	2.3	141	2.3	24.1
Da Nang	51	20.3	488	2.8	173	2.8	29.5
Dong Nai	15	6.0	658	3.8	233	3.8	6.4
Binh Duong (Song Be)	15	6.0	527	3.1	187	3.1	8.0
Ho Chi Minh	54	21.5	4,153	24.2	1,470	24.2	3.7
Can Tho	24	9.6	443	2.6	157	2.6	15.3
National Total	251	100.0	17,143	100.0	6,073	100.0	4.1

Notes

* = Total number of private enterprises exclude SOEs and foreign affiliated companies.

** = The number of manufacturing enterprises by province are estimated based on the % of the manufacturing enterprises against total number of enterprises in whole country.

(3) Breakdown by number of employees (Table S.3)

The largest group within the sample was enterprises with 10-49 employees, at 41% of the total. Those with 100-499 employees were 24.1% of the total. Thus, our sample was biased more towards medium-sized enterprises than Vietnamese manufacturing as a whole. There is little for our purposes to be gleaned from ratios of the sample to all Vietnamese manufacturing enterprises since the mother group would include state enterprises, foreign-capital enterprises, and branches as well as non-state enterprises.

Table S.3 Character of the surveyed enterprises in manufacturing by number of employees

By Scale of Employee	Total No. of Mnfg. Firms* (1995/7/1)	%	Scale of Employee of Sample Firms	No. of Sample Firms	%	Share of Sample to Total (%)
1~10	3,630	31.6	1~9	35	14.1	1.0
11~50	4,448	38.8	10~49	102	41.0	2.3
51~100	1,254	10.9	50~99	43	17.3	3.4
101~500	1,753	15.3	100~499	60	24.1	3.4
501~	388	3.4	500~	9	3.6	2.3
Total	11,473	100.0	Total	249	100.0	2.2

Note * = Includes SOEs, FDI and branches.

(4) Breakdown by amount of capital (Table S.4)

Only 86 of the 251 enterprises in the sample responded to the question about capital, and the figures they gave were for statutory capital. The distribution of responding enterprises was in three roughly equal groups of about 30% each: under 500 million dong (¥5 million), 500 million - 1.0 billion dong (¥10 million), and 1.0 to 5.0 billion dong. We would note that the mother group to which they are compared includes state enterprises and foreign-capital enterprises, and uses breakdowns by fixed assets since statutory capital figures are not available. Assuming that statutory capital is one-fifth to one-seventh of fixed-asset values, our sample has more of a bias towards medium-sized enterprises than the mother group, and covers a relatively large percentage of Viet Nam's medium-sized enterprises.

Table S.4 Character of the surveyed enterprises in manufacturing by amount of capital

By Scale of Capital	No. of Sample Firms	%	Total No. of Mnfg. Firms (1995/7/1)	%	Share of Sample to Total (%)
<500 Million VND	25	29.1	5,368	62.6	0.5
500~<1,000 Million	27	31.4	733	8.5	3.7
1,000~<5,000 Million	30	34.9	1,463	17.1	2.1
5,000~<10,000 Million	3	3.5	433	5.0	0.7
10,000~	1	1.2	580	6.8	0.2
Total	86	100.0	8,577	100.0	1.0

Notes Sample Firms : Legal Capital
Total Enterprises : Fixed Assets

(5) Breakdown by form of business (Table S.5)

The mother group is biased towards private enterprises, which are 63% of the total. Our sample is more diversified and includes collectives, private enterprises, joint-stock companies, limited companies, and even 17 household enterprises. The sample covers 21.9% of all joint-stock companies and 7.6% of all limited companies.

Table S.5 Character of the surveyed enterprises in manufacturing by form of business

By Management Types	No. of Sample Firms	%	Total of Private Mnfg. Firms (1995/7/1)	%	Share of sample to Total (%)
Collective	41	16.3	1,067	17.6	3.8
Private Enterprises	81	32.3	3,822	62.9	2.1
Stock Company	7	2.8	32	0.5	21.9
Limited Company	88	35.1	1,152	19.0	7.6
household	17	6.8			
Unknown	17	6.8			
Total	251	100.0	6,073	100.0	4.1

VI. SMEs in Viet Nam: Their Problems and Challenges

1. SMEs' Problems Identified through the Interviews

Interviews were given to export-oriented SMEs in Viet Nam to identify their problems and needs for governmental support programs.

1) Overview of the interviews

Interviewed SMEs: 14 export-oriented SME manufacturers

- a) 5 SMEs in Hanoi
- b) 4 SMEs in Ho Chi Minh City
- c) 2 SMEs in Dong Nai Province
- d) 3 SMEs in Binh Duong Province

Implementation Period: February to March, 1997

2) Findings of the interviews

Findings of the interviews are summarized in the following table.

3) Problems facing SMEs in Viet Nam

(1) Fund raising

A large share of the interviewed SMEs saw financial shortfalls as one of their biggest problems. They needed funds primarily for financing plant and equipment investments and for securing working capital to cover expenses involved in exporting their products until they could receive payment for the exports. Some SMEs stated that the shortage of working capital even brought about arrears of wages.

Despite the financial problems, they did not want to borrow money from banks because they had a deep distrust of and discontent with bank services. The reasons frequently cited for that position were:

- 1) That banks were reluctant to deal with SMEs because they made it a principle to make loans on security and because few SMEs possessed real property to offer as a security.
- 2) That borrowing from banks would take time because of the complicated procedures requiring various kinds of papers to prepare for loan application.
- 3) That, although some provincial governments encouraged financial institutions to finance private companies, local branch offices of the financial institutions varied considerably in their responsiveness.

