

VIII. Principles of SME Promotion

1. Principles of SME Promotion

Despite their high growth potential, SMEs in Viet Nam find it difficult to fulfill their potential under various constraints of their current business environment. In addition to this domestic problem, they will shortly be confronted with severe international competition with the progress of international division of labor in the ASEAN regions.

With the progress of market economy in perspective, it should be noted that the growth of SMEs in Viet Nam signifies the development of the private sector. In other words, the SME sector will never grow without the development of the public sector. From this point of view, it will be important to take the characteristics of Viet Nam's economy into consideration in formulating SME promotion measures. For example, Viet Nam is in transition to market economy, and large private companies are still undeveloped in Viet Nam.

2. Outlook on the Development of SMEs in Viet Nam

(1) Outlook on SME development

Taking into account the current stage of SME development in Viet Nam on one hand, and the outside environment such as future economic development in the ASEAN economies on the other hand, it is highly advisable for Viet Nam to promote SMEs on the following four lines.

1) Foster the development of the export-oriented consignment processing industry by making the best use of the advantages of Viet Nam

SMEs in the consignment processing industry have achieved the highest level of growth in Viet Nam. They undertake consignment processing for foreign manufactures in Japan, Taiwan, USA, Europe and other countries in the fields of sewing (clothes), ceramics, furniture, woodworks, bamboo works, rubber products and leather products (shoes). Manual dexterity and low wages of Vietnamese workers are conducive to the competitiveness of their products in the foreign markets.

As the consignment processing industry has a high growth potential, it will be important for SMEs in this category to establish strong management frameworks that would help them to achieve further growth. Equally important for them is to expand into other fields such as food processing as well as to develop high value-added manufacturing processes with upgraded technologies. It is advisable that they should expand the basis and scope of their businesses so that they will be able to undertake product planning and development.

One possible outcome of such development may be that they will eventually become manufacturers of their own private brand products in future by utilizing their product development capability acquired through the undertakings of consignment processing.

2) Develop a supporting industry to cater to the export industry

Another important path that Viet Nam should follow is to develop a parts industry that supplies parts and components to foreign manufactures of automobiles and household electrical products in Viet Nam. At present, the parts industry has still be undeveloped in Viet Nam. However, in addition that a metalworking technology has been exploited by government enterprises in Viet Nam, the machine mending industry for motorcycles has well developed there.

The existing metalworking technology and machine mending skills can be utilized as the basis of

technologies needed for developing supporting industries. This is a particular advantage of Viet Nam that allow the country to be competitive with the neighbor ASEAN countries.

Needless to say, for Viet Nam to develop the supposing industry requires an extensive innovation in the existing metalworking technology. To this end, government support will be desired in many areas such as technology transfer, human resource development and improvement of equipment. Particularly in the automotive and household electrical products industries, efforts to reorganize the manufacturing frameworks have been moving forward in the ASEAN countries with the view of establishing a mutual supplementary system for parts supply in the region as a whole. Viet Nam will also be expected to be involved with the ongoing multilateral division of labor in the ASEAN region in the future when the supporting industry in Viet Nam has fully grown. This possibility signifies that the development of a supporting industry will create new export opportunities in Viet Nam.

3) Integrate rural manufacturers into an export-oriented industry

In the farm areas in Viet Nam, rural manufacturers have been producing various products including textile products, wood and bamboo works, stone products and lacquer ware. Especially in the areas near big cities such as Hanoi and Ho Chi Minh City, the rural manufacturing industry has been growing into an export-oriented consignment processing industry. The government initiative should also be geared to reorganize and consolidate the rural manufacturers in the other areas into an export-oriented industry. To this end, the government will be expected to help upgrade the rural manufactures and establish division of labor in each production area.

Furthermore, it is to be desired that division of labor should be established at the national level through coordination between rural manufactures and domestic SMEs that are growing into export-orient industries.

In this way, rural manufacturers should be integrated into an export-oriented consignment processing industry. They should also aim at further export-led growth by establishing an effective brand image of their production areas to promote the export of their craft-work.

4) Promote urban-type SMEs

With the development of Viet Nam's economy, new type of businesses are emerging in big cities such as Hanoi and Ho Chi Minh City in response to the expanding consumption demand. In Ho Chi Minh City, for example, electronics manufacturers producing *karaoke* equipment are growing.

With the view to increase the responsiveness to the expanding urban consumption demand, the development of manufacturing techniques will be needed in various other industries such as processed food, highly fashionable textile products, household electrical products, leisure related goods, and toys.

Urban SMEs will be expected to evolve out of the consignment processing industry. They can also be newly established by means of spin-off. In any case, it will be important for urban-type SMEs to improve their price competitiveness and to foster the skills and capability of product planning and development so that they will be able to compete with imports.

The promotion of urban-type SMEs development will lead to further export-led growth of Viet Nam in the years ahead because there will be potential opportunities of meeting the consumption needs of the ASEAN countries.

(2) Outlook on progressive stages in SME development

The following table presents the outlook of progressive stages in SME development in the years ahead on the above four lines.

As to the consignment processing industry, it is advisable that SMEs should be encouraged to

gradually shift to more highly value-added businesses while maintaining their current growth potential.

In the supporting industry, the growth of SMEs should be steadily fostered through technology transfer and human resource development.

Rural manufacturers should be encouraged to turn to export markets over a middle/long range while upgrading their level through coordination with the consignment processing industry.

The growth of urban-type SMEs should be promoted in accordance with the rising of the income level of urban consumers. Their shift to the export-oriented industry should then be encouraged over a medium/long range.

3. Formulation of SME Promotion Policy in Viet Nam

(1) Basic point of view

Government support for SMEs in Viet Nam should be promoted with the following points in mind:

- 1) Correct the difference between government enterprises and SMEs in the business environment and achieve the stability and growth of SMEs.
- 2) Implement SME promotion policies step by step in accordance with the economic development of Viet Nam as well as that of the ASEAN countries.
- 3) Secure coordination among government programs related to SME promotion. Steps should then be taken to strategically promote SMEs on the basis of the following three pillars:
 - a) First, build up frameworks for SMEs' business activities as soon as possible. To this end, enact the SMEs Basic Law underlying SME promotion policies, establish financial assistance system for SMEs, and encourage SMEs to organize commercial and industrial associations which will be major recipients of SME support programs.
 - b) Utilize the SME commercial and industrial associations in order to foster the development of a supporting industry in cooperation with advanced foreign countries and foreign companies in Viet Nam.
 - c) Promote export by utilizing the SME commercial and industrial associations.

Table 8.1 Outlook on SME development by stages

Type of Development	Short-term Development (Present-2005)	Mid-term Development (2006-2010)	Long-term Development (2010-2015)
1. Consignment Processing Industry (Sewing, ceramics, woodwork, rubber processing, etc.)	<p>The growth potential of SMEs currently active in exporting their products will be maintained and enhanced.</p> <p>If the restrictions facing SMEs in fund raising are removed, their further growth can be expected. Joint ventures with foreign companies could be one of the effective ways of raising funds.</p> <p>The growth of SMEs will be accelerated by expanding exports through effective export promotion measures.</p>	<p>SMEs will be able to improve their value-added productivity if they successfully explore new sales channels by enhancing their own technologies and developing their private brands while continuing undertakings of consignment processing.</p> <p>Those in cities could evolve into "urban-type" SMEs if they strive to explore domestic markets in accordance with expanded domestic consumption.</p>	<p>Development of private brands will be moving forward.</p> <p>Coordination with rural manufactures will be promoted.</p> <p>Consignment processing in the metalworking field will make a full progress.</p>
2. A Supporting Industry Catering to the Export Industry (Automotive parts, electrical/electronic parts, machine parts, etc.)	<p>Establishment of new businesses in the supporting industry will be promoted on the basis of existing machine mending/maintenance technologies and by utilizing the technologies exploited by government enterprises.</p> <p>Technology transfer from foreign assembly companies in Viet Nam should be promoted.</p>	<p>The heightened level of technologies of SMEs in the supporting industry will allow them to form strong linkages with foreign assembly companies.</p>	<p>The supporting industry will further develop into an export-oriented parts supply industry to cater to the needs of assembly companies in the ASEAN countries. Viet Nam will aim to become a major source of metalworking parts in Asia, a type of industry that cannot be found in any of the ASEAN countries.</p>
3. Integration of Rural Manufactures into an Export-oriented Industry (Stone products, woodworks, bamboo works, lacquer ware, etc.)	<p>The frameworks for rural manufacturer's activities by production areas will be strengthened through their cooperation and coordination (to establish division of labor at each of the production areas.)</p>	<p>Their orders will be increased through coordination with the consignment processing industry.</p> <p>Division of labor by production areas will be established.</p>	<p>They will jointly explore foreign markets and promote the brands of their production areas with the aim to shift to an export-oriented industry. (Shift to the consignment processing industry)</p>
4. Development of Urban-type SMEs (Processed food, sewing/apparel, household metal / plastic products, printing and publication, electronic equipment, etc.)	<p>SMEs catering to the urban consumption needs will grow in accordance with the development of big cities like Hanoi and Ho Chi Minh.</p> <p>Some SMEs in the consignment processing industry will explore urban markets and expand their manufacture to meet the domestic demand.</p>	<p>Their market will be expanded from the city level to the national level.</p> <p>Some SMEs will be successful in producing products with better quality than that of imports.</p>	<p>As the urban-type SMEs become more competitive, they will begin exporting part of their products to foreign markets.</p> <p>Some SMEs in the consignment processing industry will be evolving into urban-type SMEs in the electronic equipment and machine parts fields.</p> <p>Part of their products will be exported to the neighbor ASEAN countries.</p>

(2) Formulation of SME promotion programs

To put it briefly, government support for SMEs in Viet Nam should be promoted with the following three objectives on the basis of the above-stated views:

- 1) Improvement of the business environment of SMEs
- 2) Development of a supporting industry
- 3) Promotion of SMEs' exports

Specifically, the following measures are recommended to achieve the above objectives:

1) Improvement of the business environment of SMEs

a) Enactment of SMEs Basic Law:

Establish a basic law for SMEs. The basic law has the objectives of clarifying the important role that SMEs can play in improving Viet Nam's economy, and of defining the necessity of promoting the growth of SMEs and the framework of SME promotion policy.

b) Amalgamation of SMEs:

Promote the formation of SME industrial organizations and associations. It is advisable that SME support programs should be aimed at the industrial organizations and associations to facilitate the implementation of the programs on a full-scale.

c) Improvement of SME financing:

Establish government financial institutions for SMEs and found a credit guarantee system and other financial support programs designed to facilitate SME's borrowing from banks and private financial institutions.

d) Modernization of manufacturing equipment:

Provide tax reduction incentives for plant and equipment investments and ease the regulation on the import of second-hand equipment to promote modernization of SMEs' manufacturing equipment.

e) Development of human resources:

Provide seminars for SME managers, business administrators and manufacturing engineers to foster human resource development. Particularly, more opportunities of acquiring management skills and know-how should be provided to SME managers.

2) Development of a supporting industry

a) Technology transfer and technical advice:

Promote the transfer of metalworking technology to SMEs and provide relevant technical advice to upgrade their technical level so that they will be able to meet the needs of foreign companies.

b) Development of linkages between SMEs and foreign companies:

Promote linkages between SMEs and foreign manufactures of automobiles and household electrical products in Viet Nam with the view of developing a supporting industry by means of business transactions and technology transfer between the two parties.

c) Export promotion for the supporting industry:

Support export activities in the supporting industry aimed at the ASEAN nations and other foreign countries by providing information services, trade fairs and other effective programs.

3) Promotion of SMEs' exports

a) Improvement of export regulations:

Improve the export license system and the export quota system, and ease the restrictions on SMEs' export activities.

b) Improvement of the export credit system:

Improve the export credit system to enable SMEs to secure funds for export.

c) Strengthening and enhancement of trade fairs and exhibitions:

While improving and strengthening domestic trade fairs and exhibitions, provide support for the participation by SMEs in overseas events.

d) Establishment of export promotion institutions:

Establish special institutions designed to promote export activities of Vietnamese companies. Tasks of such institutions are to collect and provide foreign market information, sponsor trade fairs and exhibitions and offer various other export promotion services to SMEs.

e) Provision of information services:

Collect and provide information on foreign markets, technologies, products and other areas that are useful in promoting export.

f) Modernization of manufacturing equipment of export-oriented industries:

Support plant and equipment investments of export-oriented SMEs through the provision of low-interest loans and other measures to help them improve their manufacturing equipment so that they will be able to increase their international competitiveness in terms of product quality and prices.

The following table shows the development of SME promotion policies by stages.

Table 8.2 Stages to promote SMEs

	I (1997~2005)	II (2005~2010)	III (2010~2015)
Building up foundations for SMEs Deregulation and liberalization of business environment	Establish an SMEs Basic Law SMEs Credit Supplementation system Establish for Financial Institutions for SMEs Formation of SME Industrial Associations Promote investment of SME using by leasing companies	Provide information and foster experts through SME Industrial Associations Promote Venture Capitals System	Promote modernization of SME facilities and equipment
Fostering supporting industries	Establish Technical Training Centers and foster trainers Promote establishment of metal and machinery industries	Spread technologies by establishing Regional Technology Development Centers Supporting Industry Development Program	Promote Database System for supporting industries Promote modernization of supporting industries' facilities and equipment
Promote export activities of SMEs	Promote Export Credit System Improve export permission system	Establish Export Promotion Center and provide market and technology information Spread technologies by establishing Regional Technology Development Centers	Enact financial laws to promote facility modernization of exporting industries Further promotion of world network for Export Promotion Center

Source Compiled by NRI

(3) Case-study of foundations for SMEs' business activities

1) Establishment of SMEs basic law

[Purpose]

It is very important to specify in a law who SMEs are and how important it is to promote SMEs before a variety of SME promotion programs are launched. The legal specification will justify your decision on whether or not to implement new SME promotion programs.

Therefore, SMEs Basic Law should be established to elucidate the right path of SMEs through a clear definition of the framework of SME promotion policy. The Law should also specify the necessity of promoting the growth of SMEs and the important role that SMEs can play in improving Viet Nam's economy.

[Proposal for the contents of the Law]

Chapter I: General Provisions

- a) Goal of the Law
- b) Definition of SMEs
- c) Legal measures
- d) Regular assessment of SMEs
- e) Annual report on SMEs

Chapter II: Structural advancement of the SME sector

- a) Modernization of equipment and facilities
- b) Improvement of technology
- c) Modernization of business administration
- d) Labor related measures

Chapter III: Rectification of disadvantages of SMEs

- a) Proper business opportunities for SMEs
- b) Prevention of excessive competition
- c) Fair subcontract dealings
- d) Assurance of fair opportunities for subcontracts from the government and other major corporations
- e) Adjustment of the competition between SMEs' products and imports

Chapter IV: Export promotion

- a) Promotion and encouragement of export

Chapter V: Financing and Taxation

- a) Facilitation of financing SMEs
- b) Capital replenishment

Chapter VI: Government agencies and SME industrial associations

- a) Establishment and improvement of government agencies related to SME promotion
- b) Establishment and improvement of SME industrial associations

2) Organization of SME financing system

① SMEs credit supplement system

[Purpose]

Many SMEs find it difficult to borrow from financial institutions because of the shortage of security for loans. This problem is particularly serious in Viet Nam, where financial institutions have not been well organized yet.

A credit guarantee system and a credit insurance system are provided with the aim of supplementing SME's security and to help them facilitate borrowing from financial institutions.

[Mechanism]

a) Credit Guarantee Association should be first established. SMEs who wish to borrow funds from financial institutions will apply the Association for its guarantee. The Association will assess the financial needs of the applicants and decide whether it will provide guarantee or not. SMEs who are accepted by the association will then borrow from financial institutions on the security of the guaranty.

b) If SMEs cannot pay the guaranteed loan, Credit Guarantee Association will reimburse it to financial institutions in place of the SMEs.

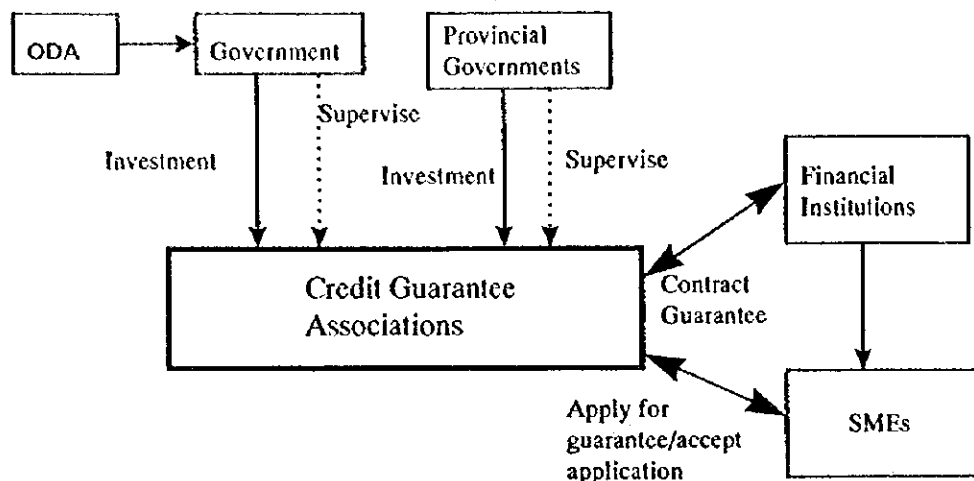


Chart 8.1 Outline of the credit supplement system in Viet Nam

Source Compiled by NRI

② Establishment of financial institution for SMEs

[Purpose]

SMEs in Viet Nam are suffering chronic fund shortage due to their difficulty in borrowing from financial institutions. They especially find it difficult to obtain a long-term loan for more than six months, which leads to a serious problem in their equipment investment. The financial problems facing SMEs will seriously impede not only the development of SMEs but the future growth and stability of Viet Nam's economy.

For this reason, the establishment of a financial institution for providing a long-term loan to SMEs is indispensable for promoting the growth of SMEs.

[Function]

To provide a long-term loan to SMEs that need to raise funds for the following purposes:

- a) Investment in equipment modernization (e.g., improvement or replacement of existing equipment, purchase of hi-tech equipment, etc.)
- b) Equipment investment for business expansion with a view to selling products to import/export companies
- c) Long-term working fund that is difficult for SMEs to borrow from private financial institutions.
- d) Equipment investment for human resource development
- e) Equipment investment for R&D

3) Formation of SME industrial associations

[Purpose]

In many cases, it is more effective to provide SME promotion programs to industrial organizations and associations than to individual SMEs. In fact, foreign assistance is normally provided to such organizations.

However, there are very few industrial associations in Viet Nam. Integration of SMEs into the formation of associations is very important in developing SME promotion programs on a full scale.

{Function}

Industrial associations can provide the following services to their members:

a) To rationalize SME management and improve their trade terms and conditions through joint production, processing and marketing while at the same time assuring the autonomy of individual members.

b) To work together on human resource development.

c) To share information on markets, technology, etc.

d) To serve as a recipient of government and foreign assistance services.

e) To help members raise funds by providing them with loans and credit guarantee.