Instead of borrowing funds from financial institutions, according to the interviewed SMEs, they collected money from individuals related to the companies – namely, presidents of the companies, their families, relatives and friends – to finance their plant and equipment investments and working capital. Also, most of the interviewed SMEs depended on financial support from foreign countries. To give an example, Chinese people living in Taiwan and other foreign countries supported Chinese SMEs in Viet Nam. In some cases, Vietnamese refugees in Canada raised funds there for their related SMEs in Viet Nam.

Table 6.1(1) Overview of interviewed companies

Company (People)	Location	Product	Major Export Markets	Problems/Needed Support Programs
Company A (300)	Hanoi	Machine embroidery (65%); sewing (20%); and hand embroidery (15%)	Japan, West Europe (France, Italy, Germany)	Shortage of land with the expansion of business Difficulty in fund raising The problem of export quota control on the products exported to EU and Canada Need for tax reduction incentives for export and plant and equipment investments
Company B (30)	Hanoi	Bamboo and rattan work; furniture; and retail of bamboo and lumber	Former Soviet Union, South Korea, Germany, France	Need for simplification of loan application procedures Need for simplification of administrative procedures for receiving financial aids and equipment from foreign customers Need for removal of the export quota system so that they will be able to directly trade the products currently under the control (furniture, wall materials, etc.)
Company C (35)	Hanoi	Rubber products for industrial, medical, sports and farming use; and sundry goods	Japan (for medical rubber products)	Difficulty in investment due to financial shortfalls Slow procedures for quality inspection of raw materials
Company D (150)	Hanoi	Knitted products	Germany and other EU countries, former Soviet Union, East Europe	Export quota constraint on the products exported to EU countries Inadequate management skills Difficulty in securing industrial land Need for easy access to foreign market information Need for support for participation in exhibitions
Company E (120 including those of subsidiaries)	Hanoi	Jackets, shirts and sweaters	Russia, Poland	Export quota constraint on the products exported to West Europe Difficulty in human resource development Unequal taxation between companies exporting directly and those exporting indirectly
Company F (107)	Dong Nai Province	Ceramic ware (flower vases, ornaments)	Europe, Australia, neighbor Asian countries	Difficulty in securing funds for plant and equipment investments Need for improvement of quality control skills Costs of raw materials are sometimes not deductible from taxation because vouchers for the payments for raw materials are unavailable. Need for employee training institutions
Company G (300)	Dong Nai Province	Polyester products (raincoats, bags, women's underwear, shower caps, shopping bags)	Taiwan, Japan, Singapore	Slow administrative procedures for the approval of company scale expansion Frequent electric power cuts Need for access to market information on Japan, Taiwan and other foreign countries

Table 6.1(2) Overview of interviewed companies

Company (People)	Location	Product	Major Export Markets	Problems/Needed Support Programs
Company H (500)	Binh Duong Province	Furniture and craft-works	Taiwan, Japan, Singapore, Malaysia	Expensive tariffs. An effective tax rate is increasing because customs officers impose duties according to their own evaluation of products prices. Unstable supply of raw materials (affected by the deforestation ban) Inaccessibility to the export credit system
Company I (200)	Binh Duong Province	Ceramic ware	Mainly Europe (France, Holland, Germany), also Japan	Fund raising is the most serious problem. High effective tax rate brought about by sales tax in combination with other taxes Need for tax reduction incentives for plant and equipment investments Frequent power cuts
Company J (2000)	Binh Duong Province	Shoes	England, Taiwan	Difficulty in borrowing from banks Shortage of skilled office clerks Need for improvement of design ability
Company K (300)	Ho Chi Minh City	Jackets	Germany, Belgium	Land problem (being asked to quit the existing land) Unavailability of bank loans
Company L (35)	Ho Chi Minh City	Toys (wooden toys, tricycles, baby buggies)	Taiwan, Hong Kong	Difficult to export their products to Europe because wood materials get moldy. Need for the solution of this problem. Competition with smuggled goods A desire for export tax reduction Need for effective government support for overseas expansion and export promotion
Company M (800)	Ho Chi Minh City	Shoes	Taiwan, Europe (France, England, Italy), Canada	Conflicts with training staff from Taiwanese companies Great difference between government enterprises and private companies in business environment Ambiguity in law application
Company N (150)	Ho Chi Minh City	Processed rubber and wood; and furniture	Taiwan, Malaysia (Furniture), France (Furniture)	Laws related to export are not put in practice. Land is too expensive to obtain for factory expansion. Government support for overseas market development is desired. Simplification of licensing and approval procedures is needed.
Company O (200)	Ho Chi Minh City	Audio equipment (speakers, karaoke equipment, cassette tape decks, compact disks etc.)	Singapore (outside frames of speakers to Japanese companies)	Need for establishment of laws to protect SMEs and private companies. Need for strict control of smuggling. Need for tax rate reduction.
Company P (140)	Ho Chi Minh City	Dress shirts	U.S.A	Difficulty in borrowing from banks. Inaccessibility to the export credit system. Difficulty in securing new industrial land.

(2) Export

Various problems were identified through the interviews on the issue of export. The companies who wanted to export goods directly to foreign countries were required to obtain a direct export license. However, those who were eligible for the license must have a certain amount of floating capital. The companies who were not eligible for the license had no choice but to export goods on consignment through government enterprises. Even those who had the license were required to visit Hanoi every year to renew their license.

Export quota applied to textile and some other product categories was another problem facing many SMEs.

Furthermore, the interviewed SMEs said that many SMEs in Viet Nam found it difficult to secure working capital for their export operation. Some of them felt that the export credit system would be useless in the current situation where financial institutions were still inactive in financing the SME sector as mentioned in A. above. However, one finding of the interview with financial institutions was that services of the export credit system had already been provided and increasingly used by SMEs. Accordingly, it would be conceivably necessary to improve the operation of the system to facilitate the access by SMEs to the services.

The interviews also revealed that exploration of foreign markets was one of the biggest challenges for most of the SMEs. They strove to explore markets by demonstrating their products at the international trade fair held in Hanoi. In many cases, presidents of SMEs were involved themselves with the development of foreign sales channels.

(3) Taxation

The interviews found that extra loan tax and interest tax in addition to sales tax (the amount of which varies according to business types) altogether lead to the high effective tax rate of 55 percent. On the other hand, it was pointed out that there were many tax evaders.

Tariffs also tended to be comparatively expensive because customs officers imposed duties, the amount of which was decided according to their own evaluation of product prices.

(4) Difference from government enterprises in business environment

Many of the interviewed SMEs complained of the difference in business environment from government enterprises. For example, they cited that:

- 1) Private companies were required to obtain export licenses while government enterprises were not.
- 2) Government enterprises were given priority over the private sector in forming joint ventures with foreign companies.
- 3) The customhouse was very strict to private companies.
- 4) It was more difficult for private companies to obtain industrial land than government enterprises.
- 5) It was easier for government enterprises to secure safety because they were allowed to use a military force and a security police.

(5) Industrial Land

The interviewed companies on the whole felt that their facilities were becoming too small as they grew rapidly. In spite of their need for facility expansion, many of them could not afford to build new factories due to the shortage of funds as stated before.

The interviews also found that in such cities as Hanoi and Ho Chi Minh City, there was increasing

concern for pollution problems because of the mixture of residential and industrial areas. Accordingly, urban areas were seriously short of industrial land. To solve this problem, the Ho Chi Minh City municipal government actively developed industrial parks in the suburbs such as Thuduc District and adjacent Dong Nai Province. However, the SMEs located inside the city could not move out to the suburbs due to the difficulty in securing employees and keeping in close contact with their customers. In Hanoi, the land shortage problem seemed much more serious because there were no industrial parks available for SMEs.

A fact found by the interviews that some SMEs were involved in a dispute in connection with the ownership of land.

(6) Business Administration

SME managers were deeply aware of the importance of acquiring more sophisticated management skills. In fact, not a few people have recently attended seminars and training sessions for managers. Although there was an increasing need of SMEs for hiring business administrative specialists, many SMEs found it difficult to secure such people.

(7) Others

In addition to the above-mentioned problems identified by the interviews, it was found that SMEs faced the following obstacles:

- 1) Human resource development was another important issue. There was a need for human resources with expert knowledge.
- 2) A majority of the interviewed SMEs complained of the way how laws were applied. They were particularly displeased that there were frequent changes in the application of laws and that they were not informed of such changes.
- 3) The lumber industry seemed seriously affected by the deforestation ban legislated on December 1995 for environmental protection. However, no compensation measures were provided to support the suffering industry.
- 4) There was a growing interest in quality control issues among SMEs. It was fully recognized that quality improvement was particularly important in dealing with Japanese companies. However, nothing had yet been achieved in the area of quality control.
- 5) As the apparel industry was becoming increasingly competitive, the profit level of the industry was falling.
- 6) Commercial and industrial associations were not active enough to benefit the private sector.
- 7) It was reported that smuggled goods (mainly from China) were jeopardizing the domestic market. The need for strict control of smuggling looked immense.

2. SMEs' Problems Identified by Questionnaire Survey

(1) Overview of questionnaire survey

Questionnaire survey was conducted in coordination with the Development Strategy Institute (DSI) of the Vietnamese Government to identify the management practices and problems of SMEs in Viet Nam and the needs of SMEs for government support programs.

Survey Period:	Mid-February, 1997 to the beginning of March
Surveyed Companies:	SMEs who are currently exporting their products and those who are interested in exporting in future. (251 companies in total)

Surveyed Areas: Hanoi, Hai Phong, Da Nang, Dong Nai, Binh Duong,
Ho Chi Minh City and Can Tho.

Table 6.2 Surveyed companies

	Hanoi	Hai Phong	Da Nang	Dong Nai	Binh Duong	HCMC	Can Tho	Total
Food/Drinking	3	3	10	0	1	8	13	38
Textile/Garment	9	5	7	2	2	12	0	37
Leather	3	1	1	0	1	4	0	10
Wood/Bamboo	6	3	5	1	1	1	1	18
Pulp Paper	5	3	4	2	2	2	1	19
Ceramic	2	1	6	6	2	1	1	19
Rubber/Plastic	9	7	1	1	0	2	2	22
Metal Products	13	7	6	0	0	7	2	35
Machine	3	2	0	0	0	5	2	12
Electric Machine	7	0	2	0	1	1	2	13
Transportation	2	5	3	0	0	1	0	11
Furniture	11	3	5	0	2	6	0	27
Other	11	5	5	5	3	5	1	35
Total	58	34	51	15	15	54	24	251

Note The industry types are based on the answers of respondents. The industry total does not correspond with the area total because of multiple responses.

The survey was conducted by the coordinated efforts of Viet Nam and Japan through the following procedures:

Preparation of questionnaire forms:	Japan
Selection of companies surveyed:	Viet Nam
Distribution and collection of the questionnaire forms:	Viet Nam
Tabulation and analysis of survey results:	Viet Nam and Japan

(2) Outline of the survey results

The following is an outline of the survey results. (See the attached materials for more details.)

1) Problems related to the supply of raw materials and parts:

As to the supply of raw materials and parts, the problems observed by many respondents were: a) increase in prices; and b) instability of the supply.