[Supportive Measures]

a) Ease the qualifications for the establishment of industrial associations.

b) Provide industrial associations with tax exemption programs as incentive measures.

c) Define industrial associations as recipients of SME promotion programs.

IX. Supporting Industry Development Policy

1. Perspective on Supporting Industry Development in Viet Nam

(1) Basic point of view

A supporting industry has still been undeveloped to meet the need of large foreign manufacturers of electric/electronic equipment and automobiles for the supply of parts and materials. Due to the lack of domestic supply sources, the foreign manufacturers in Viet Nam need to import parts and materials from foreign countries. If they continue to depend on imported parts and materials, the trade deficit of Viet Nam will increase, and the benefit of the presence of foreign companies in Viet Nam will continue to be limited to the small segment of the nation's economy.

The issue of supporting industry development presents a challenge to Viet Nam in common with all of the ASEAN countries. In spite of their continued efforts to develop a supporting industry through technology transfer and other programs, it still looks difficult for them to make a good progress.

Some SMEs in Viet Nam have begun to produce industrial parts to cater to the need of local foreign companies. There is also an accumulation of technological know-how related to metalworking in Viet Nam exploited by government enterprises. However, their technological level is still low and their production equipment is out of date. Accordingly, it will be extremely difficult to develop a supporting industry in Viet Nam if the efforts are to be made with the existing level of technology.

Apart from the unsatisfactory level of the technology and skills of engineers and workers from government enterprises, the accumulation of metalworking technology and skills is one of the advantages that Viet Nam have over any of the ASEAN countries. Therefore, it seems highly worthwhile that by utilizing this advantage, Viet Nam seek to upgrade the existing technology through technology transfer from foreign companies in Viet Nam and from overseas countries in order to further the possibility of developing a supporting industry.

Specifically, it is advisable to promote the supporting industry development by the following three stages:

1) The first stage (present - 2005):

a) The period between now and 2005 will be spent on preparing for the supporting industry development.

b) During this period, a government support should be aimed at the establishment of new businesses in the supporting industry, on the basis of the existing metalworking skills of the machine repair/maintenance industry and of the government enterprise engineers and workers.

c) To this end, special support measures including the provision of low-cost equipment rent will be needed to help the start-up businesses.

d) In view of the full-scale development after 2005, technical instructors in the metalworking field should be fostered.

e) Furthermore, it is advisable to attract foreign suppliers of metalworking products, electronic parts and automotive parts to Viet Nam because it can be expected that the foreign companies will give orders to local businesses and that as a result, technology transfer will be promoted.

2) The second stage (2005-2010):

a) The supporting industry development will be promoted on a full scale during the period between 2005 and 2010.

b) On the assumption that the supporting industry has developed to a certain degree, organization

of industrial associations of SMEs will be promoted to facilitate the provision of government support services.

c) Technology transfer will be actively promoted by utilizing the technical instructors fostered at the first stage to upgrade the technology of SMEs to an acceptable level for foreign companies.

SMEs will expand business opportunities with foreign suppliers of electronic parts and automotive parts and with foreign assembly companies in Viet Nam while promoting technology transfer from them.

3) The third stage (2010 - 2020):

a) After 2010, SMEs in the supporting industry will aim to become an export industry by developing the opportunities of supplying their parts to assembly companies in the ASEAN countries in view of the full development of the AFTA.

b) In order to turn the supporting industry to an export industry, it will be important for Viet Nam to produce a vast number of nucleus companies with sufficient technical capability. This objective will only be able to be achieved by providing effective support programs to foster the growth of the nucleus companies and by actively promoting exports while encouraging their own efforts of R&D.

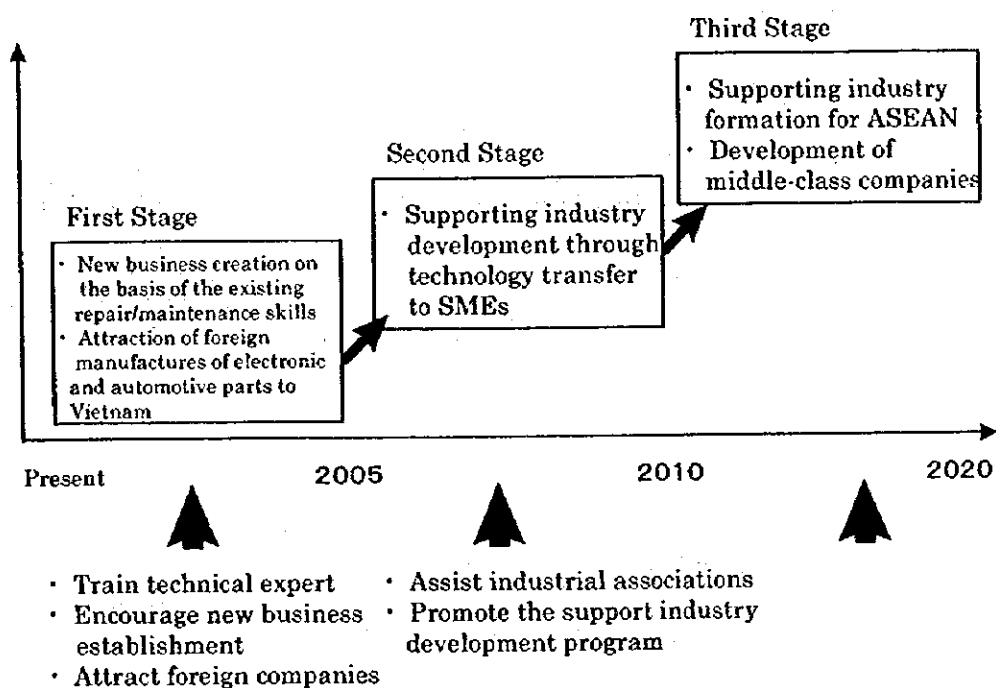


Chart 9.1 Three-stage development of supporting industry in Viet Nam

Source Compiled by NRI

(2) Supporting industry development policy by stages

The supporting industry development policy should be implemented by stages as follows:

1) The first stage (present - 2005)

a) Support for new business creation in the supporting industry:

Provide assistance services to start-up businesses with poor financial resources by renting second-hand equipment used by government enterprises at low costs while encouraging the import of second-hand machines and equipment from foreign countries, and by promoting the establishment and development of leasing companies of manufacturing equipment and machines.

b) Establishment of technical training centers:

Set up technical training centers to provide training programs for technical instructors who will be expected to play an active role in technology transfer to the supporting industry after 2005.

c) Invitation of foreign companies in the supporting industry to Viet Nam:

Encourage foreign metalworking companies and suppliers of electronic and automotive parts to shift their manufacturing facilities to Viet Nam.

2) The second stage (2005 - 2010):

a) Establishment of regional technology development centers to provide technical training service:

Set up regional technology development centers throughout the country to promote technology transfer to SMEs. At the centers equipped with test and analysis equipment and training facilities, technical instructors trained at the technical training centers will provide technical training service to SMEs.

b) Promotion of the organization of SME industrial associations:

Encourage the formation of SME industrial associations that will be a direct recipient of government SME support programs. Also provide various programs to support the activities of the associations.

c) Formulation of supporting industry development programs:

Formulate effective programs for supporting industry development to facilitate technology transfer from foreign companies in Viet Nam to local SMEs.

3) The third stage (2010 - 2020):

a) Promotion of export by the supporting industry:

Provide export promotion programs to the supporting industry including the provision of technical advice and market information on the ASEAN countries and assembly companies there.

b) Further promotion of supporting industry development programs:

Advance the supporting industry development programs to foster nucleus companies in the industry with cooperation with financial institutions and investment companies.

(2) Case-study of supporting industry development policy

1) Establishment of technical training centers

[Purpose]

In order to achieve smooth technology transfer that is required for the development of a supporting industry, it is necessary to foster technical instructors who can provide technical training. Technical training centers are designed to produce technical instructors with advanced level of technology in cooperation with foreign companies in Viet Nam and overseas countries.

[Function]

- a) Technical training centers are furnished with equipment for practical training.
- b) Training programs are provided in cooperation with foreign companies in Viet Nam by utilizing the programs of foreign government agencies and industrial organizations.

2) Regional technology development centers

[Purpose]

The purpose of the establishment of Regional Technology Development Centers is to help SMEs solve their technical problems and increase their competitiveness in the export markets by upgrading their technology. The Centers undertake testing of and research on SMEs' products and their production technology and to provide SMEs with relevant technical training.

[Services]

The Centers will provide the following services:

- a) To provide SMEs with advice on their technical problems and send technical experts to help solve the problems.
- b) To set up technical training seminars for engineers from SMEs.
- c) To undertake product/material testing and evaluation for SMEs when requested.
- d) To let the test equipment of the Centers available to SMEs who want to conduct a product test.
- e) To conduct R&D in the areas of production technology and production development techniques necessary for upgrading regional industries and to disseminate the results of their R&D efforts among local companies.

[Operation]

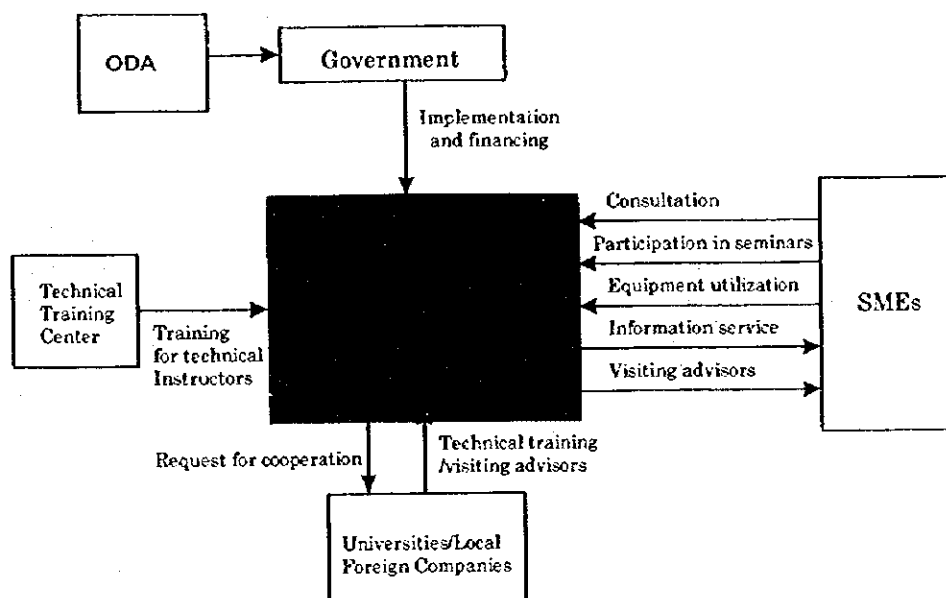


Chart 9.2 Outline of the regional technology development centers in Viet Nam

Source Compiled by NRI

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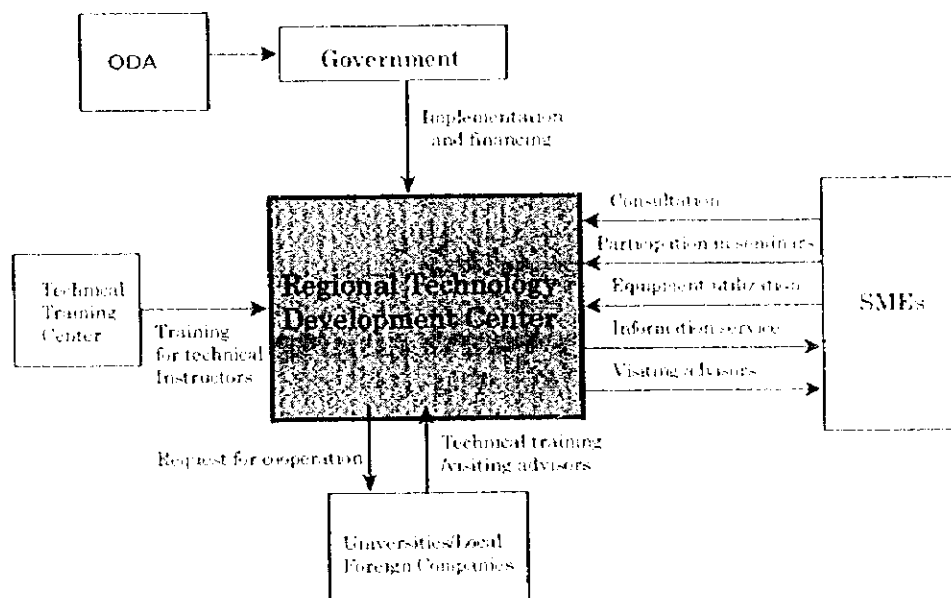


Chart 9.2 Outline of the regional technology development centers in Viet Nam

Source Compiled by NRI

a) People's Committee in each province will be responsible for the establishment and management of the Center.

b) Call on university professors and engineers of foreign companies in the region to serve as technical advisors.

c) Acquire second-hand test equipment from research institutes in Japan or other foreign countries at lower cost or without cost.

[Development by Stages]

a) Select certain regions at the beginning. Start with Hanoi and Ho Chi Minh.

b) Select particular industries in accordance with the regional situation. Such industries could include textile, woodwork, ceramics as well as metalworking.

c) Start a consulting service, send technical advisors and set up technical training seminars.

3) Supporting industry development program

[Purpose]

Although a number of foreign manufactures have operated their businesses in Viet Nam, very few of them have purchased parts from local Vietnamese suppliers due to the underdevelopment of a supporting industry in Viet Nam.

In the present situation, foreign companies operated in Viet Nam are allowed few opportunities to contribute to the economic growth of the country, and in a worse case, the gap between the foreign companies and local Vietnamese firms might expand in various areas. On top of that, increasing needs of the foreign assembly companies for imported parts will affect the trade balance of Viet Nam.

However, the existing local SMEs in Viet Nam are far below the level of technology and managerial skills that the foreign companies expect their part suppliers to achieve. Unless they can achieve the expected level, it is difficult to foster a supporting industry in Viet Nam.

Therefore, the Supporting Industry Development Program in Viet Nam should be designed to promote the transfer of technology and managerial skills from foreign companies in Viet Nam to help upgrade the local SMEs.

[Program Outline]

A computer database on SMEs suppliers will be established so that foreign companies can select potential SMEs as their partners through the database.

Foreign companies are encouraged to form a partnership with selected local SMEs (in both public and private sectors) and then transfer their advanced technology to their SME partners.

Specifically, foreign companies are requested to select SMEs as their partners when they establish their business in Viet Nam. A technology transfer program will then be formulated for two parties to make a gradual transfer of:

a) Business management technology; and

b) Production Management technology (including quality control skills).

[Way of Implementation]

a) The Supporting Industry Development Program should be integrated into the overall Government policy for foreign company investment promotion.

b) Some incentive measures should be provided to involve foreign companies in this program.

c) Financial and investment institutions should also be involved in this program when middle-

class companies develop in Viet Nam.

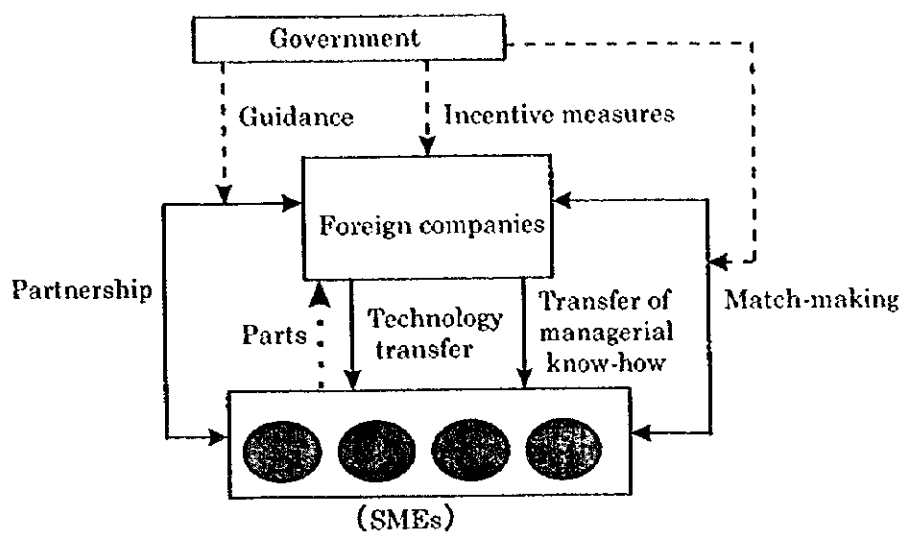


Chart 9.3 Outline of supporting industry development program in Viet Nam

Source Compiled by NRI

X. Measures for the Promotion of Exports to Viet Nam's SMEs

1. Stages of Development for Contract Processing (the Case of Cotton Garments)

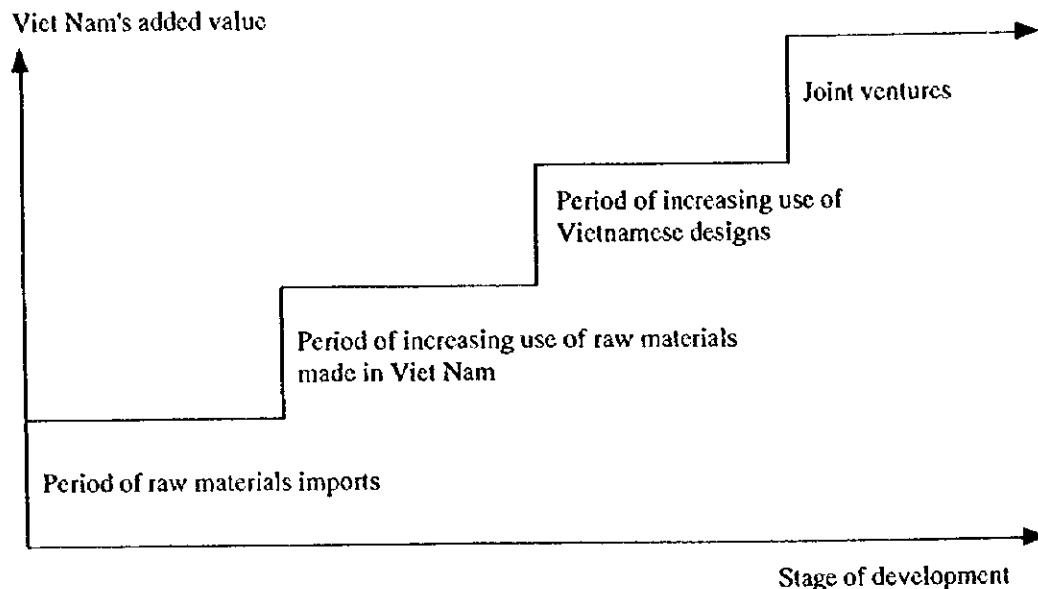


Chart 10.1 Stages of development and Viet Nam's added value

Source Compiled by NRI

Viet Nam's Industrial Statistics (So Lieu Cong Nghiep Viet Nam 1989~1993) shows that the industries in which the shares of non-states-run enterprises in the total value of production are large are a) lumber processing (77%), b) textiles (67%), and c) metal processing (55%), with textiles occupying the second position. And as indicated by the questionnaire survey, many private SMEs engage in textiles exports under the contract processing scheme. However, there is an argument in Viet Nam that processing under contract from foreign companies may be increasing the nation's imports. We will see what kind of progress is anticipated in contract processing by taking the case of garment exports to Japan. Chart 10.1 and Table 10.1 show the format of contract processing by stage of development. These stages are theoretical, and the real situation may not develop as indicated. However, Japanese firms are placing orders for contract processing in anticipation of the following stages of development.

In the first present stage, because of insufficient domestic availability of raw materials and equipment, companies must increase their dependence on foreign procurement, including that of raw materials, when they engage in contract processing (the period of raw materials imports). This is the phase of increasing imports which is being pointed out at the moment. However, one should keep in mind that because firms are engaged in contract processing, their work is naturally increasing exports. Specifically, textile exports from Japan to Viet Nam increased 4.1 times from 35 million dollars in 1992 to 140 million dollars in 1995. During the same period, textile exports from Viet Nam to Japan

increased even more sharply by 5.3 times from 110 million dollars to 560 million dollars (Table 10.2)

Table 10.1 Format of contract processing (the case of cotton garments)

Items	The period of raw materials imports	The period of increasing use of raw materials made in Viet Nam	The period of increasing use of Vietnamese designs	Joint ventures
Raw materials	Woven fabrics and yarns brought in by foreign companies	Increasing use of woven fabrics made in Viet Nam	Increasing use of yarns made in Viet Nam	Foreign and Domestic raw materials
Design	Foreign firms	Foreign firms	Viet Nam	Viet Nam
Sales routes	Sales to foreign firms	Sales to foreign firms	Sales to foreign firms	Exports
Technological guidance	Foreign firms	Foreign firms	Foreign firms	Foreign firms
Equipment	Own equipment or on rent from foreign firms	Own equipment or on rent from foreign firms	Own equipment or on rent from foreign firms	Imports
Production effects	Acquisition of technology, Job increases	Acquisition of technology, increase in the ratio of locally procured raw materials	Acquisition of technology, increase in the ratio of locally procured raw materials	Securing of technology and capital
Added value	Processing fees only	Increase in the ratio of processing fees	Increase in the ratio of processing fees	Increase in added value, including profits
Trade effects	Increase in imports	Improvement in import dependence	Improvement in import dependence	Expansion of exports

Source Compiled by NRI

Table 10.2 Textile Trade between Viet Nam and Japan (US\$1,000)

Items	Y1992	Y1993	Y1994	Y1995	Y1996
Exports from Japan	35,427	59,413	82,835	116,939	143,500
Synthetic textiles	3,495	10,629	11,591	11,148	7,942
Raw yarns	2,677	3,129	2,492	3,385	4,725
Fabrics	21,766	31,672	45,881	68,904	89,682
Secondary textile products	7,490	13,983	22,865	33,489	41,151
Exports to Japan	105,843	205,169	302,343	430,433	559,270
Secondary textile products	105,523	204,741	299,987	425,657	555,077

Source White Paper on International Trade, MITI

In the second stage, technology transfer from Japan encourages an improvement of production technology, standardization technology, and quality control in Viet Nam, which increases the use of Viet Nam-made woven fabrics. This should check the increasing trend of imports (progress in the use of raw materials made in Viet Nam).

In the third stage, technology transfer from Japan makes further progress, increasing the production of good-quality raw yarns in Viet Nam, and the design development capabilities of Vietnamese firms rise based on the samples provided by foreign companies (progress in the use of Vietnamese designs).

In the fourth stage, Vietnamese firms learn designing, and the ratio of local procurement of raw materials increases, creating an environment in which joint ventures can operate. Foreign firms will

provide technologies, capital, and marketing channels, enhancing export competitiveness of garments made in Viet Nam.

How long it will take to move up from stage I to stage IV depends on the speed of the acquisition of technologies by the Vietnamese. Japanese experience in manufacturing garments in China show that this requires somewhere between five and seven years on average. After China opened up its economy to other countries in 1979, Japanese firms started contract procession on a trial basis in the early 1980s. Entries through contract processing began in earnest in the latter half of the 1980s, and by 1992 most operations developed into joint ventures. In 1996, there were more than 700 Sino-Japanese textiles joint ventures. In addition, since 1993, Japanese general trading companies have begun to enter dyeing process, which had been a bottleneck in China. They are also aggressively increasing investments in China in the upstream and mid-stream sectors such as acrylic yarns and joint ventures for integrated production of knitwear. In the downstream garment sector, it is well known that Chinese exporters to Japan include many private provincial and rural firms as well as state-run enterprises. Therefore, the government of Viet Nam should take into consideration these policies and behaviors of Japanese firms, and come up with appropriate policies toward contract processing.

2. A Survey of Exports to Japan (the Case of Garments)

As the survey shows, the promotion Vietnamese products in Japanese markets is an important task for Viet Nam's small and medium-sized textile firms. Therefore, we have studied trends of garment exports to Japan from Viet Nam as a case study to discuss policy options for promoting exports to Japan.

As of 1996, the only Vietnamese products whose market shares among imports to Japan were among the top five in terms of value, were clothing, bedding, and home textiles. Between 1993 and 1996, the value of Japan's imports from Viet Nam increased at an average annual rate of around 20% (approximately 10% in terms of unit volume) for clothing, approximately zero (minus 5%) for bedding, and approximately 10% (around 5%) for home textiles. In 1996, the size of markets for imports from Viet Nam was approximately 2 trillion yen for clothing, approximately 50 billion yen for bedding, and around 70 billion yen for home textiles. In this report, in-depth analysis and recommendations are made for clothing, which enjoys a large market as well as a strong prospect of further increases in the value of imports to Japan. For bedding and home textiles, only key points are brought to the readers' attention.

Japan's garment imports have increased dramatically since the yen's appreciation in 1987. In 1996, imports accounted for 37% of total domestic consumption. Table 10.3 shows that at present China has an approximately 60% share among imports of clothing to Japan. The share in imports of Chinese and Vietnamese products have risen sharply, while that of South Korean products has declined and those of Italian and US products have remained steady. Although it is not included in this Table, if we check the top ten exporting countries in terms of value since 1990, we find shares of Thailand, Indonesia, and Hong Kong have declined, while those of French and British products have remained steady. In any event, the dramatic rise in Chinese and Vietnamese products is prominent. Statistics on garment imports to Japan from January to March 1997 show that in terms of value, Vietnamese products posted a year-on-year increase of 42%, surpassing the year-on-year increase of 19% registered by Chinese products. Viet Nam's growth rate was the highest of all.

Table 10.3 Major exporters of garments to Japan

(Top 5 countries in terms of value in 1996)

Source of imports	Units	Y1990	Y1991	Y1992	Y1993	Y1994	Y1995	Y1996
China	Value	330,594	419,088	595,251	676,282	816,624	972,067	1,241,815
	(Million yen)							
	Share of value	31.0%	37.7%	46.5%	52.0%	55.5%	57.8%	60.4%
Italy	Volume (tons)	141,900	187,881	260,520	332,424	410,303	463,473	509,375
	Value	156,124	132,121	114,627	89,482	117,252	140,547	182,898
	(Million yen)							
S. Korea	Share of value	14.6%	11.9%	9.0%	6.9%	8.0%	8.3%	8.9%
	Volume (tons)	5,698	4,455	3,906	4,420	7,795	10,034	10,271
	Value	276,761	254,540	220,017	189,751	180,831	160,099	140,179
U.S.	(Million yen)							
	Share of value	26.0%	22.9%	17.2%	14.6%	12.3%	9.5%	6.8%
	Volume (tons)	81,437	79,040	71,686	72,360	74,893	68,791	53,489
Viet Nam	Value	37,383	55,118	65,748	90,563	88,037	97,971	109,983
	(Million yen)							
	Share of value	3.5%	5.0%	5.1%	7.0%	6.0%	5.8%	5.4%
World total	Volume (tons)	8,849	13,844	15,609	25,581	25,300	27,137	24,212
	Value	1,718	4,480	11,314	19,648	26,342	34,699	53,073
	(Million yen)							
World total	Share of value	0.2%	0.4%	0.9%	1.5%	1.8%	2.1%	2.6%
	Volume (tons)	853	2,085	4,781	8,894	12,531	16,120	21,276
	Value	1,066,313	1,110,317	1,279,546	1,300,884	1,471,454	1,681,240	2,055,146
World total	(Million yen)							
	Volume (tons)	193,560	344,530	422,325	508,018	599,941	663,003	698,511

Source "Japan's Apparel Market and Imports (April 1997)" The Japan Textiles Importers Association

Table 10.4 Unit Price per ton of garments imported to Japan

(Top 5 countries in terms of value in 1996, cif)

Source of imports	Units	Y1990	Y1991	Y1992	Y1993	Y1994	Y1995	Y1996
China	Million yen/ton	2.33	2.23	2.28	2.03	1.99	2.10	2.44
Italy	Million yen/ton	27.40	29.65	29.34	20.24	15.04	14.01	17.81
S.Korea	Million yen/ton	3.40	3.22	3.06	2.62	2.41	2.33	2.62
U.S.	Million yen/ton	4.22	3.98	4.21	3.54	3.48	3.61	4.54
Viet Nam	Million yen/ton	2.01	2.14	2.37	2.21	2.10	2.15	2.49
World total	Million yen/ton	4.45	3.22	3.03	2.56	2.45	2.54	2.94

Source Compiled by NRI

Garments imports to Japan can be classified into the following three categories in terms of product attributes.

1) Fashionable garments

Garments imported from primarily Europe are of high quality in terms of color, pattern, product quality, design and sewing. A characteristic of European products is their subtle neutral colors. They are also easy to wear, do not lose their shape easily, and have soft silhouettes. On the strength of these qualities, they enjoy stable demand in Japan. Although their unit import prices have been declining, they are still in the high price range. European products have high value added because of integrated production starting with the yarns.

2) Products for which raw materials or manufacturing resources are not easily available in Japan

Products made of animal wool, such as cashmere, angora, or mohair, are imported primarily from South Korea and China. The sewing techniques of silk or similar products are regarded as features of Chinese products and are accepted as such in Japan.

3) Labor-intensive products

Common features of Asian imports are that they do not require complicated sewing specifications and that they are labor-intensive, mass-produced goods. However, South Korea and Taiwan are losing their price competitiveness in this area because of the appreciation of their currencies, and higher wages. On the other hand, as indicated in Table 10.4, China and Viet Nam have markedly improved their export competitiveness vis-a-vis other Asian countries, partly because of their relatively low unit import prices.

Table 10.5 Trends in the ratio of woven garments to Japan's knitted garment imports
(developing nations only)

Woven garments (value) / Knitted garments (value)	Y1992	Y1993	Y1994	Y1995	Y1996
Viet Nam	2.08	1.96	1.83	1.71	2.08
China	1.79	1.79	1.61	1.60	1.61
Taiwan	0.78	0.70	0.96	0.72	0.67
S. Korea	0.65	0.54	0.21	0.36	0.31
World average	1.50	1.34	1.24	1.27	1.37

Source Compiled by NRI

When we check Japan's garment imports by major exporting countries, we find that the ratio of woven garments to knitted garments is still very high for Vietnamese products (Table 10.5). This is because Vietnamese firms' technologies have not yet developed fully for manufacturing goods directly from yarns brought in by foreign companies under contract processing. The Vietnamese firms mostly make garments with fabrics brought in by foreign companies. The ratio of woven garments to knitted garments for Chinese products is higher than that for Taiwanese and South Korean products, but the ratio of knitted garments is on the increase. For Viet Nam to shift its product mix from low-priced to medium-priced goods, it must quickly step up the introduction and establishment of fabrics technologies which are necessary to raise the ratio of knitted garments.

Table 10.6 Vietnamese garments in Japan by product category

Item	Units	Y1993	Y1994	Y1995	Y1996
Knitted garments	Value (Million yen)	6,303	8,713	11,931	16,033
	y-o-y increase rate	(+77%)	(+38%)	(+31%)	(+34%)
Outer garments	Value (Million yen)	5,684	8,005	10,320	13,663
	y-o-y increase rate	(+89%)	(+41%)	(+29%)	(+32%)
Polo shirts, sweat shirts	Value (Million yen)	2,868	3,881	5,018	6,411
	y-o-y increase rate	(+77%)	(+35%)	(+29%)	(+28%)
Sweaters, cardigans	Value (Million yen)	1,975	2,293	2,460	4,091
	y-o-y increase rate	(+141%)	(+16%)	(+7%)	(+66%)
Under garments	Value (Million yen)	619	708	1,611	2,70
	y-o-y increase rate	(+13%)	(+14%)	(+118%)	(+47%)
Woven garments	Value (Million yen)	12,342	15,991	20,368	33,375
	y-o-y increase rate	(+67%)	(+30%)	(+27%)	(+64%)
Outer garments	Value (Million yen)	11,378	14,581	18,466	30,381
	y-o-y increase rate	(+69%)	(+28%)	(+27%)	(+65%)
Jumpers	Value (Million yen)	5,825	6,397	6,476	11,778
	y-o-y increase rate	(+51%)	(+10%)	(+1%)	(+82%)
Slacks	Value (Million yen)	1,103	1,759	3,137	5,203
	y-o-y increase rate	(+33%)	(+59%)	(+78%)	(+66%)
Under garments	Value (Million yen)	964	1,410	1,902	2,994
	y-o-y increase rate	(+46%)	(+46%)	(+35%)	(+57%)

Source Japan International Trade Statistics Monthly

Characteristics of Japan's garment markets are as follows.

First, there is bipolarization to low-end market that meets the consumer's needs for popularly-priced goods and luxury market, which caters to the consumer's desire for genuine and individualistic goods.

Second, while heavy garments including suits, coats and dresses are stagnating, light garments including blouses and shirts, sweaters, and skirts for casual wear are increasing.

Third, because of the prolonged economic stagnation, the Japanese consumer has become defensive. They are buying lower-priced goods than before or holding down new purchases by coordinating what they have.

At present, Viet Nam is capturing markets for low-priced, light and casual garments. More specifically, as indicated in Table 10.6, the increases in polo shirts, sweat shirts, sweaters, cardigans, jumpers and slacks and under garments are providing the underpinnings to growth in garments made in Viet Nam.

Table 10.7 Ratio of men's garments to Japan's garment imports (1996, based on value)

Items	Viet Nam	China	France	Italy	Imports average	Total Japanese market
Ratio of men's garments	80%	66%	44%	60%	69%	37%

Source Compiled by NRI

In order to see the difference from Chinese products, we have checked the ratios of men's garments (in terms of value) for 1996 (Table 10.7). Whereas the ratio is 66% for Chinese products, it is high at 80% for Vietnamese products. Given the fact that men's garments account for only 37% of total Japanese market, in the medium and long term, Vietnamese firms must draw up entry strategies for more fashionable and high value added women's market.

3. Policy Options for Promoting Exports to Japan

So far, Japan sales of garments made in Viet Nam have been successful, as their sales volume has increased sharply, while unit prices have risen gradually. However, we suggest the following policy options to Viet Nam's small and medium-sized textile firms, so that they can further increase sales in Japan.

Many major Japanese trading houses and apparel makers have already signed contract processing agreements or formed joint ventures with large state-run textile firms in Viet Nam. Therefore, it is necessary for capital-strapped SMEs in Viet Nam to organize business alliances and consider entering into business tie-ups with cooperatives of small and medium-sized Japanese garment manufacturing plants. Japan's small and medium-sized garment manufacturers are more eager than larger companies to transfer garment-making technologies. The experiences of Japanese companies operating in China show that it is not large Japanese trading houses or apparel makers but rather small and medium-sized Japanese garment makers that are playing key roles in factory management, work flow planning, and technological guidance in doing business in China.

In order to bring small and medium-sized Japanese garment manufacturers to Viet Nam and to encourage technology transfer to Viet Nam, the construction of textile industrial parks would be a very effective means. In 1993, small and medium-sized garment manufacturers in Gifu Prefecture, Japan, adopted this scheme in the suburbs of Beijing, and they have been very successful. In 1995, a Tokyo garment manufacturer suggested that Viet Nam adopt this idea.

A considerable number of Viet Nam's small and medium-sized textile firms miss delivery dates because of slow export procedures. In a country like Japan, where people are keenly aware of changes of seasons, arrival of shipments after the selling season drastically reduces product values. Production efficiency and quality control are important for small and medium-sized textile firms, but delivery control is even more important. For this purpose, integrated physical distribution services are essential, ranging from bonded warehouses, to transportation, customs clearance, distribution processing, packing, shipping agents, and forwarding agents. In order to provide such services, business tie-ups with foreign transporting companies specializing in clothing would be necessary.

Products made in contract processing are usually sold under the buyer's brand names. Many of them are sold at low prices. In order to shift the product mix from low-priced items to medium-priced items, it would be effective if Viet Nam's association of textile makers guarantees product quality based on uniform standards and attaches a special mark to products meeting these standards. It would be effective to introduce some insignias, or other instruments, that clearly indicate that the product meets the uniform standard.

Sending commercial missions to Japan to promote exports imposes too much financial burden on SMEs in Viet Nam. Therefore, it is necessary to create exhibit spaces to display Vietnamese products made under contract processing, and bring over prospective buyers to Viet Nam. These exhibits should be updated constantly.

In order to enhance competitiveness of Vietnamese products in the international markets, designers working at SMEs should be sent overseas to gain experience. Designers need to have an excellent sense of shapes and techniques to transform visual concepts into actual products. They also need originality and creativity that can be appreciated internationally. It is, therefore, necessary to create a program to assist and enable designers in the areas of industrial design, interior design, graphic design and packaging design to go overseas.

In order to support export promotion by Viet Nam's SMEs, the creation of an organization with the following functions will be necessary. (a) Conduct market research and draw up market strategies; (b) Gather information and conduct research for product planning, designing, and design development; (c)

Introduce partners for contract processing and joint ventures; (d) Encourage overseas sales promotion; and (e) Guarantee loans.

4. Studies of and Suggestions for Exporting to Japan : Cases of Bedding and Home Textiles

Traditionally, Japanese people slept in cotton bedding. Since around 1975, however, reflecting growing interest in health among the Japanese people, imports of down quilts have increased sharply because they are lighter, warmer, and let the air pass better than cotton futon, or Japanese bedding. In around 1994, down quilts accounted for 50% of the Japanese market for imported futon in terms of value. Since then, the value of imports of down quilts has been declining. Futon other than down quilts are not listed by category in Japan's international trade statistics, making it impossible to find figures by type of material. Industry sources estimate, however, that the large part of imports are cotton-blend futon, woolen futon, and futon cases. Imports of futon other than down quilts have been increasing, as low-priced imported cotton futon are capturing the market away from domestic cotton futon (Table 10.8).