2) Problems in securing and fostering employees:

The problems cited by many respondents in securing and fostering employees were:

- a) difficulty in training employees;
- b) quick employee turnover; and
- c) difficulty in securing factory workers.

Difficulty in securing engineers were observed by less respondents.

3) Problems related to manufacturing facilities:

As to manufacturing facilities, the most frequently cited problem was:

- a) the difficulty in improving production capacity due to small manufacturing facilities. Obviously, this problem was created as a result of the high growth of SMEs. Other problems cited by many respondents were;

- b) sharp increase in land rent; and
- c) difficulty in securing electric power and water supply.

4) Problems related to plant and equipment investments:

As to plant and equipment investments, a majority of the respondent companies cited;

- a) financial shortfalls for plant and equipment investments. Other problems frequently cited were:
- b) difficulty in expanding facilities due to small sites; and
- c) difficulty in obtaining sophisticated manufacturing equipment.

5) Problems related to technology development:

As to problems related to technology development, a large share of the respondents observed:

- a) insufficient funds for technology development;
- b) shortage of technical staff; and
- c) shortage of technology development equipment. Again, financial shortfalls were the major obstacle to SMEs' efforts in this area as well.

6) Problems related to business operation:

- a) Fund raising; cited by a majority of respondent companies, the largest share.
- b) Taxation; cited by the second largest share, followed by;
- c) plant and equipment investments; and
- d) technology development.

7) Future management policy:

As for management policy in the future, a majority of the respondent companies aimed at:

- a) increase in the volume of orders received. Other policies frequently cited were:
- b) expansion of their export volume;
- c) improvement of profit rates; and
- d) further specialization of the field of business that they are currently engaged in.

8) Needs for government support programs:

The government support program desired by the largest share of the respondents was:

- a) expansion of bank financing services, followed by:
- b) tax exemption incentives;
- c) expanded government grants to investments;
- d) simplification of administrative procedures of the government;
- e) technical training and consulting;
- f) stable supply of electric power;
- g) development of industrial parks for SMEs;
- h) expansion of export financing services;
- i) deregulation of export licensing; and
- j) access to foreign market information.

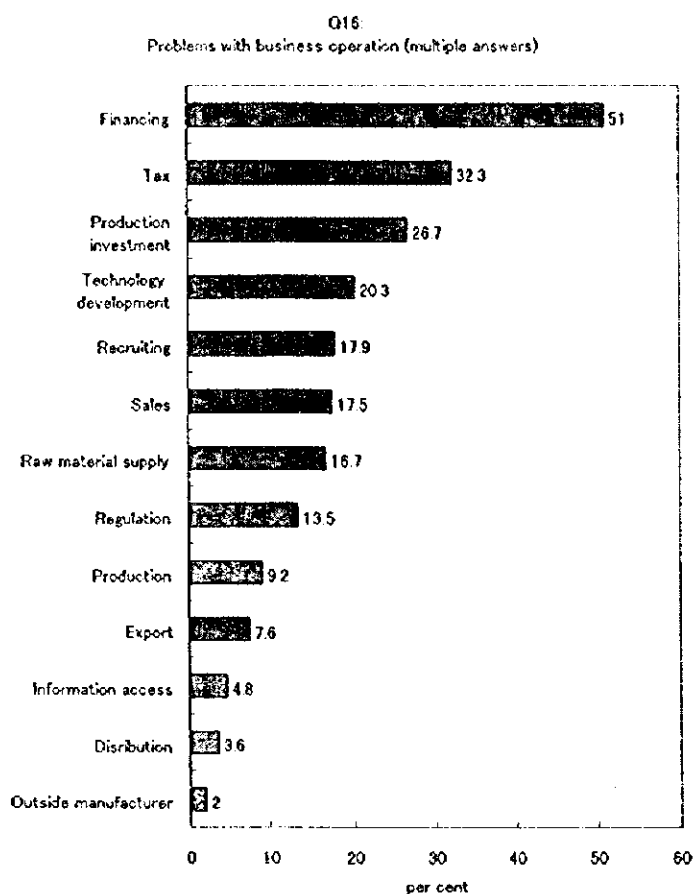


Chart 6.1 Problems related to business operation

(3) Characteristics of SME problems in Viet Nam highlighted by the survey

Problems facing Vietnamese SMEs identified by the questionnaire survey were, for the most part, the same as those found by the interviews. The following are major characteristics of the SME problems in Viet Nam highlighted by the survey.

- 1) Fund raising is the biggest problem for Vietnamese SMEs because their plant and equipment investments and R&D efforts are significantly affected by their financial shortfalls. Accordingly, SMEs see the expansion of financing services as the highest priority area for SME support programs.
- 2) On the issue of future management policies, a majority of the respondent companies were of the view that they should grow their business by expanding their export volume. To this end, the government was expected to improve the frameworks for SME export business and to provide relevant services.

What kind of SME programs do you expect?