Table 10.8 Imports of bedding to Japan by type

Items	Y1992	Y1993	Y1994	Y1995	Y1996
Down quilts					
Value (¥ million)	10,725	14,432	20,465	17,635	15,301
Unit volume (tons)	4,925	8,733	13,133	14,516	11,380
Other futon					
Value (¥ million)	12,403	18,410	27,521	27,692	32,916
Unit volume (tons)	8,988	18,231	31,683	29,960	29,855
Total					
Value (¥ million)	23,127	32,842	47,986	45,327	48,216
Unit volume (tons)	13,914	26,964	44,816	44,476	41,235

Source Japan International Trade Statistics Monthly

Table 10.9 shows the shares of countries in imports of futon other than down quilts. China's share in this category is almost 80%, followed by Viet Nam, which accounts for 8%. Trends of imports show that Chinese and Vietnamese products have been increasing steadily and conspicuously. While the total value of imports of futon other than down quilts has been increasing, the import volume has ceased to increase. The market for such imports is regarded to have reached saturation. Therefore, all exporting nations must come up with measures to win in the intensifying competition.

Table 10.9 Major sources of Japan's imports of futon other than down quilts
(In the order of the top 5 nations in 1996 in terms of value, ¥ million)

Source of imports	Y1992	Y1993	Y1994	Y1995	Y1996
China	6,440	13,317	21,697	21,699	25,945
Viet Nam	—	463	1,197	1,702	2,356
Thailand	942	1,761	1,711	1,156	1,193
U.S.	181	199	255	455	515
Germany	438	344	341	335	424
Others	4,401	2,326	2,323	2,346	2,482
Total	12,403	18,410	27,521	27,692	32,916

Source Japan International Trade Statistics Monthly

Among the daily necessities, bedding is rather inexpensive but with low turnover. Therefore, from now on it will become even more important for makers to increase value added and increase unit prices by developing products that meet Japanese consumers' demand for healthful goods and the needs for health care products. For example, as the ratio of the elderly to the total population in Japan rises, the development of Japanese-type mattresses that are easy on the backbones or those with magnets embedded inside should help the manufacturer gain a dominant position in the market.

Home textiles include bed linen (bed sheets and comforter cases), table linen (tablecloth and napkins), bathroom and kitchen linen (towels, and dishcloth). As all of these linen markets in Japan are mature, imports are replacing domestic products, resulting in an increase in the value of imports (Table 10.10). As there are no statistical data on the Japanese domestic markets for home textiles, it is impossible to know the share of imports, but industry sources put it at around 30%. The term linen originally meant hemp in Dutch, but in Japan most so-called linen is actually cotton, because the latter is more water absorbent than hemp.

Table 10.10 Japan's imports of home textiles by type

Items	Y1992	Y1993	Y1994	Y1995	Y1996
Bed linen					
Value (¥ million)	15,809	15,874	27,492	25,791	27,323
Unit volume (1,000 dozens)	3,293	3,922	6,876	6,193	5,690
Table linen					
Value (¥ million)	2,950	3,274	4,309	4,422	4,615
Unit volume (1,000 dozens)	1,479	2,229	3,225	3,192	2,932
Bathroom and kitchen linen					
Value (¥ million)	13,673	14,294	20,048	25,924	30,661
Unit volume (1,000 dozens)	46,692	49,597	58,973	69,732	65,003
Others					
Value (¥ million)	4,102	4,641	4,589	5,839	6,550
Unit volume (1,000 dozens)	1,205	1,625	2,444	2,640	2,862
Total					
Value (¥ million)	36,534	38,083	56,438	61,975	69,149
Unit volume (1,000 dozens)	52,669	57,374	71,518	81,757	76,487

Source Japan International Trade Statistics Monthly

In the Japanese home textiles markets, low-priced imports from Asia are for commercial use, while high-priced domestic products and American and European imports are for home use. Unit prices of American and European imports are about ten times higher than those of Asian imports. For both commercial and home use, the Japanese prefer American or European products in table linen, because they place importance on designs and interior coordination as these products are seen by guests.

As a result, among the import markets, the categories in which Viet Nam holds large shares are bathroom and kitchen linen, the unit prices of which are relatively low (Table 10.11). Viet Nam holds a particularly large share in small hand towels which are offered steaming hot in restaurants. In the relatively high-priced bed linen category (Table 10.12), Viet Nam's share is not very large. Vietnamese products are hardly imported to Japan in the table linen category (Table 10.13).

Table 10.11 Major sources of bathroom and kitchen linen imported to Japan
(In the order of the top 5 nations in 1996 in terms of value, ¥ million)

Source of imports	Y1992	Y1993	Y1994	Y1995	Y1996
China	9,028	9,361	12,620	17,299	21,438
Viet Nam	1,370	1,726	2,461	3,184	3,476
Indonesia	45	455	626	1,128	1,415
U.S.	408	479	777	1,232	1,113
Taiwan	305	270	237	405	489
Others	2,517	2,003	3,327	2,675	2,730
Total	13,673	14,294	20,048	25,924	30,661

Source Japan International Trade Statistics Monthly

Table 10.12 Major sources of bed linen imported to Japan
(In the order of the top 5 nations in 1996 in terms of value, ¥ million)

Source of imports	Y1992	Y1993	Y1994	Y1995	Y1996
China	12,669	12,656	23,635	22,304	23,289
India	830	1,013	1,546	1,152	1,085
Pakistan	395	246	392	270	604
Viet Nam	84	520	723	698	562
U.S.	152	92	110	201	322
Others	2,517	1,347	1,086	1,167	1,461
Total	15,809	15,874	27,492	25,791	27,323

Source Japan International Trade Statistics Monthly

Table 10.13 Major sources of table linen imports to Japan
(In the order of the top 5 nations in 1996 in terms of value, ¥ million)

Source of imports	Y1992	Y1993	Y1994	Y1995	Y1996
India	1,062	1,520	1,982	2,047	2,067
China	1,063	1,137	1,451	1,425	1,376
Italy	34	33	35	53	222
Germany	103	93	82	150	184
France	65	45	78	83	116
Others	624	447	681	664	649
Total	2,950	3,274	4,309	4,422	4,615

Source Japan International Trade Statistics Monthly

In the Japanese market, Vietnamese products will face increasingly fierce competition from products from India and China, which have great capacity as they are cotton growing countries. In order to win in the competition, Viet Nam must further improve product quality, such as realizing good design and soft touch to the skin, and increase its market shares in high value-added segments of the market, such as bed linen and linen for home use. In order to achieve this, the association of SMEs in Viet Nam should commission a Japanese company to monitor the Japanese market or permanently station officials in Japan to enhance monitoring and cultivating the market. Following this first step, it will be necessary for Viet Nam to create an organization for the promotion of exports to Japan.

Appendix 1
Questionnaire on SME Management Practices in Viet Nam
Prepared by Nomura Research Institute
January, 1997

Question 1: What are your name, your company's name and address? Please fill in the following blanks.

Company's Name	
Address	
Phone	
Your Name and Department	

Question 2: What type of enterprise is your company?

1. Limited Company--->Capitalized at _____ 000,000 dong
2. Joint Stock--->Capitalized at _____ 000,000 dong
3. Private Company
4. Household
5. Cooperative

Question 3: What type of industry does your company belong to?

- | | |
|---|--|
| 1. Food stuff / Drinks | 14. Plastic and rubber |
| 2. Tobacco | 15. Mineral Products |
| 3. Textile | 16. Metal products |
| 4. Apparel | 17. Computers, office machinery and supplies |
| 5. Leather products | 18. Machinery and allied products |
| 6. Bamboo products | 19. Electric parts |
| 7. Lumber and wood products | 20. Radio, TV and communication equipment |
| 8. Pulp, paper and paper products | 21. Medical machinery and equipment |
| 9. Stone products | 22. Medical machinery and equipment |
| 10. Ceramic, brick and glass products | 23. Other transportation equipment |
| 11. Publishing / printing and allied industries | 24. Furniture and fixtures |
| 12. Petroleum products | 25. Others |
| 13. Chemicals | |

Question 4: When and how was your company established? Please answer the following questions.

4-1: In what year was your company registered as its current enterprise type?
 19_____.

4-2: How was your company established? (You can choose two answers and more if appropriate.)

1. Our president started an enterprise on the basis of his/her business idea.
2. Our president established a new enterprise on the basis of technology and know-how that

- he/she had acquired while working at another company in the same industry.
3. Our president established a new enterprise on the basis of technology and know-how that he/she had acquired while working at a government enterprise.
 4. Our president took over a formerly government-owned enterprise.
 5. Our president took over a cooperation.
 6. Our president took over a private company.
 7. Others.
- 4-3: If you chose Items 4, 5 or 6 above, in what year was the acquired organization originally established? 19__
- 4-4: What occupation had your president been engaged in before he/she became president.
1. Engaged in military service
 2. Employed by Government enterprise
 3. Employed by Government agency
 4. Employed by Non-government enterprise
 5. Employed by Foreign company operated in Viet Nam
 6. Engaged in another position in our company
 7. Foreign residence
 8. Others

Question 5: Please answer the following questions in regard to your company's production and sales.

- 5-1: What are your best-selling products? Specify the names of three products or less that sell well at the present time and of those that sold well three years ago. Please also show the approximate ratio of the sales of the products to the total sales of your company.

	Present		Three Years Ago	
1		%		%
2		%		%
3		%		%

- 5-2: How much are the sales of your company? Indicate the figures over the past four years. Show estimated figures for 1996 if actual figures are not available.

Fiscal Year	Sales Amount
1993	000,000 dong
1994	000,000 dong
1995	000,000 dong
1996 (estimated)	000,000 dong

- 5-3: What ratio is your company's profit to its total sales? Show the latest approximate profit ratio.
_____%
- 5-4: How much has the net profit of your company increased or decreased over the past three years?
1. Increased 200% or more.

2. Increased 150-200%.
 3. Increased 120-150%.
 4. Increased 100-120%
 5. Decreased
- 5-5: Who do you sell your products? (You can choose two answers and more if appropriate.)
1. Direct to consumers.
 2. To consumers via retailers, wholesalers or brokers.
 3. To other companies in the same industry.
 4. To government enterprises.
 5. To foreign companies operated in Viet Nam.
 6. To private companies.
 7. Direct to foreign countries.
 8. To foreign countries via domestic companies.
 9. Others
- 5-6: In which market have your sales increased most in recent years? Choose the best one from above and write the number: _____
- 5-7: In which market have your sales decreased most in recent years? Choose the worst one from above and write the number: _____
- 5-8: What are the shares of your product sales by regions?

Hanoi	%
Ho Chi Minh City	%
Hai Phong	%
Da Nang	%
Other regions in the north of Viet Nam	%
Other regions in the south of Viet Nam	%
Foreign markets	%
Total	%

- 5-9: Do you have branches or sales offices that support sales activities in Viet Nam or in foreign countries?
1. Domestic 1) Yes. --->How many offices? _____
 2) No.
 2. Abroad 1) Yes. --->How many offices? _____
 2) No.
- 5-10: Whom do you purchase raw materials or components from? (You can choose two answers and more if appropriate.)
1. From our company's own supply sources
 2. From government enterprises
 3. From domestic buyers
 4. From buyers in foreign countries
 5. From purchasers of our products
 6. Others
- 5-11: What problems are you faced with in purchasing raw materials/components? (You can choose two answers and more if appropriate.)
1. Increase in the prices of raw materials/components
 2. Shortage of raw materials

3. Deterioration of raw materials components
4. Unstable supply of raw materials/components
5. Others

Question 6: Does your company receive a subcontract for production from other manufacturers?

1. Yes. We undertake subcontracted production. ---> Answer the following questions.
2. No. We do not undertake subcontracted production. ---> Move to Question 7.

6-1: Who gives you a subcontract for production? (You can choose two answers and more if appropriate.)

1. Government enterprises
2. Foreign companies
3. Other private companies
4. Others

6-2: What percentage do the sales from the subcontracted production account for of your total sales?

1. Less than 5%
2. Between 5% and 20%
3. Between 20% and 50%
4. Between 50% and 70%
5. Between 70% and 90%
6. 90% and above

Question 7: How many outside manufacturers do you regularly give an order? How much did you pay for outside manufacture during last fiscal year?

The number of your outside manufacturers: _____
 Amount paid for outside manufacture during last fiscal year: _____ 000,000 dong

Question 8: Is your company a member of any of the following organizations? Choose all the organizations that your company belongs to.

1. The Chamber of Commerce and Industry
2. A commerce and industrial association
3. Cooperative association
4. Other local business associations
5. Other trade associations
6. We do not belong to any organization.

8-1: Why does your company want to belong to such organization(s)? (You can choose two answers and more if appropriate.)

1. Because we can negotiate with the government on favorable terms.
2. Because we can access various information easily.
3. Because we can purchase materials/components at lower prices through cooperative

- buying.
4. Because we can increase our marketing capacity through joint sales with other companies.
 5. Because we can share production facilities and equipment with other companies.
 6. Because we can improve working conditions of our employees.
 7. Others

Question 9: Please answer the following questions in regard to your employment and wage policies.

9-1: How many employees does your company have (over the past four years)?

Fiscal Year	The Number of Employees
1993	
1994	
1995	
1996	

9-2: What is the composition of your personnel?

The ratio of the number of engineers: _____%

The ratio of the number of women: _____%

Average age: _____

The number of people employed during last fiscal year: _____

9-3: What is your company's wage level?

1) Average monthly wages (Basic pay)

Factory workers:

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Engineers

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Clerical staff

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Management staff

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong

5. 1 million dong and above

2) Bonus

Factory workers:

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Engineers

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Clerical staff

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

Management staff

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

3) Allowances (Company average)

1. Less than 300,000 dong
2. Between 300,000 and 500,000 dong
3. Between 500,000 and 750,000 dong
4. Between 750,000 and 1 million dong
5. 1 million dong and above

9-4: By what percentage have your company's wages increased? Show average increase rate per year over the past three years.

Factory workers:

1. Less than 10%
2. Between 10% and 30%
3. Between 30% and 50%
4. Between 50% and 75%
5. 75% and above

Engineers

1. Less than 10%
2. Between 10% and 30%
3. Between 30% and 50%
4. Between 50% and 75%

5. 75% and above

Clerical staff

1. Less than 10%
2. Between 10% and 30%
3. Between 30% and 50%
4. Between 50% and 75%
5. 75% and above

Management staff

1. Less than 10%
2. Between 10% and 30%
3. Between 30% and 50%
4. Between 50% and 75%
5. 75% and above

9-5: What ratio do wages and other compensations bear to the total sales of your company?

1. Less than 10%
2. Between 10% and 20%
3. Between 20% and 30%
4. Between 30% and 40%
5. Between 40% and 50%
6. Between 50% and 60%
7. Between 60% and 70%
8. 70% and above

9-6: What problems are you faced with in recruiting and training employees? (You can choose two answers and more if appropriate.)

1. Difficulty in recruiting factory workers
2. Difficulty in recruiting engineers
3. Difficulty in recruiting clerical workers
4. Difficulty in recruiting managers
5. Rise in wage level
6. Quick turnover of employees
7. Difficulty in training employees
8. Poor employees' skills
9. Difficulty in finding replacements
10. Others

Question 10: Please answer the following questions in regard to your production facilities.

10-1: How big are your production facilities?

1. Size of site: _____m²
2. Total floor space: _____m²

10-2: What problems do your production facilities have? (You can choose two answers and more if appropriate.)

1. Too small facilities to improve production capacity
2. Environmental pollution problems around your factories
3. Difficulties in transporting products

4. Difficulties in attracting workers and in securing commuting facilities
 5. Difficulties in securing electric power and water supply.
 6. Increase in land rent
 7. Others
- 10-3: Is your company faced with any of the following pollution problems around your factories? Choose all the problems that you currently have.
1. Noise pollution
 2. Vibration hazard
 3. Air pollution caused by flue gas
 4. Water pollution caused by waste water
 5. Traffic congestion caused by trucks and other overland transportation
 6. Others
 7. No pollution problems
- 10-4: How do you obtain production equipment and, machinery? (You can choose two answers and more if appropriate.)
1. We acquire equipment disposed of by government enterprises.
 2. We import equipment from foreign countries.
 3. We purchase brand-new equipment from domestic companies.
 4. We purchase secondhand equipment from domestic companies.
 5. We produce equipment ourselves.
 6. Others
- 10-5: How much investment have you made in plant and equipment (e.g. in acquiring new equipment and machinery) during the past year? Show the amount of investment.
1. We have made a plant and equipment investment of _____ 000,000 dong.
 2. We have not made any plant and equipment investment.
- 10-6: If you have made a plant and equipment investment, how did you finance it? (You can choose two answers and more if appropriate.)
1. By increasing capital.
 2. By borrowing from banks or other financial institutions.
 3. By borrowing from someone's family, relatives or friends.
 4. By using reserved earnings of our company accumulated over the past years.
 5. By using managers' personal money.
 6. By borrowing from companies that we have business relations with.
 7. Others.
- 10-7: What problems do you have in making a plant and equipment investment? (You can choose two answers and more if appropriate.)
1. Shortage of funds
 2. Difficulty in obtaining high quality production equipment
 3. Too small site to expand production facilities
 4. license and validation system regulated by the government in regard to plant and equipment investment.
 5. Others
- 10-8: Is it necessary for your company to acquire new land for expansion of your production facilities?
1. We have already acquired new land.
 2. We are currently looking for new land.

3. It is very possible for us to require new land in near future.
4. We will probably need new land sometime in future.
5. We are in little need of new land.

Question 11: Please answer the following questions in regard to your R&D activities.

11-1: Are R&D projects implemented at your company?

1. Yes. We are mainly engaged in production technology development.
2. Yes. We are mainly engaged in new product development.
3. Yes. We are developing both production technology and new products.
4. No. We are not engaged in any R&D activities.

11-2: Who is engaged in R&D projects at your company?

1. Technical personnel.
2. Production team in factories.
3. Our president.
4. Others

11-3: How do you acquire technology that is required to make up for a deficiency in your in-house technological capacity. (You can choose two answers and more if appropriate.)

1. We acquire technology from government enterprises.
2. We acquire technology from foreign companies in Viet Nam.
3. We acquire technology from other companies in the same industry.
4. We acquire technology from academic research institutes (such as universities).
5. We acquire technology from foreign countries.
6. We acquire technology from technical consultants.
7. It is difficult for us to acquire technology from outside sources although it is necessary for us to do so.
8. We do not have to acquire technology from outside sources.

11-4: How do you access technological information? (You can choose two answers and more if appropriate.)

1. Through TV and radio.
2. Through domestic newspapers and magazines.
3. Through foreign newspapers and magazines.
4. Through technical journals.
5. Through people in the same industry.
6. Through business associations such as the Chamber of Commerce and Industry.
7. Through libraries.
8. Through exhibitions and trade shows.
9. Through companies that we have business relations with.
10. Through production equipment manufacturers.
11. Through our suppliers of materials/components.
12. Through government agencies.
13. Through academic research institutes.
14. Through government enterprises.
15. Through buyers in foreign countries.
16. Through private technological information service firms and consultants.
17. Others

11-5: Is your company satisfied with the current level of availability of technological information?

1. Fully satisfied
2. Satisfied to some degree
3. Not quite satisfied
4. Dissatisfied
5. Hard to say whether we are satisfied or not.

11-6: How do you evaluate the technological level of your company compared with other companies in the same industry.

1. Outstanding
2. Better than the industry average
3. Average
4. A little below the average
5. Far below the average

11-7: What problems are you faced with in implementing R&D projects? (You can choose two answers and more if appropriate.)

1. Shortage of technical staff
2. Shortage of funds required for R&D
3. Shortage of equipment required for R&D
4. Difficulty in accessing technological information
5. No one available to consult with about technological problems
6. No need of R&D
7. Others

Question 12: How do you finance your business activities. Please answer the following questions.

12-1: How much is the outstanding balance of borrowings for funds?

_____ 000,000 dong.

12-2: What are the composition ratios of your debt terms?

Short-term funds(Loan term is less than a year)	%
Long-term funds(Loan term is a year and longer)	%

12-3: Show the composition ratios of your creditors.

Government commercial bank	%
Private banks	%
Joint-stock banks	%
Investment and development banks	%
Foreign trade banks	%
Other financial institutions	%
Relatives friends	%
Others	%

12-4: What do you use the borrowings for? (You can choose two answers and more if appropriate.)

1. Plant and equipment investment

2. Working capital
3. Repayment of loans
4. Others

12-5: Is your company satisfied with the current level of its financing capacity?

1. Fully satisfied
2. Satisfied to some degree
3. Not quite satisfied
4. Dissatisfied
5. Hard to say whether we are satisfied or not.

Question 13: Answer the following questions in regard to your export business.

13-1: How do you export your products? (You can choose two answers and more if appropriate.)

1. Via government trading corporations.
2. Via buyers in foreign countries.
3. Direct to users in foreign countries.
4. Via domestic brokers.
5. By providing exporters firms with our products/components.
6. Others

13-2: How much are your export sales? What ratio do the export sales bear to your total sales?
Show the figures over the past four years.

Fiscal Year	Amount of Export	Ratio to the Total Sales
1993		%
1994		%
1995		%
1996		%

13-3: What countries are the major importers of your products. Choose all the appropriate countries and regions.

1. Thailand
2. Cambodia
3. Laos
4. China
5. Hong Kong
6. Taiwan
7. Japan
8. South Korea
9. Malaysia
10. Singapore
11. Indonesia
12. USA
13. Western Europe
14. Russia and Eastern Europe
15. Others

13-4: Which country or region bear the largest share of the import of your products? Choose the best two from above-mentioned countries and regions and specify what product they import

from your company.

	First	Second
Country/Region	_____	_____
Your Export Product	_____	_____

13-5: What factors pose restrictions on your export business? (You can choose two answers and more if appropriate.)

1. Requirement of purchasing an export quarter from a government enterprise.
2. No direct access to buyers in foreign countries
3. No availability of anyone who is proficient in English
4. No availability of anyone who is proficient in trade business
5. Government regulations on export
6. Difficulty in accessing foreign market information
7. The foreign exchange rate
8. Others

13-6: How do you access export market information? (You can choose two answers and more if appropriate.)

1. Through TV and radio.
2. Through domestic newspapers and magazines.
3. Through foreign newspapers and magazines.
4. Through technical journals.
5. Through people in the same industry.
6. Through business associations such as the Chamber of Commerce and Industry.
7. Through exhibitions and trade shows.
8. Through libraries.
9. Through domestic manufacturers of exports.
10. Through our suppliers of materials/components.
11. Through government agencies.
12. Through government enterprises.
13. Through buyers in foreign countries.
14. Through domestic brokers.
15. Through private information service firms and consultants.
16. Others

13-7: Is your company satisfied with the current level of availability of foreign market information?

1. Fully satisfied
2. Satisfied to some degree
3. Not quite satisfied
4. Dissatisfied
5. Hard to say whether we are satisfied or not.

13-8: How do you evaluate the competitiveness of your company in the export market?

1. Highly competitive
2. Relatively competitive
3. Average
4. Weak
5. Very weak

6. Not know

Question 14: How did your company acquire the know-how required for business administrations. (You can choose two answers and more if appropriate.)

1. Our president acquired it at business school or college.
2. Graduates from business schools and colleges were employed.
3. Our president acquired it at management seminars and training institutes.
4. Your employees acquired it at management seminars and training institutes.
5. It was acquired through our business partners.
6. It is provided by outside management consultants.
7. It was acquired through our actual business experience.
8. We have not acquired any know-how in particular.
9. Others

Question 15: What is your competitive advantages? Choose not more than five answers.

1. Strong marketing capability
2. Strong business relationship with influential companies
3. Effective connections with government agencies and influential government enterprises.
4. Product quality
5. Processing skill in producing highly precise products or those in complicated shape
6. Processing skill in producing a wide variety of products
7. The best production equipment in the industry
8. Punctuality in product delivery
9. Low prices
10. Excellent product planning and design
11. Few competitors
12. Ample capital and funds
13. Powerful brand name
14. Others

**Question 16: In what areas do you have problems in operating your business successfully?
Choose not more than three answers.**

1. Sales
2. Production
3. Technology development
4. Financing
5. Recruiting and employee training
6. Outside manufacture
7. Raw material supply
8. Plant and equipment investment
9. Distribution
10. Information access
11. Export

12. Government regulations, legislations, administrative procedures
13. Tax
14. Others
15. No problems in particular

Question 17: What is your company's management policy in future. (You can choose two answers and more if appropriate.)

1. Keep the current policy.
2. Expand sales volume.
3. Increase profit rate.
4. Expand export sales.
5. Promote further specialization in our business field
6. Reduce the business scale
7. Expand into other business fields
8. Establish cooperative relationship with other companies in the industry
9. Establish a joint venture with foreign companies
10. Expand into foreign markets
11. Others

Question 18: What kind of SME support programs do you want the government to provide? Choose not more than five answers.

1. Development of industrial parks to move in and to expand our production facilities.
2. Deregulation in plant and equipment investment
3. Development and expansion of a Government grant fund in aid of investment
4. Expansion of bank financing
5. Financial support for export
6. Deregulation in export licensing
7. Foreign market information service
8. Technological training and assistance
9. Establishment of training institutions for engineers
10. Technological information service
11. Management information service
12. Training services for business administration
13. Training services for technology development
14. Sales tax reduction or exemption
15. Improvement of laws
16. Simplification of administrative procedures
17. Improvement of traffic infrastructure including roads and harbor facilities
18. Stable supply of electric power
19. Improvement of water supply and sewerage
20. Promotion of the establishment of industrial associations
21. Others

Appendix 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.

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:

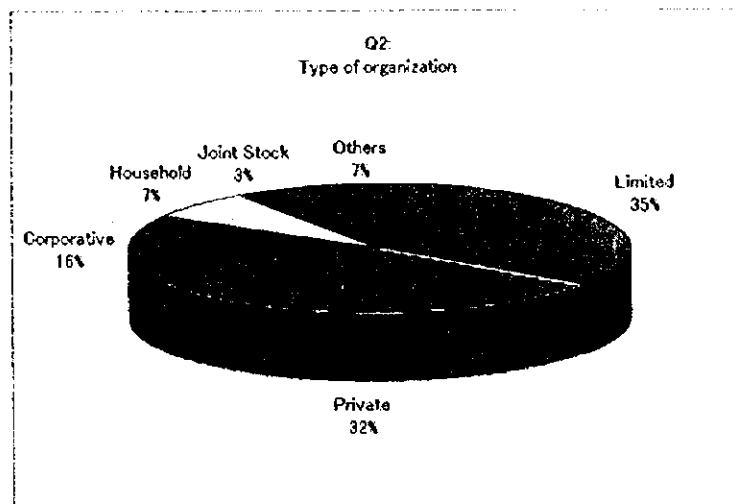
Preparation of questionnaire forms:	Japan
Selection of companies surveyed:	Viet Nam
Distribution and collection of the questionnaire forms:	Viet Nam
Tabulation and analysis of survey results:	Viet Nam and Japan

2. Findings

(1) An outline of enterprises covered in the survey

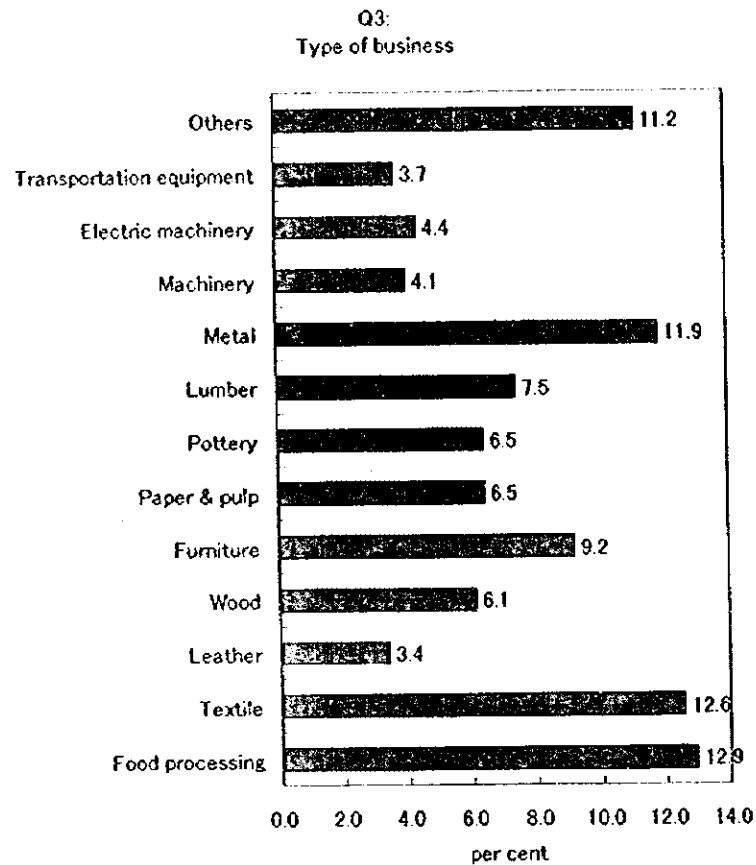
1) Type of organization (Q2)

Approximately two-thirds of the respondents are “limited companies” (35.1%) or “private companies” (32.3%). “Cooperative” accounted for 16.3%. The percentages of “households” (6.8%) and “joint stocks” (2.8%) are small.



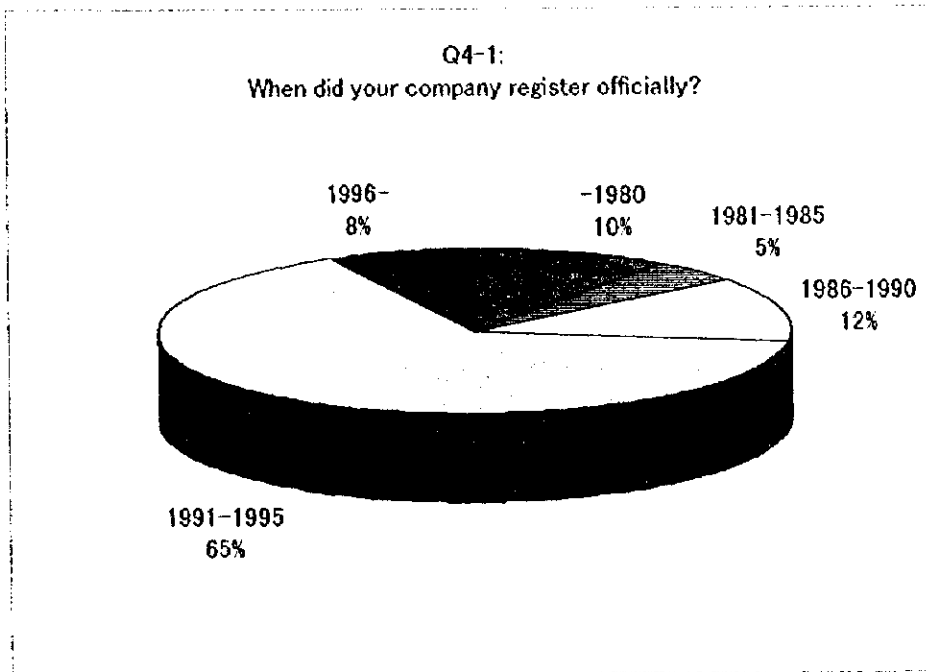
2) Type of business (Q3)

The percentages of "food processing" (12.9%), "textile products" (12.6%), and "furniture" (9.2%) are large. Including leather products and lumber, consumer-related industries account for 44.2%. The percentage of "metal products" (11.9%) is also relatively large. The materials industries account for 32.4%, including "rubber" (7.5%), "ceramics" (6.5%), and "paper products" (6.5%). Overall, the percentage of the machinery industries combined is small at 12.2%, consisting of "transport equipment" (3.7%), "electrical machinery" (4.4%) and "machinery" (4.1%).



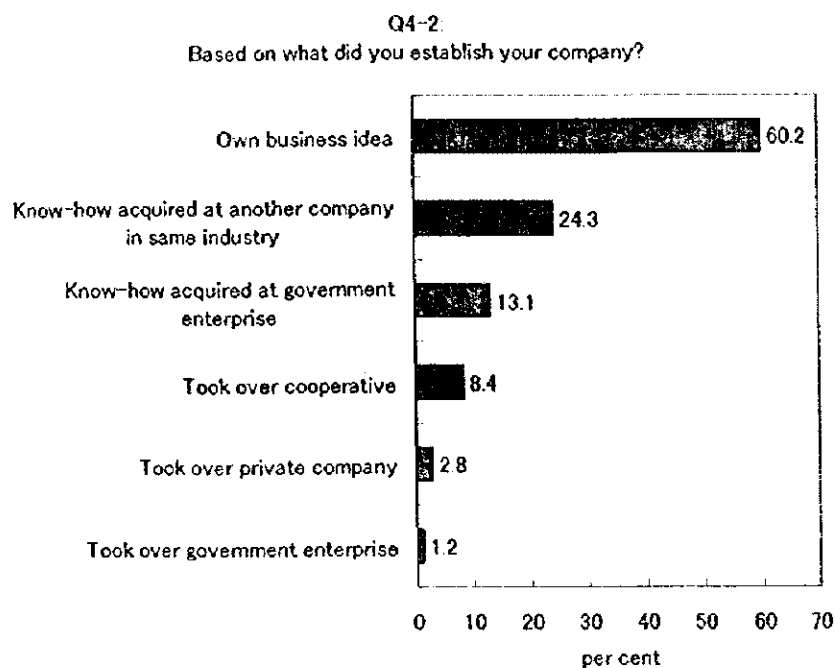
3) The year of registration (Q4-1)

Regardless of the size or type of business, most enterprises are upstarts, having been established between 1991 and 1995. More than 85% were established in or after 1985, indicating robust economic activities since Doi Moi implemented in the second half of the 1980s.



4) Reasons for founding (Q4-2)

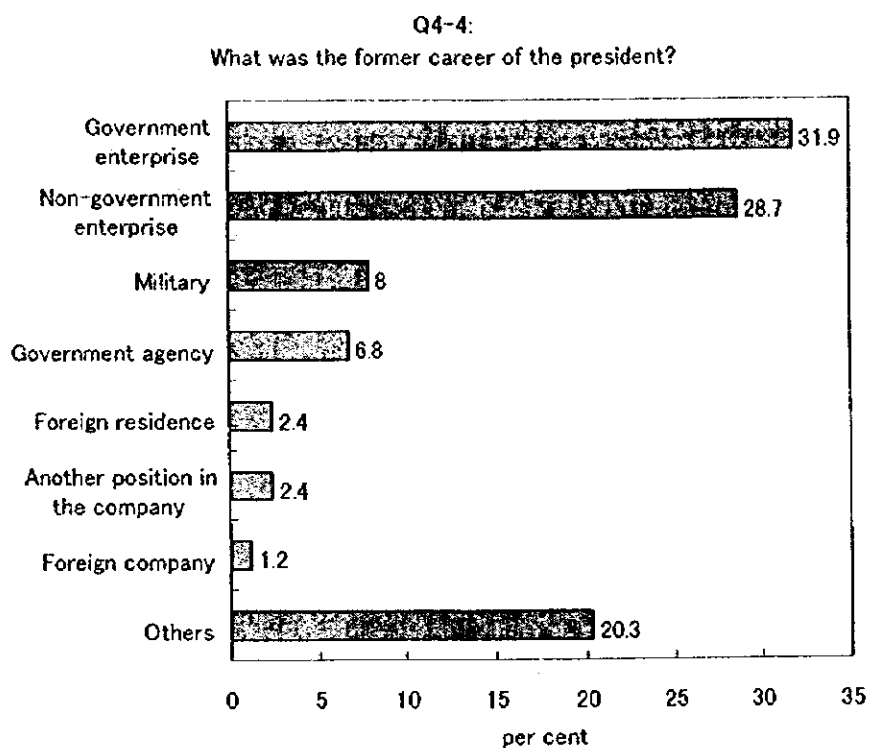
A great majority, or 60.2%, of the enterprises were founded "based on the idea of the founder." This is followed by "based on the technologies and skills acquired at another firm" (24.3%), "based on technologies and skills acquired at a state enterprise" (13.1%), and "continuing the business of a cooperative" (8.2%). The percentages of companies that are continuing the businesses of state-run or private businesses are small at less than 3% each.