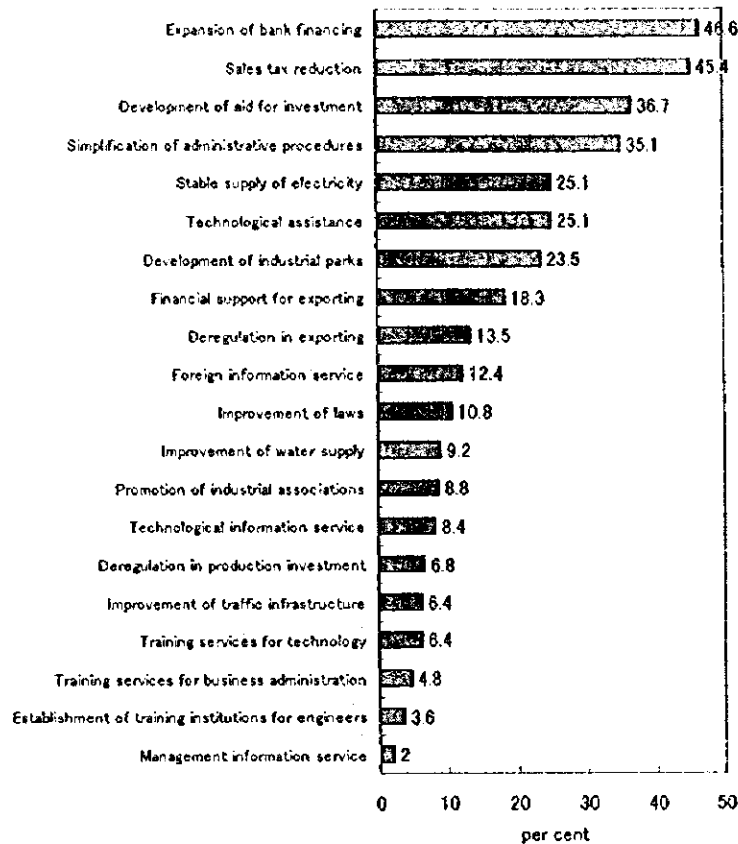


Chart 6.2 Needs for government support programs

3) Not a few SMEs feel that their manufacturing facilities are becoming too small with the expansion of their business and that difficulty in expanding their facilities is an obstacle to their further growth. Apparently, provision of industrial land will be important measures for supporting SMEs.

4) Also, a number of respondent SMEs expressed a strong interest in R&D and technology development. Access to technical information and the development of human resource can be key areas for SME support programs.

3. Areas Where Government Support for SMEs is Needed in Viet Nam

This section presents recommendations for SME promotion measures in Viet Nam, as listed below, on the basis of findings of the interviews with SMEs and the questionnaire survey.

(1) Support for fund raising

Fund raising is the biggest challenge for Vietnamese SMEs because it is difficult for them to borrow funds from banks and other financial institutions. Most SMEs have to depend on private funds or personal financial supports available through personal relationships. Such difficulty in raising funds can be a major obstacle to the potential growth of companies. It is essential that various financing

systems for SMEs should be set up by involving financial institutions.

(2) Improvement of the frameworks for export business

SMEs can be divided into two groups; export-oriented companies that have a considerably large share of export volume to their total sales volume and the companies that depend primarily on the domestic market. In recent years, even the latter type of SMEs have been beginning to look to export opportunities in anticipation of further business growth. However, there are various restrictions on SMEs in exporting their products such as export licensing and export quota. In addition, it seems that the export credit system does not work well to meet the needs of SMEs. Appropriate measures should be taken to solve these problems.

(3) Improvement of business environment

Many SMEs complain of their inferior business environment compared to that of government enterprises in various ways. In addition to the above-mentioned problems of fund raising and export licensing, the issues on inadequate services of government agencies and insufficient industrial land should be appropriately addressed to provide better business environment to SMEs. Also, more opportunities for joint ventures with foreign companies need to be offered to SMEs.

(4) Provision of industrial land

Not a few SMEs find their manufacturing facilities becoming too small with the rapid expansion of their business. Difficulty in expanding their facilities due to the shortages of industrial land is conceivably an obstacle to their further growth. In addition, their financial shortfalls make the problem even more serious. SMEs in big cities such as Hanoi and Ho Chi Minh City, where the mixture of residential and industrial areas causes various problems, have little choice but to move out of the cities. The government is expected to prepare industrial land at prices within their reach.

(5) Promotion of technology and R&D

As SMEs in Viet Nam are increasingly aware that quality improvement is key to successful promotion of export, their interest in technologies, R&D and quality control is becoming stronger. However, they face various obstacles such as difficulties in collecting technical information and securing adequate funds for R&D. Government programs with a systematic approach to effective technology promotion are needed.

(6) Promotion of industrial associations

Efforts to organize industrial associations have just begun in some industries such as textile and plastic in Viet Nam. However, they are still not active enough to meet the expectation of SMEs. Their activities should be vigorously promoted because it will be highly worthwhile to involve industrial associations in supporting SMEs.

(7) Strengthening of corporate management system

There are very few SME managers in Viet Nam who are capable of managing their companies effectively with a scientific administrative approach. Most of the managers still depend on their self-taught knowledge and skills although they are greatly interested in acquiring systematic management skills. The government is expected to assist SMEs in enhancing their managerial skills.

VII. SMEs Promotion Policies in Foreign Countries

Advanced economies including Japan and the ASEAN nations as well as the USA and European countries have actively promoted the development of the SME sector under the belief that SMEs can play an important role in enhancing their nation's economy. This chapter presents an overview on exemplary SME policies in Thailand and Malaysia as well as Japan during its high growth period.

1. Japan

Japan's SME Policy during its high economic growth period provided the following measures that might be suggestive to SME policy making in Viet Nam.

(1) Establishment of financing system for SMEs

Japan's SME policy in 1950s was revolving around financial assistance to SMEs. Financial assistance measures proved very effective when it was difficult for SMEs to achieve their full potential due to their poor creditability hampering them from raising sufficient funds.