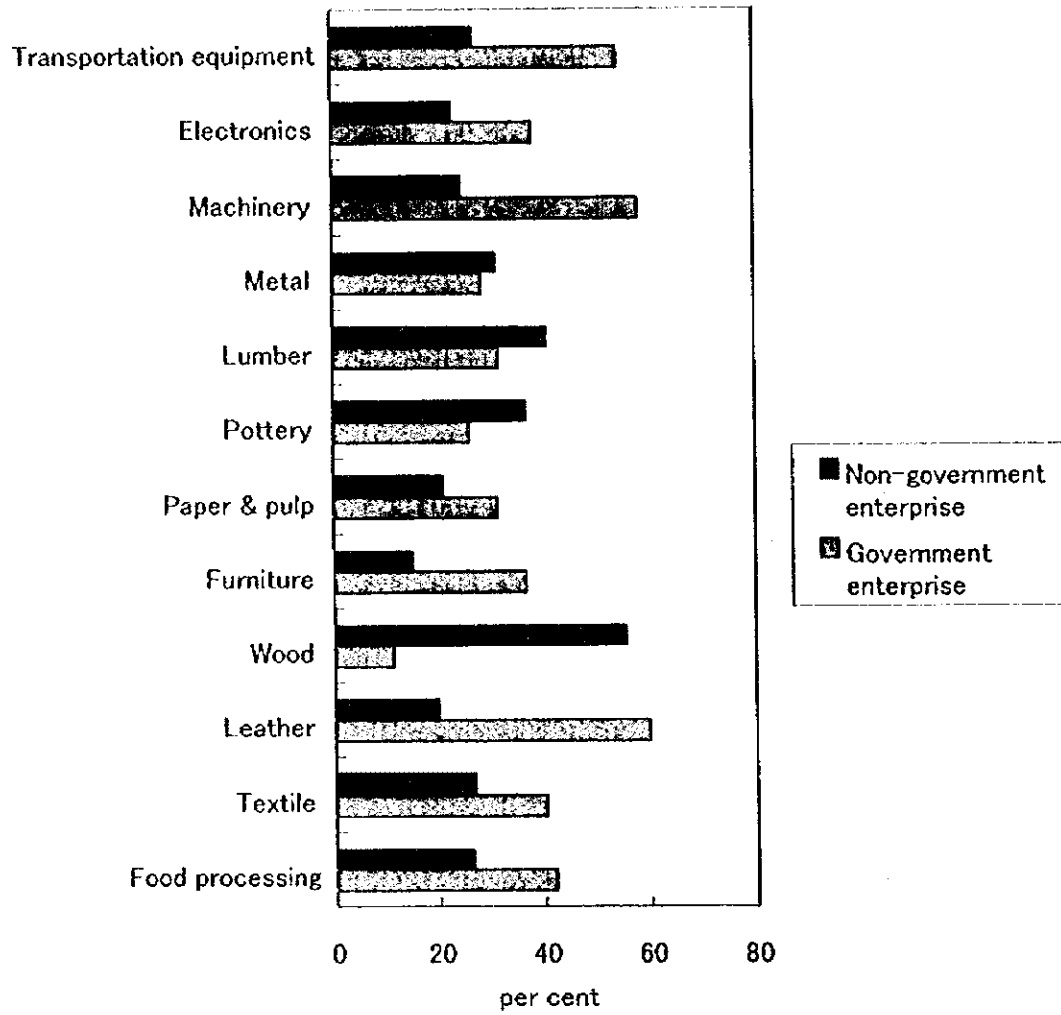
5) Former career of the president (Q4-4)

More than half of the presidents have previously worked at "state enterprises" (31.9%) or "other non-state enterprises" (28.7%) and had management experiences before starting the present business. On the other hand, former bureaucrats of the central government account for very small percentages, with "military" and "other government agencies" accounting for less than 3% each.

By type of business, in the leather goods and machinery industries, former employees of state-run enterprises account for 50 to 60% of the presidents. On the other hand, former employees of state enterprises account for only 10 to 30% in the food processing, textiles, and ceramics industries. These figures show that in the industries which require technologies to a certain extent, the presidents are often former employees of state-run enterprises.



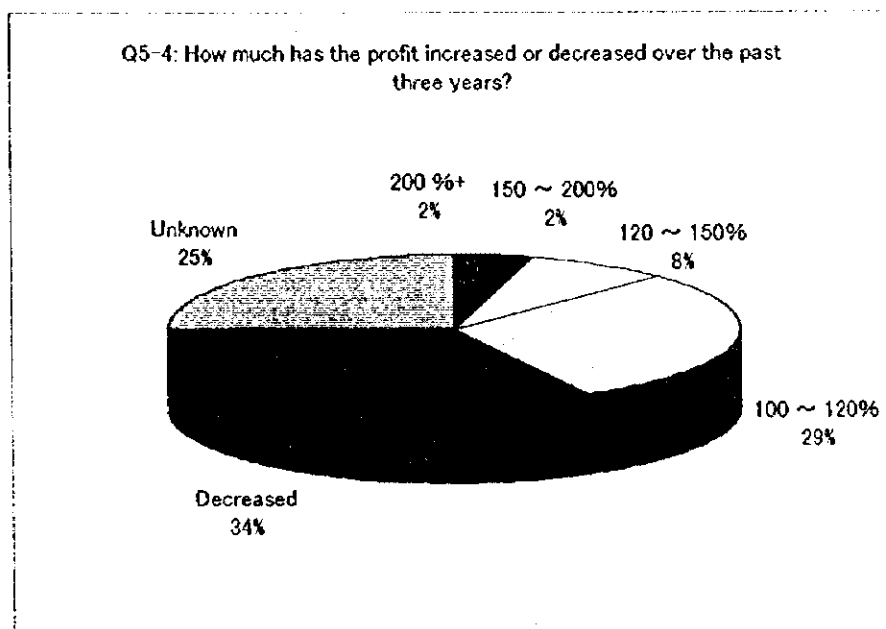
Q4-4:
What was the career of the president? (by type of business)



(2) Production and sales activities

1) Increase in sales (Q5-4)

Only 12% of the respondents saw sharp increases in sales, with the increase over the past three years reaching "more than 100%" (2%), "50-100%" (2%), and "20-50%" (8%). A large number of firms saw static sales with "0-20%" accounting for 29%. Only 41% of the enterprises saw sales growth. Businesses where sales "decreased" accounted for 34%. These figures indicate that while the economy has grown sharply, growth of businesses has been lagging.

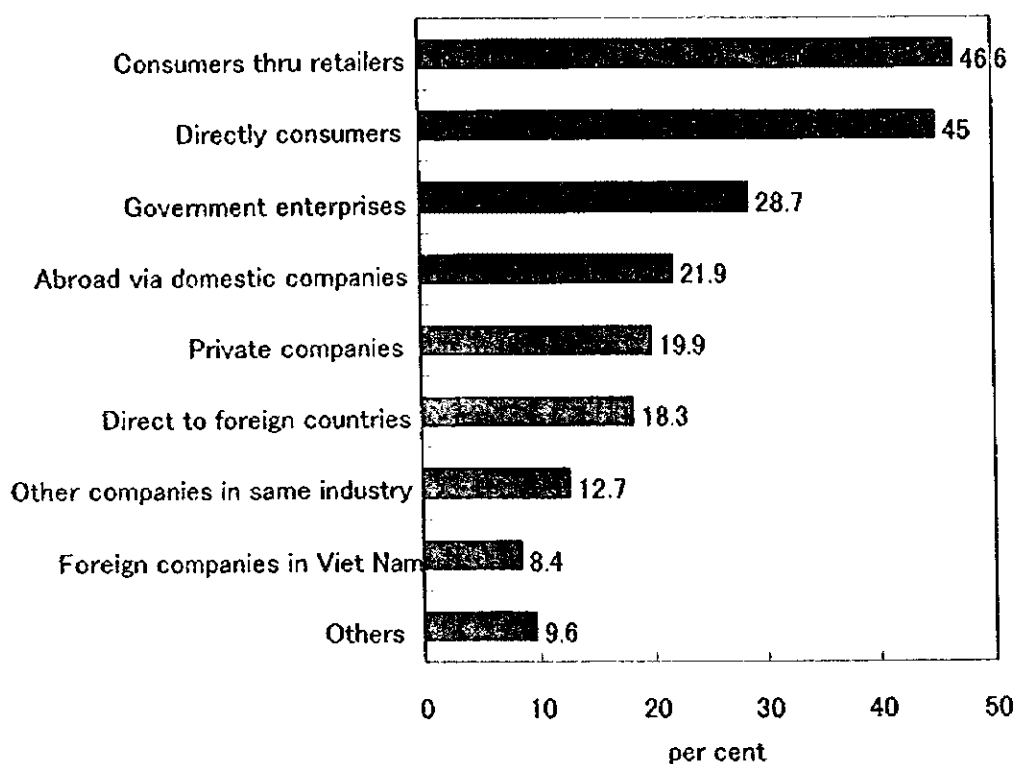


2) Customers (Q5-5: Multiple responses)

The largest percentage of the firms "sold to consumers through distributors and brokers" (46.6%). This is followed by "direct sales to consumers" (45%). Many firms are also "selling to state enterprises" (28.7%), to take advantage of their marketing channels. This indicates that private businesses' marketing channels have not yet developed. Export sales are also very important with 21.9% of firms "exporting via domestic firms" and 18.3% "selling directly to overseas customers."

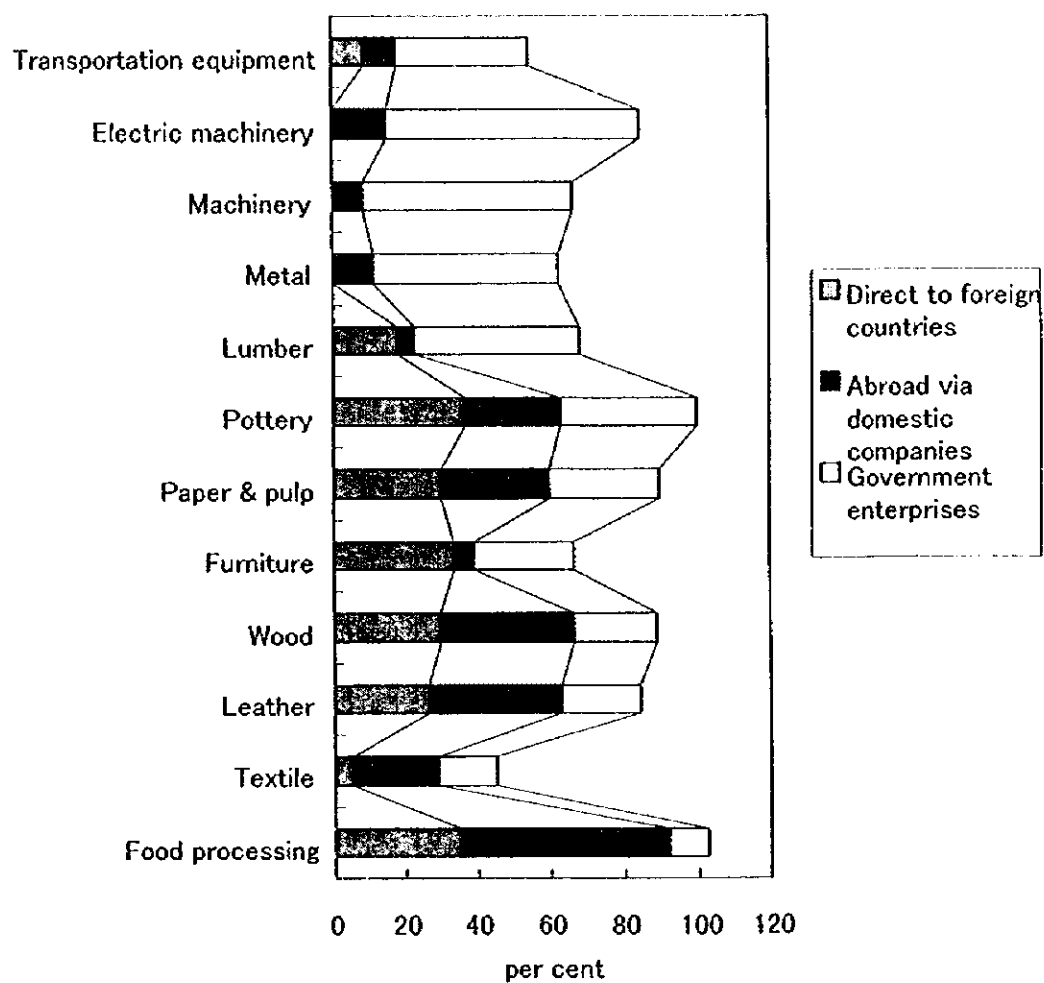
By type of business, exports account for large percentages in textile products, furniture and ceramics, for which overseas sales account for approximately 60%. In contrast, in the metals and machinery sectors, export sales account for only 0 to 15%. While "sales to state enterprises" account for less than 20% in textiles, furniture and ceramics, such sales account for more than 50% in the metals and machinery industries, suggesting that the latter group of industries heavily depend on state enterprises.

Q5-5:
To whom do you sell products? (multiple answers)



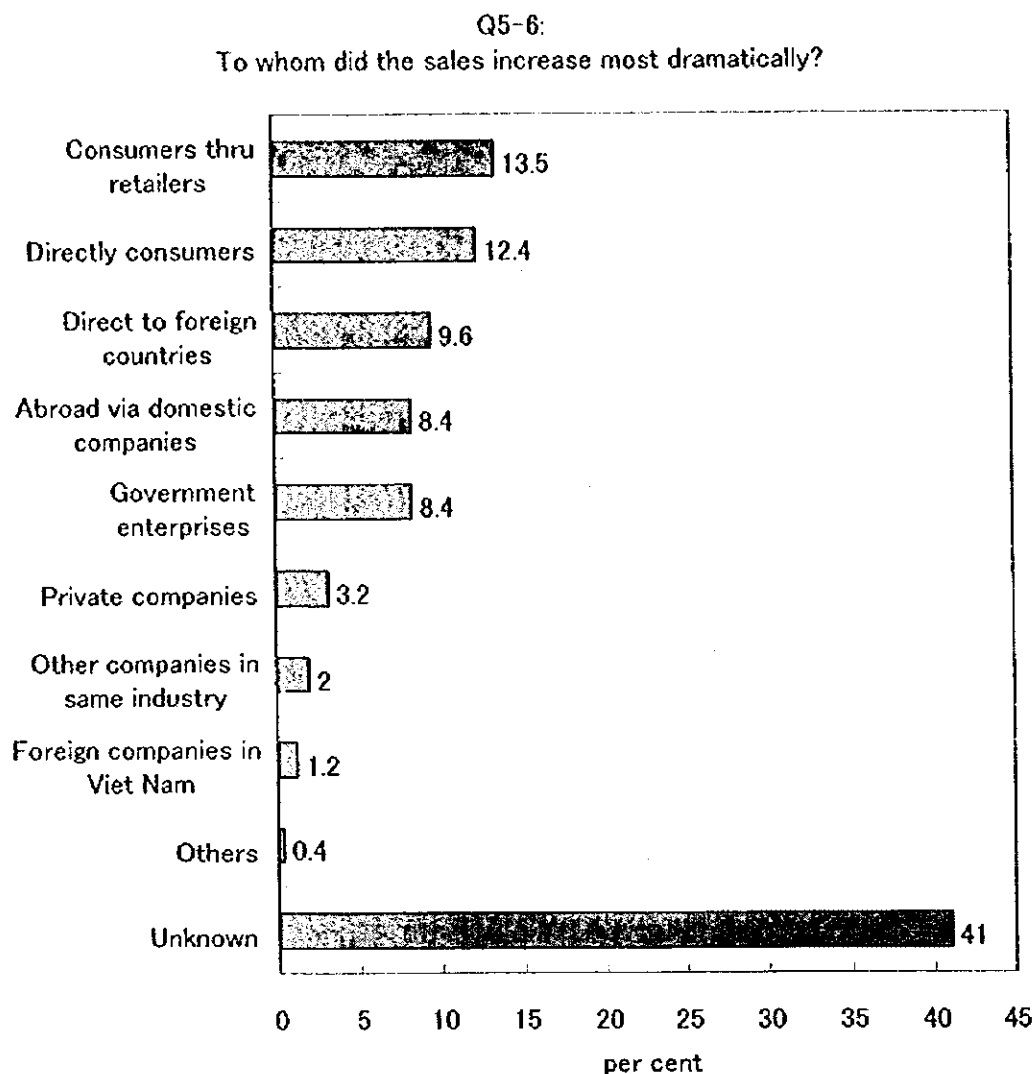
Q5-5:

To whom do you sell products? (multiple answers) (by type of business)



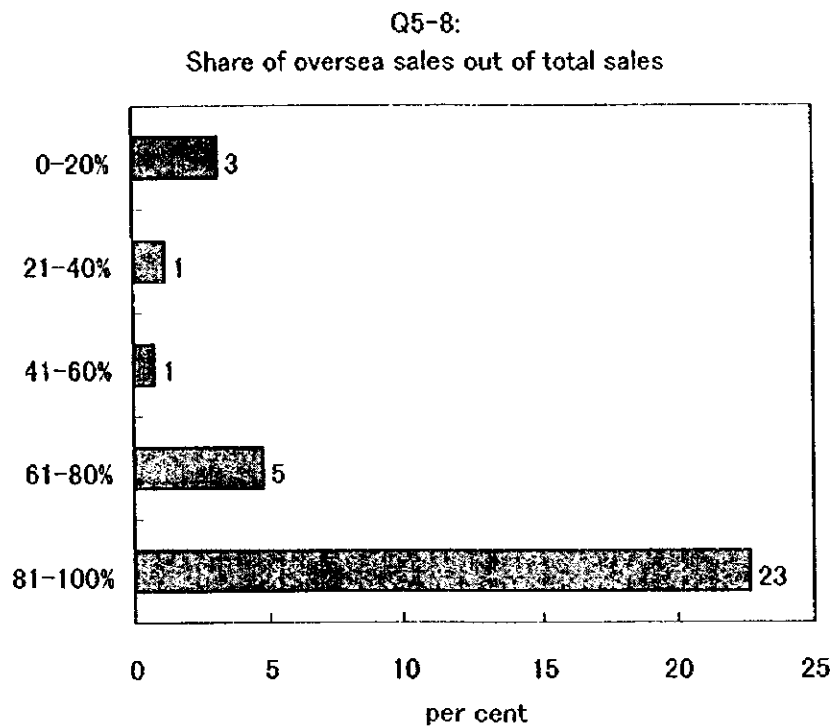
3) Customers to whom sales have been increasing sharply (Q5-6)

The customers to whom sales have been increasing sharply in recent years are more or less the same as the present customers. "Direct sales to overseas" (9.6%) ranks third in this category.



4) Share of overseas sales (Q5-8)

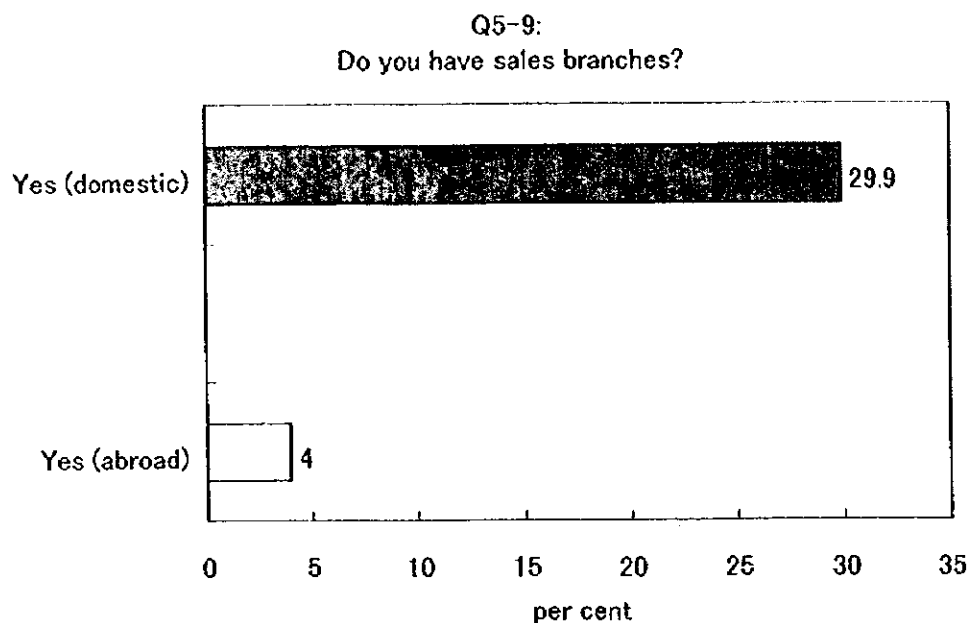
When we examine the shares of overseas sales of businesses exporting their products, we find that the shares are either very large or very small. Few companies have export shares of less than 80%. Those companies where export shares are "Between 81% and 100" account for 23%. Excluding the companies which responded that "they did not know," two-thirds of the exporting businesses are exporting from 81 to 100% of their products overseas, indicating that these firms are specializing in overseas sales.