1) Establishment of the credit supplement system

The credit supplement system was established with the aim of supplementing SME's credit and security to facilitate their borrowing from private financial institutions. Supported by this system, SMEs were able to borrow funds from financial institutions under the guarantee of Credit Guarantee Associations. The system was provided in the following mechanism;

- 1) SMEs who wish to borrow funds from financial institutions make an application to Credit Guarantee Associations for guarantee of their liabilities. The application can be made at any of their 52 locations nationwide. The Associations assess the financial needs of the applicants and decide whether or not it should provide guarantee. SMEs accepted by the associations then borrow from financial institutions on the security of their guaranty. The associations insure their guaranty of the SMEs with Credit Insurance Corporation.
- 2) If the SMEs fail to pay the guaranteed loans, Credit Guarantee Associations reimburse the loans to financial institutions in place of the SMEs (which is called "subrogation") and then receive an insurance of 70-80 percent of the subrogated amount from Credit Insurance Corporation.
- 3) If Credit Guarantee Associations make subrogation for SMEs, the Associations acquire a right of claiming compensation against the SMEs for the subrogated money. When the Associations receive the money from the SMEs according to the right, they pay 70-80 percent of the amount of money received to Credit Insurance Corporation.

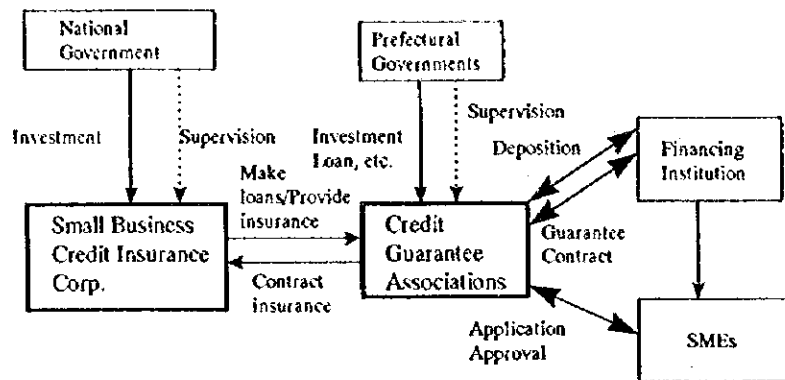


Chart 7.1 Outline of the credit supplement system in Japan

Source OUTLINE OF SMALL AND MEDIUM ENTERPRISE POLICIES OF JAPANESE GOVERNMENT, Small and Medium Enterprises Agency, MITI

2) Public financial institutions for SMEs

The following three public financial institutions are provided to complement private institutions in financing SMEs:

- 1) **Small Business Finance Corporation:** Established in 1953 through 100-percent government investment with the aim of financing SMEs with equipment funds and long-term working capital. On principle, they provided funds to SMEs in key industries such as export, living necessities, machinery, etc., primarily for equipment rationalization.
- 2) **People's Finance Corporation:** Established in 1949 through 100-percent government investment to finance small-scale businesses. The Corporation played an active role in providing funds for equipment investments since they were allowed to finance firms for both working capital and equipment investment, supported by "Guideline for Financing Equipment Funds" enacted in 1956.
- 3) **The Shoko Chukin Bank:** Established in 1936 through joint investment by the public and private sectors to finance SME associations and their members. The bank resumed the issue of commercial and industrial bonds. Loans for working capital, particularly short-term working capital, compose a large share of their total financing volume. As to their borrowers, although manufacturers compose the largest fraction, their share is decreasing while the segment of wholesalers, retailers and the service industry is increasing.

(2) Establishment of SMEs basic law

By early 1960s, Japan's economy had exceeded its pre-war level and entered upon a high growth period. This period saw the development of a "dual structure" in the economy, as a result of the increasing gap between large corporations and SMEs in capital equipment ratio, labor productivity and wages. The Japanese government affirmed the importance of SME promotion in solving the dual structure problem and reorganizing Japan's industries into a more dynamic structure. The government efforts to promote SMEs thus moved forward, as symbolized by the establishment of SMEs Basic Law which was aimed to elucidate a new path of the SMEs and to clarify a goal of the country's SME policy.

Table 7.1 Composition of SMEs Basic Law in Japan

<p>Chapter I: General Provisions Goal of SME policy / Definition of SMEs / National SME policy / SME policies of local governments / Legal measures / Assessment / Annual report / Others</p> <p>Chapter II: Structural advancement of the SME sector Modernization of equipment and facilities / Improvement of technology / Rationalization of business administration / Adequate business scale / Organizational improvement for forming joint ventures / Commerce and service industry / Transfer to new business field / Measures related to labor</p> <p>Chapter III: Rectification of disadvantages of SMEs Prevention of excessive competition / Fair subcontract dealings / Adequate business opportunities for SMEs / Assurance of fair opportunities for receiving orders from the government and other large corporations / Export promotion / Adjustment of the competition between SMEs' products and imports</p> <p>Chapter IV: Small-scale businesses</p> <p>Chapter V: Financing and Taxation Facilitation of financing SMEs / Capital replenishment</p> <p>Chapter VI: Government agencies and SME associations Establishment and improvement of government agencies related to SME promotion / Establishment and improvement of SME associations</p> <p>Chapter VII: SME Policy Council</p>
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The establishment of the SMEs Basic Law was followed by the successive enactments of related measures to build up frameworks for SME promotion.

(3) Amalgamation of SMEs

Amalgamation of SMEs was becoming increasingly important in promoting SMEs. It was expected that mutual cooperation among SMEs would enable individual members to mutually supplement the shortages of their management resources. To this end, the Law on the Cooperative Associations of Small and Medium Enterprises (1949) and the Law Concerning the Organization of Small and Medium Enterprises (1957) and other laws were enacted. Also, the National Federation of Small Business Associations was founded to provide special advice on how to organize and operate associations. (The Federation currently have local offices, one in each prefecture, under the umbrella of a national center.) Many of the SME promotion programs have been designed to provide services to such SME associations and organizations.