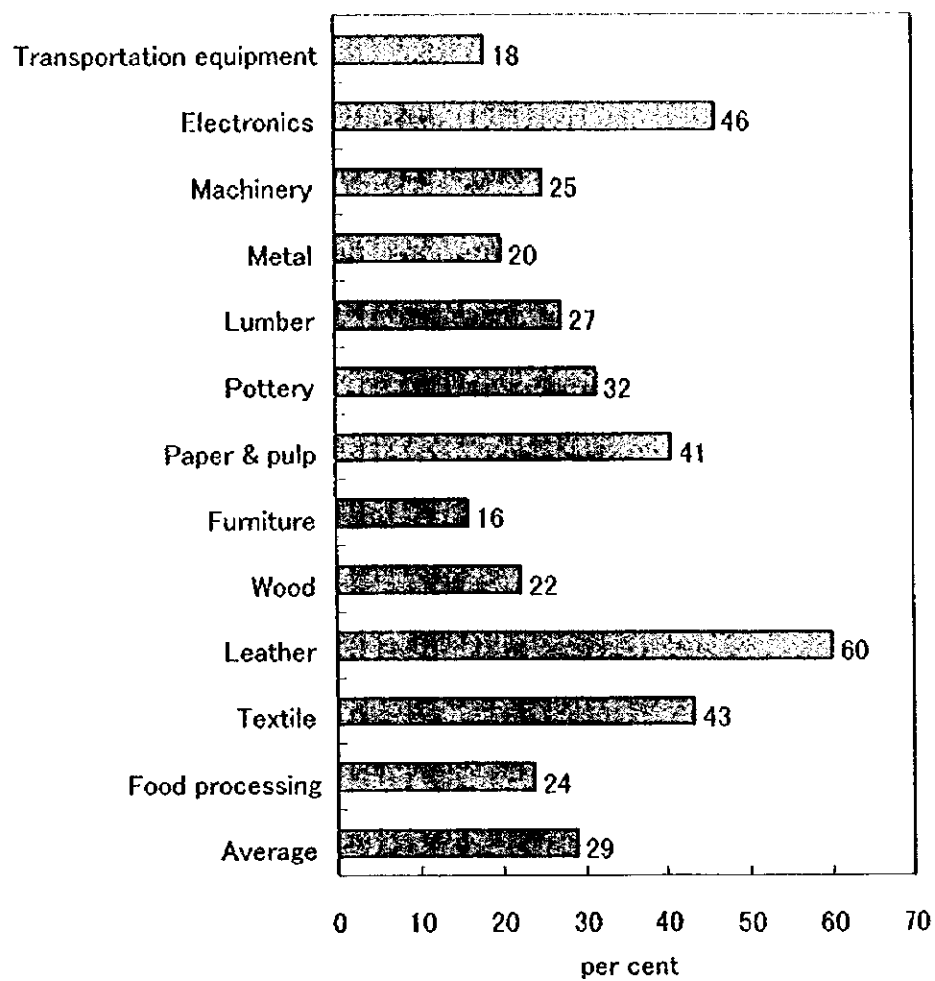
5) Sales branches (Q5-9)

Thirty percent of businesses have domestic sales offices, but only 4% have overseas sales offices. We can, therefore, see that most exporting firms have yet to build overseas sales networks.

More than 40% of textile, leather, paper and electrical machinery producers have domestic sales offices, but only about 20% of furniture, metals, and transport equipment makers have such outlets.



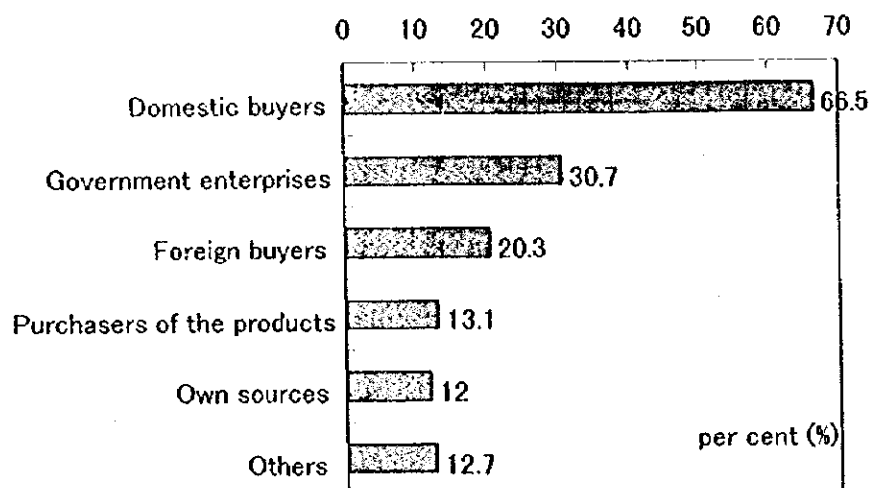
Q5-9:
Do you have domestic sales branches? (by type of business)



6) Raw materials and parts procurement (Q5-10)

The largest percentage of firms responding to the survey answered that they were buying from "domestic vendors" (66.9%). There are several other routes, including "state enterprises" (30.7%), and "overseas vendors" (20.3%). There are no significant differences by type of business.

Q5-10:
From whom do you purchase components?

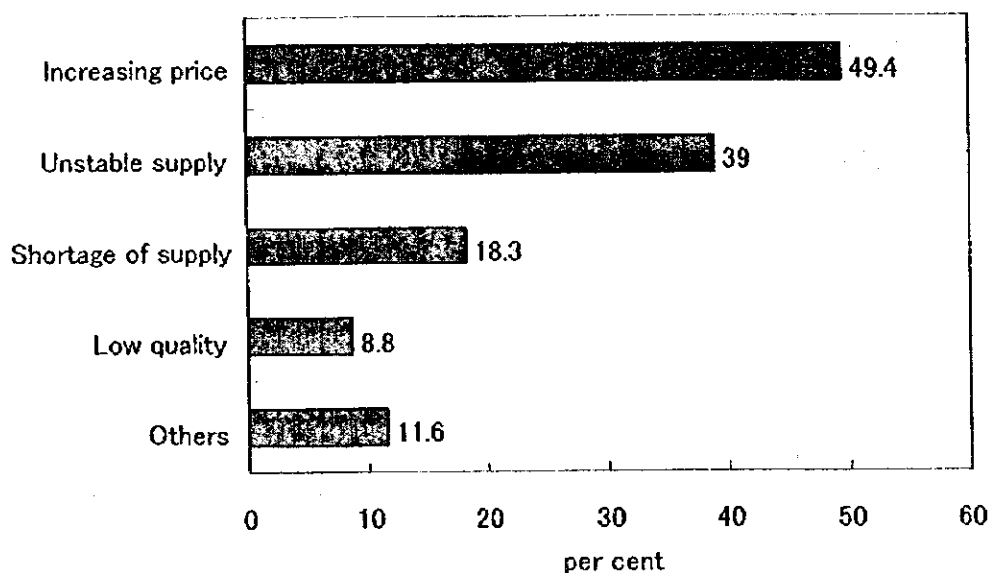


7) Problems in raw materials procurement (Q5-11: Multiple answers)

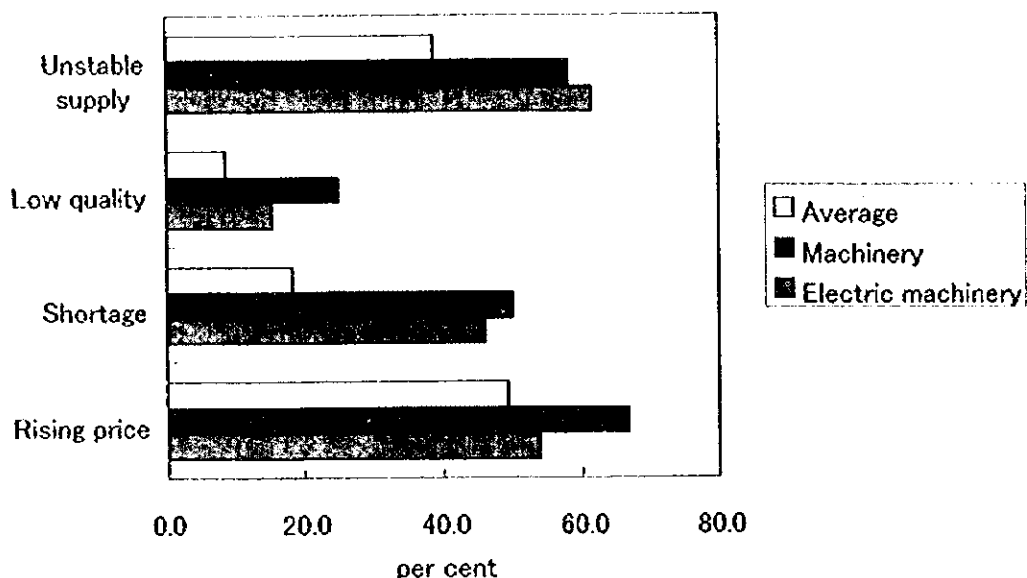
The major problems are "price increases" (49.4%) and "unstable supply" (39%). "Depletion of materials" (18.3%) and "decline in product quality" (8.8%) are not serious problems.

By type of business, firms in the machinery and electrical machinery categories pointed out more problems than the overall average. Securing the supply of raw materials is a serious problem for management.

Q5-11: What are the problems with obtaining raw materials?
(multiple answers)



Q5-11: What are the problems with purchasing raw materials?
(multiple answers) (by type of business)

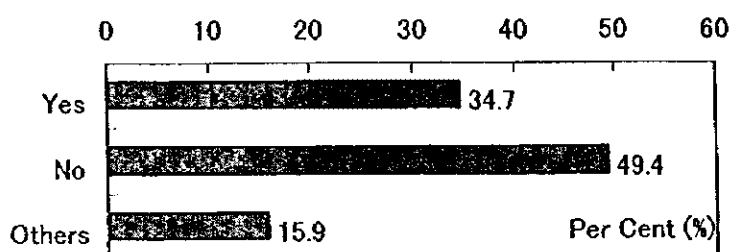


8) Subcontracting (Q6)

Approximately one-third of all businesses surveyed engage in production as a subcontractor.

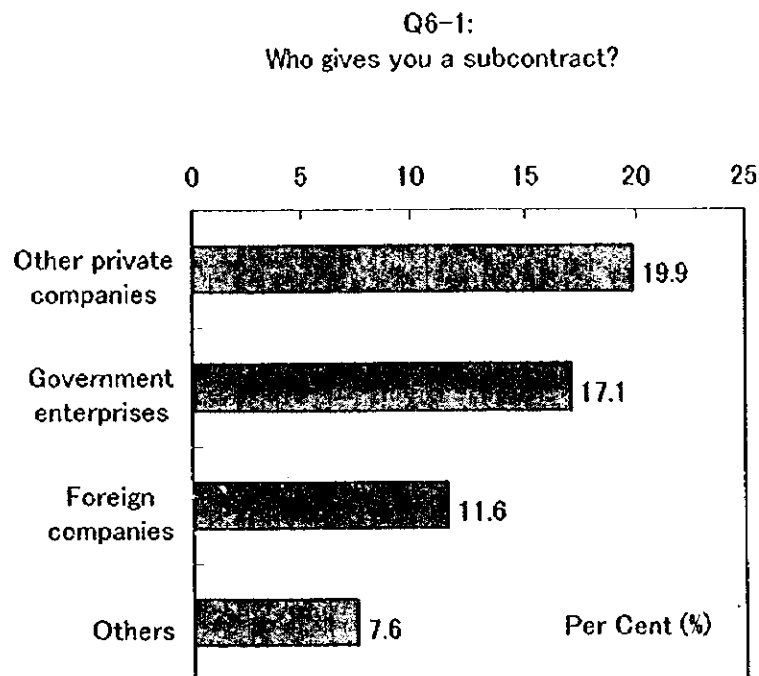
However, there is a wide divergence by industry, ranging from 10% in the ceramics industry and 18% in food processing to 48% in furniture-making. The percentage of firms engaged in production as a subcontractor is extremely high in the textile industry at 67.6%.

Q6:
Do you produce for subcontract?



9) Firms using subcontractors (Q6-1)

Twenty percent of firms responded that they are receiving subcontract orders from “other private enterprises.” This is followed by “from state-run enterprises” (17%) and “foreign firms” (12%).



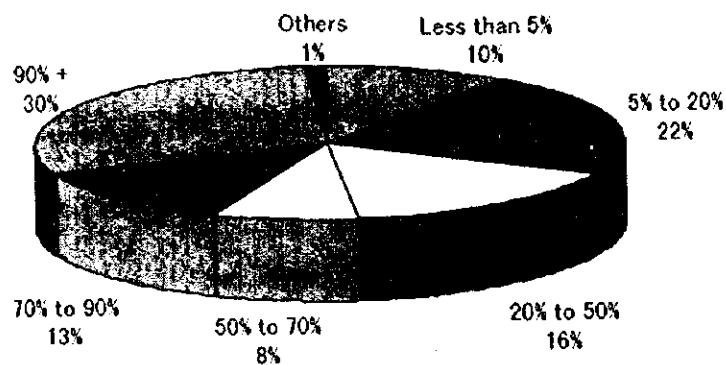
10) Share of subcontracted work (Q6-2)

Among the businesses receiving subcontract works, the largest percentage (30%) responded that "more than 90%" of their production is subcontracted work. However, the share of subcontracted work varies widely from company to company. The survey shows that there is no large group of firms specializing in subcontracted work.

There is no significant difference by type of business.

Q6-2:

What percentage the sales from subcontract account for the total?



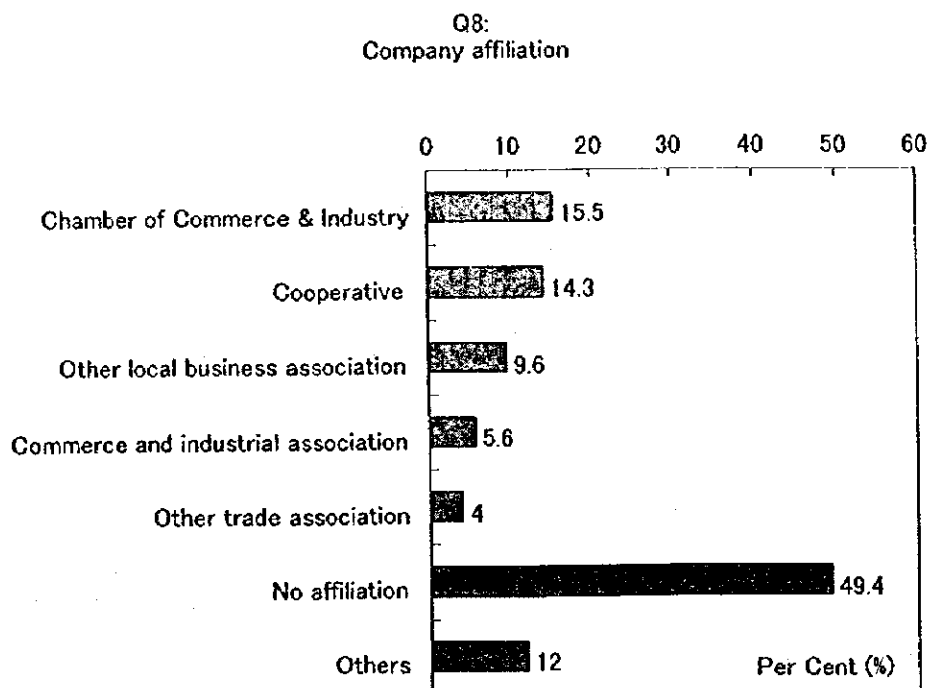
(3) Membership in commerce and industry associations or unions

1) Membership (Q8)

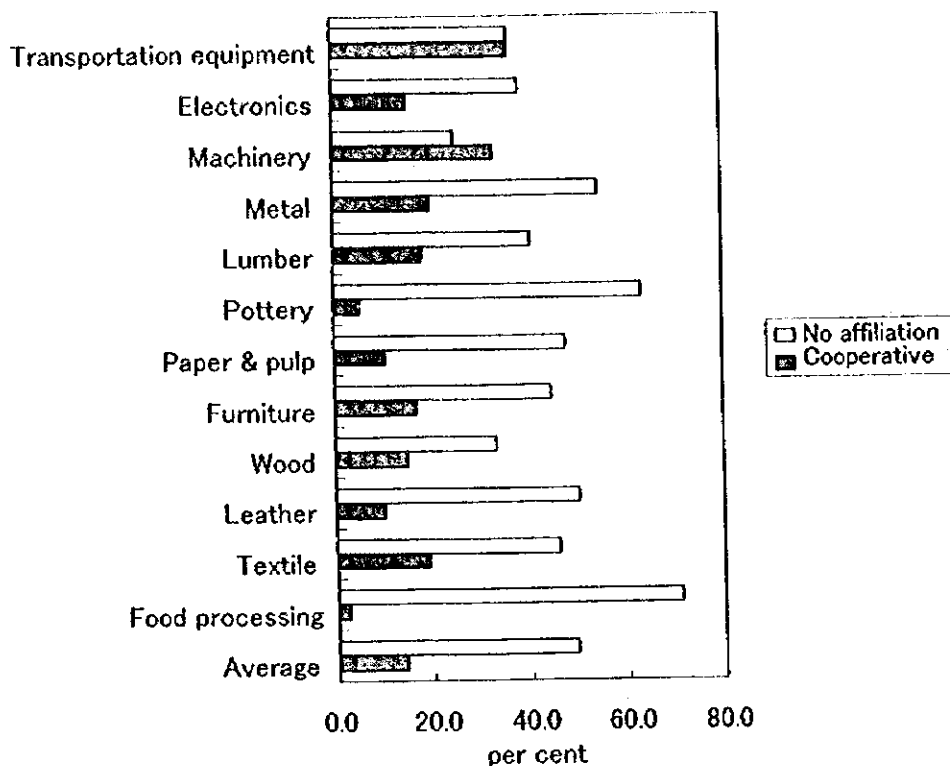
The share of businesses which are members of commerce and industry associations or unions is generally low. Nearly half (49%) of small and medium-sized firms do not participate in any organization. The largest percentage (15.5%) are members of "Chambers of Commerce and Industry," followed by "cooperative unions" (14.3%). Only a small portion of firms are members of "Commerce and Industry Associations" (5.6%) or "other industry associations" (4%).

The membership in cooperative unions is very low in food processing (2.6%) and the ceramics industry (5.3%). By contrast, the membership rates are relatively high in the metal products and machinery industries, in which nearly 30% of businesses are members, showing that there is a wide divergence in the membership rates by type of business.