(4) Promotion of SMEs' exports

Foreign market research institutes that had been established to promote foreign trade were integrated into a foundation for external trade promotion in 1954, which became Japan External Trade Organization (JETRO) in 1958. Since then, JETRO have been active in sponsoring international trade fairs and overseas exhibitions, promoting overseas public relations and foreign trade arrangements as well as conducting foreign market researches.

(5) Establishment of public research institutes

As part of technology development programs for SMEs, public research institutes were established by local governments to promote regional industries. The institutes provided technical advice and training, product testing and evaluation, and R&D services. While national research institutes conduct basic researches on and development of advanced technology, regional research institutes focus their research areas on regional industries including food, textile, woodwork, ceramics, engineering and metalworking.

2. Thailand

Among noticeable SME promotion measures in Thailand are the following programs that are designed to encourage SME financing, develop a supporting industry, and promote exports.

(1) SME financing promotion

1) SIFC (Small Industries Finance Cooperation):

Jointly established by Ministry of Industry and Ministry of Finance. The role of the institution is similar to that of Japan's Small Business Finance Corporation.

2) Small Business Guarantee Association:

Equivalent to Japan's Credit Guarantee Association.

(2) Supporting industry development

1) BUILD Program (BOI Unit for Industrial Linkage Development):

Operated by the BOI (The Board of Investment), the program has the objective of developing linkages between Thai suppliers and foreign manufacturers operated in Thailand. To achieve the objective, the BOI sponsor seminars and provide information services. The BOI disseminate information through a computer database of 2,500 companies operated in Thailand including both foreign manufacturers and Thai suppliers.

2) MIDI (Metalworking Industry Development Institute):

Established 8 years ago through Japan's economic grant of 320 million baht. The MIDI have the aim of promoting technology transfer to local metalworking companies with poor technological capability. They also provide seminars and workshops at their training centers. Japan's JETRO offers training assistance to the MIDI.

(3) Export promotion

The DEP (Department of Export Promotion) is responsible for export promotion. The DEP provides two programs as export promotion measures; namely, Export Promotion Activity and Export Development Activity. These programs are aimed at the following potential growth areas in the export industry:

- 1) Electronics (computer parts and others components)
- 2) Automotive parts
- 3) Plastic products
- 4) Health related products

1) Export promotion activity

The program provides the following activities:

- (a) Sponsor international trade fairs
 - a) Bangkok International Furniture Fair, 1997
 - b) Bangkok Gems, Jewelry, Watch & Clock Fairs, 1997
 - c) Bangkok International Gift & Houseware Fair, 1997
 - d) Bangkok International Fashion Fair, 1997
 - e) Thailand Auto Part & Accessories Fair, 1997 (Pending)
 - f) Thailand Printing Service Exhibition, 1997 (Pending)
 - g) Bangkok Leather Week, 1997
 - h) Made in Thailand Gift Show, 1997

Among the above events, Fashion Fair is a large-scale event while Furniture Fair is relatively small. The duration of the events is between 3 days and a week. In most cases, the fair lasts 6 days with 3 days for buyers and the other 3 days for domestic customers.

- (b) Support the participation of SMEs in overseas trade fairs
 - a) Representatives of the DEP participate in overseas trade fairs.
 - b) Part of accommodation expenses of the SME participants is covered by the program.
- (c) Promote trade missions
 - a) Send trade missions to foreign countries.
 - b) Receive trade missions from foreign countries.
 - c) Invite foreign companies to large exhibitions held in Thailand.
- (d) Set up permanent exhibition
 - a) A permanent exhibition is set up on the first floor of the DEP office.
 - b) Booths are rented to companies. Japanese companies currently rent one of the booths.
- (e) Provide "Information Stand"
 - a) A list of Thai exporters is prepared so that individual exporters will be able to jointly develop export markets with other exporters.
 - b) The list can be retrieved from a computer database. It is also published in book form and available at cost.
 - c) Exporters on the list include manufacturers and trade companies.

2) Export development activity

Export Development Activity provides the following services:

- (a) Sponsor seminars
 - a) Provide "Trading Seminars" to Thai exporters.
 - b) Various types of programs are prepared. The programs are basically designed to provide information in two areas; one is concerning trade business practices such as how to import, tariffs, etc.; the other is about foreign markets.
 - c) Seminars are provided almost every week.
 - d) Duration of the seminars varies according to the nature of topics; from one day or two days to a week. Mostly one day.
 - e) No participation fee except for lunch expenses.
 - f) Seminars are usually held at International Training Institute affiliated to the DEP.

Seminars are also provided in regional cities.

(b) Conduct researches and provide information

- a) Conduct researches on export markets and macro industrial trends.
- b) Research results are published in "Exporter Journal".
- c) Researches are conducted by five researchers.

(c) Conduct design development

- a) Conduct design development primarily for textile and fashion products.
- b) Six people are assigned to the design development program.
- c) The program is supported by Germany and other foreign countries.
- d) More efforts should be made to promote design development as in the case of the textile industry in Hong Kong.
- e) A design contest is held every year for textile and jewelry.

(d) Promote public relations

- a) Thai industries and products are actively promoted through magazines, posters, brochures, video, etc.
- b) Also through the home page on the inter-net that has recently been installed, the list of exporters, trade fairs and other DEP activities are promoted.

3) Success cases

Bangkok Jewelry Fair is one of the most successful trade fairs. It is held twice a year and this year will see the 20th fair. The Jewelry Fair has contributed to the increase in the awareness of Thai gems and jewelry. It has attracted a number of buyers from foreign countries. This kind of trade fairs should be extended in other fields.

4) Problems

SME promotion policies in Thailand change greatly every time political power changes. It seems difficult to keep the policies consistent.

5) Overseas Backup System

Thai Trade Centers are established at about 25 locations abroad.

- a) 7 locations in USA, 8 locations in Europe, 8 locations in Asia-Pacific, one in South America
- b) Three centers in Japan; in Tokyo, Osaka and Fukuoka
- c) A director, a deputy director and 3 - 4 local staff members are assigned to each of the Thai Trade Centers.
- d) The task of the centers is to collect local market information, promote Thai products and participate in exhibitions.
- e) In addition to USA, Europe, Japan and Indo-china, they are interested in expanding into Russia and Africa.

3. Malaysia

Among noticeable SME promotion measures in Malaysia are the following programs that are designed to promote supporting industry development and exports.

(1) Development of a supporting industry

Assistance measures for the development of a supporting industry are provided by the SMIDEC (Small and Medium Industry Development Corporation) which was established in May, 1996, under the control of Ministry of International Trade and Industry. The SMIDEC have the objectives of providing SMEs with financial support, equipment and machinery, technical training and support for human resource development and market access.

1) Vendor Development Program (VDP)

The objective of the VDP is to develop SME suppliers in coordination with large corporations (anchor companies) and financial/investment institutions. Under this program, each of the anchor companies was requested to subcontract some 20 suppliers.

2) Industrial Linkage Program (ILP)

1) Background and Objectives

The ILP was launched last year as a core program of the Second Industrialization Master Plan (1995-2000), with the aim of promoting the growth of SMEs and integrating them into a supporting industry through strong industrial linkages with large companies (Lead Companies) in Malaysia. The program also aims to reduce imported parts.

2) Target Industries

- a) Electric/electronic equipment; household electrical products, semiconductors and electronic parts, computer and allied accessories, communication equipment, electronic applications
- b) Transportation equipment; automobiles, ships, aircraft
- c) Machinery and allied products; industrial machinery, tools, metal molds

In future, they are planning to expand their target industries to chemicals, petroleum, resources and agriculture.

3) Participants

Suppliers, Lead Companies (including foreign companies), banks, venture capital companies, independent technical research institutes, and the SMIDEC

4) Qualifications for Participant Suppliers

- a) Incorporated in conformity with the Companies Act.
- b) Paid-up capital is RM250,000 and less.
- c) At least 70 percent of the equities are Malaysian, 60 percent of which are held by the participant supplier.

5) Program Outline

(a) The SMIDEC assists in forming linkages among SMEs, large companies, financial institutions and investment companies, and select an appropriate "Linkage Project" for them.

(b) Companies that wish to participate in the ILP are required to register at the SMIDEC in advance.

(c) If the project is approved, participant companies and institutions will be offered an option to acquire a certain share of stocks.

(d) The following incentives will be offered:

a) SMEs that produce intermediate goods in an approved project will be fully exempted from taxation for five years.

b) The manufacture of components and parts by companies participating in the ILP will be exempted from the CIPE criteria of RM55,000 for labor intensive projects.

c) If Lead Companies provide SME suppliers with technical training, factory auditing and technical assistance at their own expenses, the incurred expenses will be accorded tax reduction.

d) Sales made by large companies located within FZs or LMWs who are participants in the ILP will be treated as export for purposes of determining equity in these companies.

e) Participant companies in the ILP which have yet to comply with the equity condition in the License, can use the ILP as trade off for non-compliance in the equity condition.

f) All other incentives under the Promotion of Investment Act 1986

(2) Export promotion

1) SIRIM

An industrial standards inspection agency that perform an inspection for ISO9000/14000 qualifications.

2) MATRADE (Malaysia Trade Development Corporation)

A trade promotion organization similar to JETRO in the early years. The organization was originally a government agency and became incorporated later. It has 25 export promotion centers abroad.

The MATRADE is aimed at Bumiputera companies. Chinese companies are not targeted because they are capable of exporting their products without support. The MATRADE have set up a permanent exhibition in Kuala Lumpur to demonstrate Malaysian products including rubber and palm products and local foods. It also provides financial support for export.

3) GTC (Government Trading Corporations)

Lunched in March, 1994. Under this program, a key company was selected in each of the four selected regions:

a) Saim Durby (South Africa)

b) Guslly Trading (Latin America)

c) Ion (East Europe/Central Asia)

d) Masscorp (Indo-china/China/Myanmar)

4. A Lesson from SME Promotion Practices in Foreign Countries

SME promotion programs in foreign countries cannot directly apply to Viet Nam because they vary from country to country according to the country's social / economic environment, industrial structure, industrial development stage and social and economic position in the international community at large. However, examples in foreign countries suggest some valuable points as listed below that may be useful to Viet Nam in promoting SMEs:

- 1) It is important to modify SME promotion programs according to industrial development stages. For example in Japan, the programs have undergone distinctive changes as the problems facing SMEs have changed. The supporting industry development programs were made possible in Thailand and Malaysia because these countries were at an economic development stage where some nucleus companies in the supporting industries were growing.
- 2) SME promotion programs should be developed as "policy mix" because they are interdependent on one another. It is important to organize SME promotion programs from a holistic view, instead of formulating each of the programs separately.
- 3) To successfully involve foreign companies and third parties in SME promotion programs requires some incentive measures for them. The VDP and the ILP in Malaysia, for example, are successful in involving financial institutions because the institutions are allowed to benefit from their investments in nucleus companies when those companies become successful enough to list their stocks on the stock exchange.
- 4) Some SME programs might require a definition of who SMEs are. This explains why it will be essential to clarify the definition of SMEs and to legally affirm the significance of their promotion through the establishment of the SMEs Basic Law.