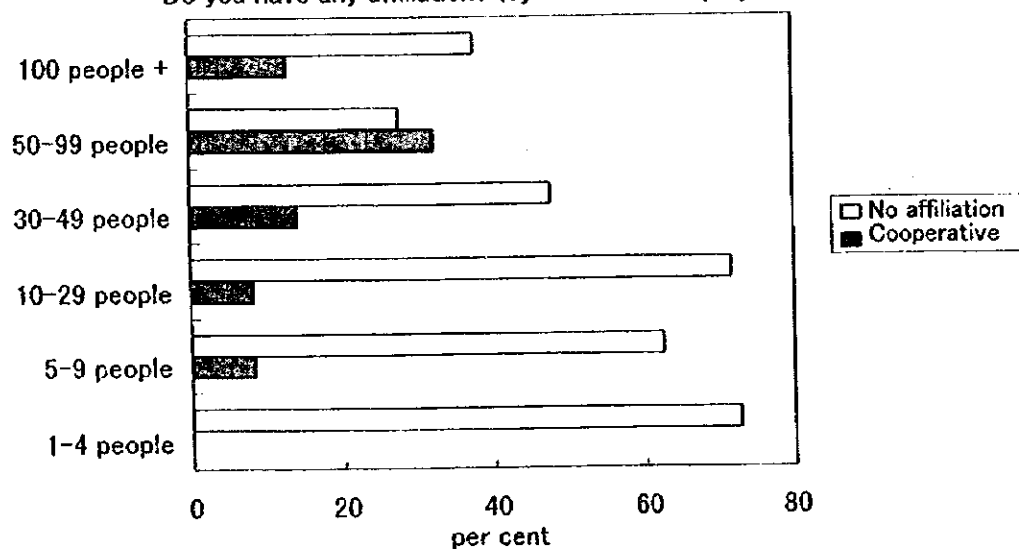
The membership rates by the size of business show that while approximately 70% of small firms (those employing less than 30 persons) have not joined cooperative unions, it is evident that the larger the firm, the higher the membership rate.



Q8:
Are you a member of any organizations? (by type of business)

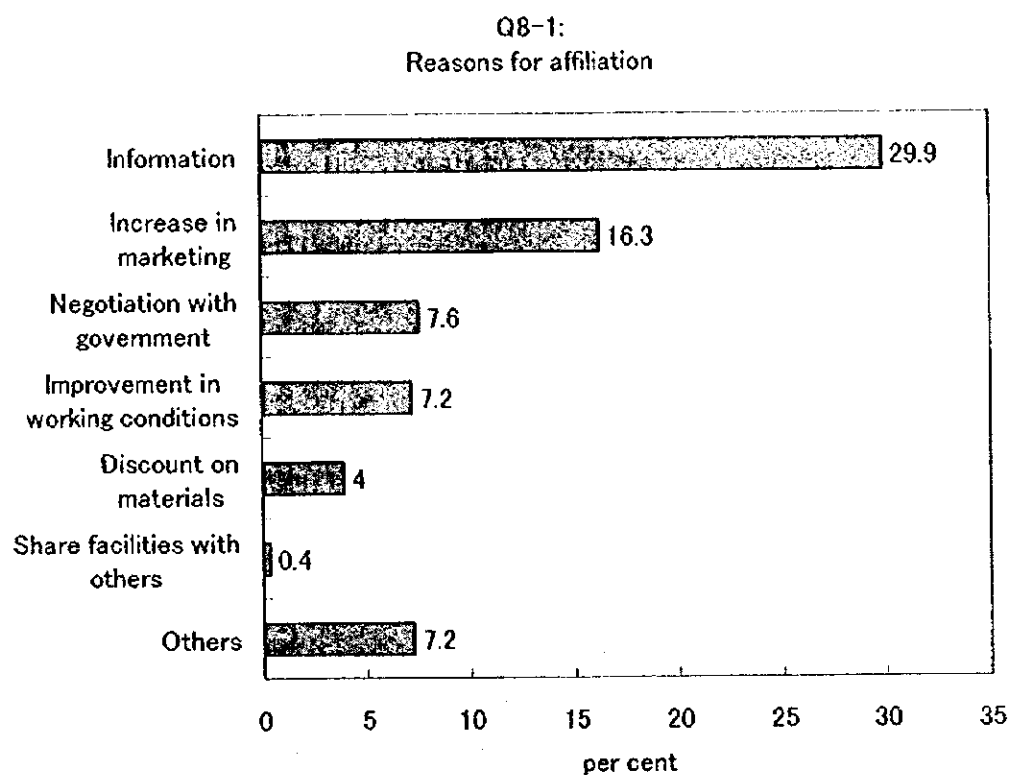


Q8:
Do you have any affiliation? (by number of employees)



2) Reasons for joining associations (Q8-1)

The factor most often cited as a reason for joining an association or organization is “the ease in obtaining information” (29.9%). This is followed by “to enhance sales capability” (16.3%), “helps negotiations with the government” (7.6%) and “to improve working conditions of employees” (7.2%).

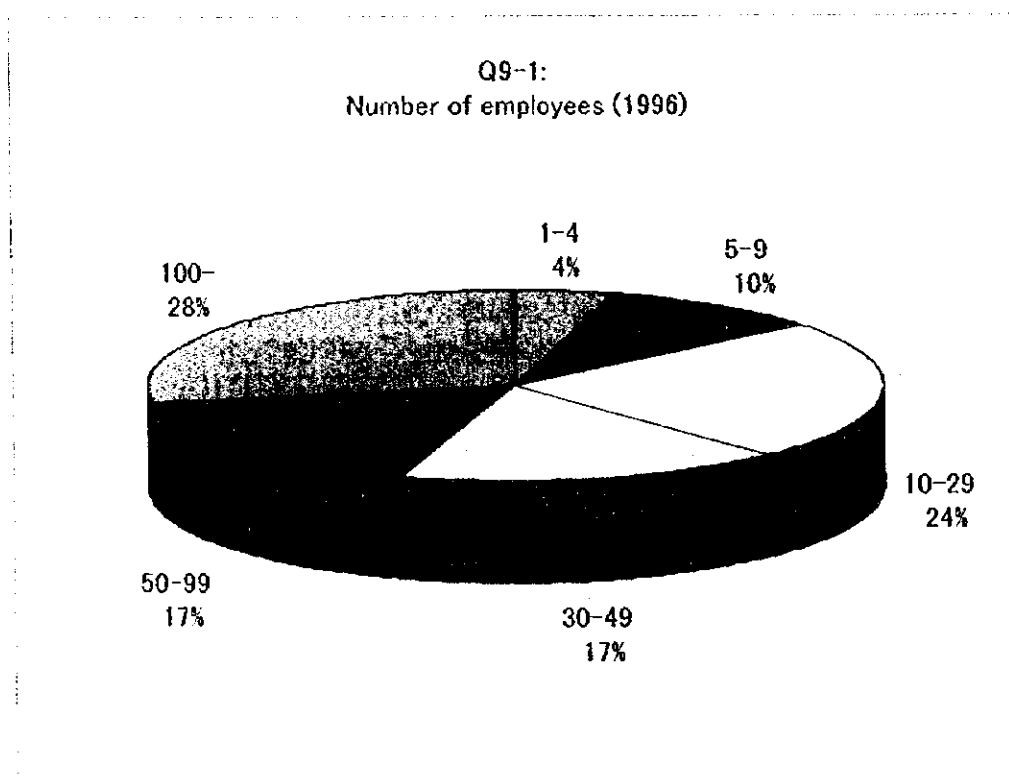


(4) Employment and wages

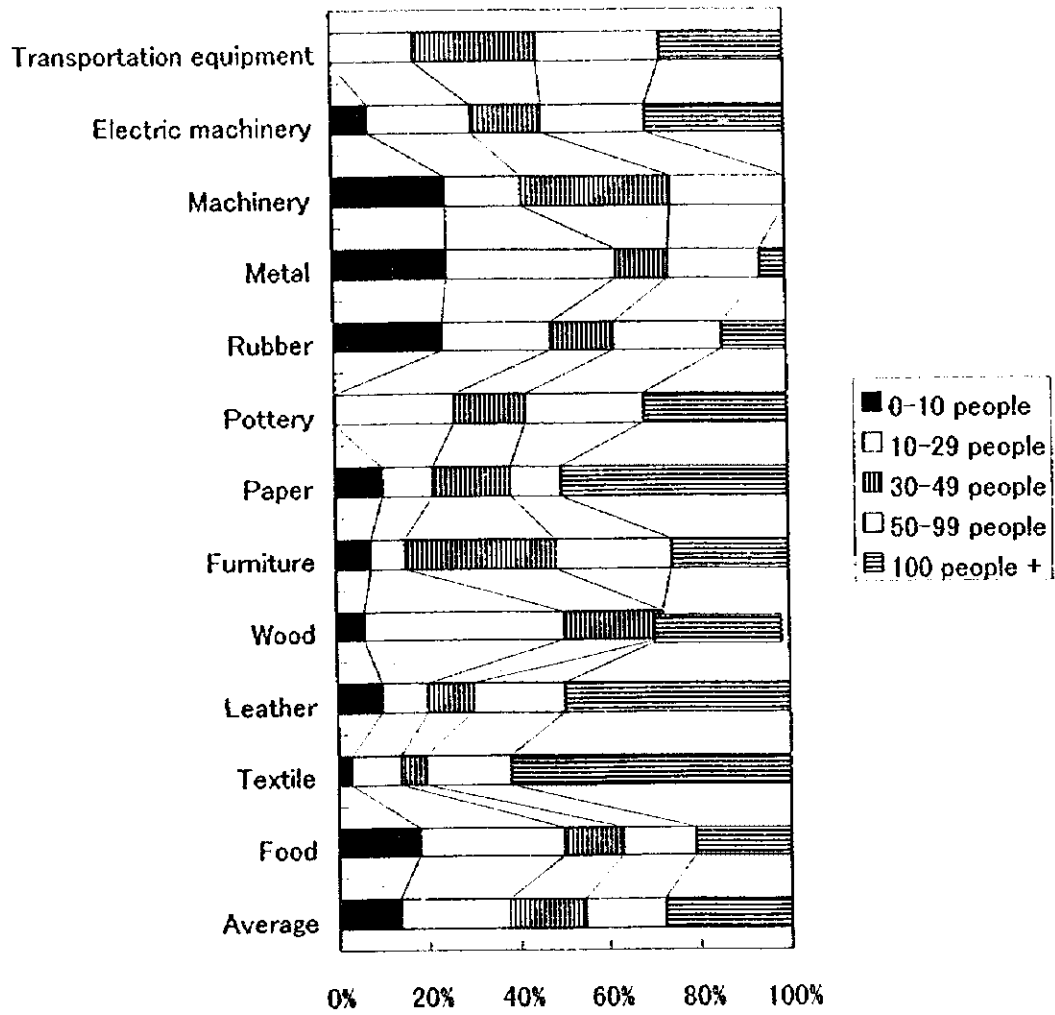
1) The number of employees (Q9-1)

The largest proportion (28%) employed "over 100 persons." However, the numbers of employees varied widely among the responding businesses. Seventeen percent employed "between 50 and 99 persons," 17% "between 30 and 49 persons," 24% "between 10 and 29 persons," and 13% "less than 10 persons."

By type of business, the shares of companies employing more than 100 persons were large in textiles, leather products and paper products. These industries had very small percentages of firms with less than 10 employees. There were a large number of very small businesses in the metals and machinery industries, in which there were few firms employing more than 100 persons.

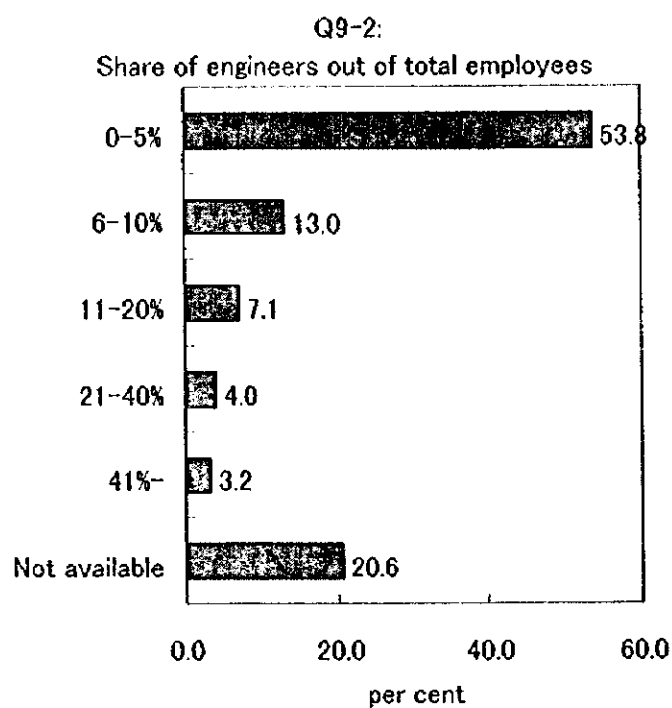


Q9-1:
Matrix (number of employees and type of business)



2) Share of engineers (Q9-2)

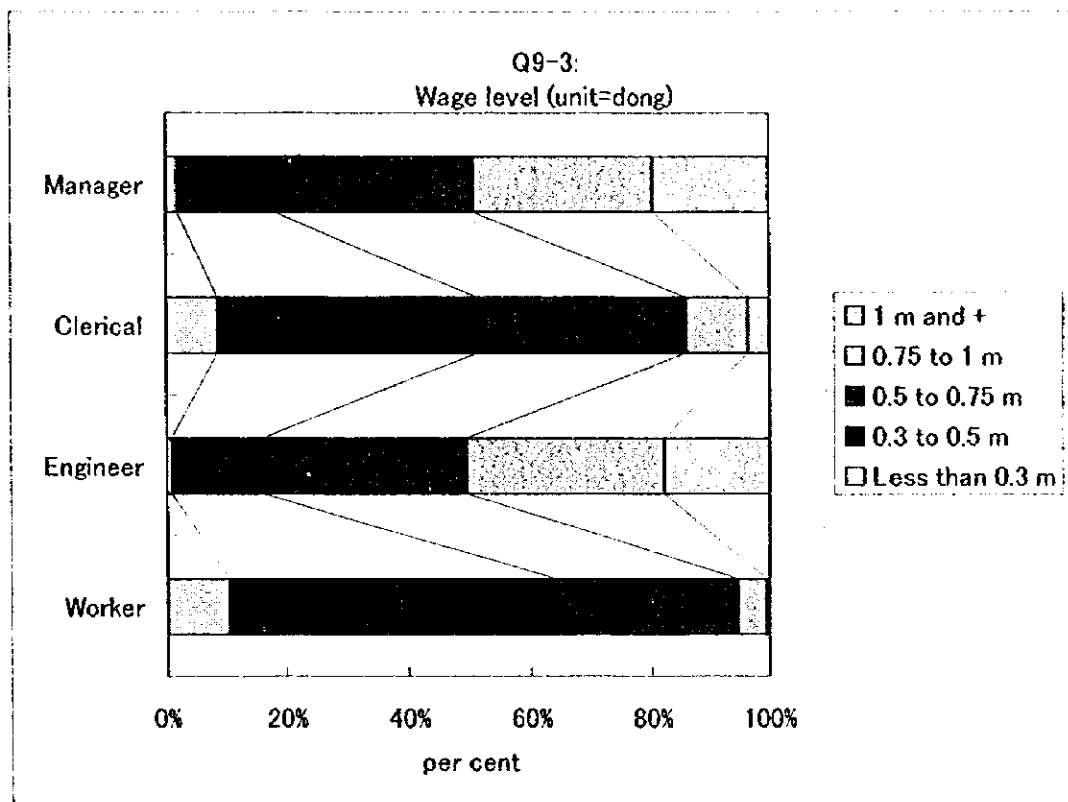
In all companies, the shares of engineers were small ranging from “less than 5%” (54%) and “from 6 to 10%” (13%). Only 14% of the responding firms said the share of engineers in total work force was 10% or more.



3) Wage levels (Q9-3)

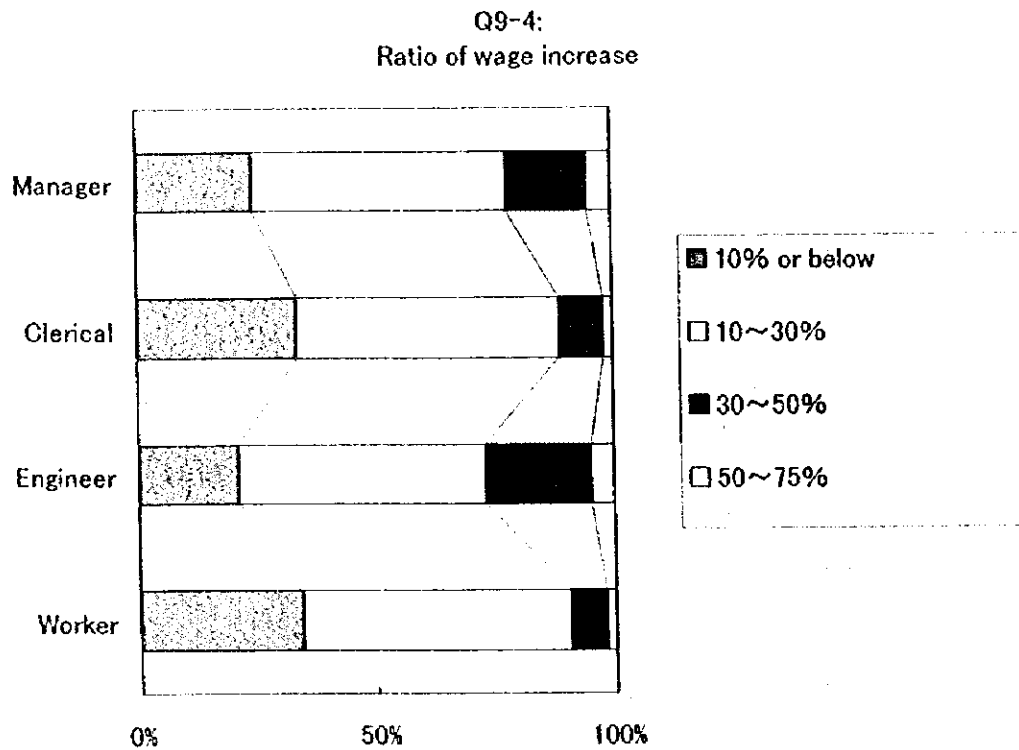
The wage levels are the lowest for factory and clerical workers. Fifty-three percent of factory workers and 34% of clerical workers get "more than 300,000 dong but less than 500,000 dong a month." (US 1 dollar is approximately 10,000 dong.) Approximately 30% of engineers and managerial personnel receive "500,000-700,000 dong a month."

However, wage levels vary widely, with 10% of factory workers earning "less than 300,000 dong" a month, while 16.3% of managerial personnel earn more than "1 million dong" a month.



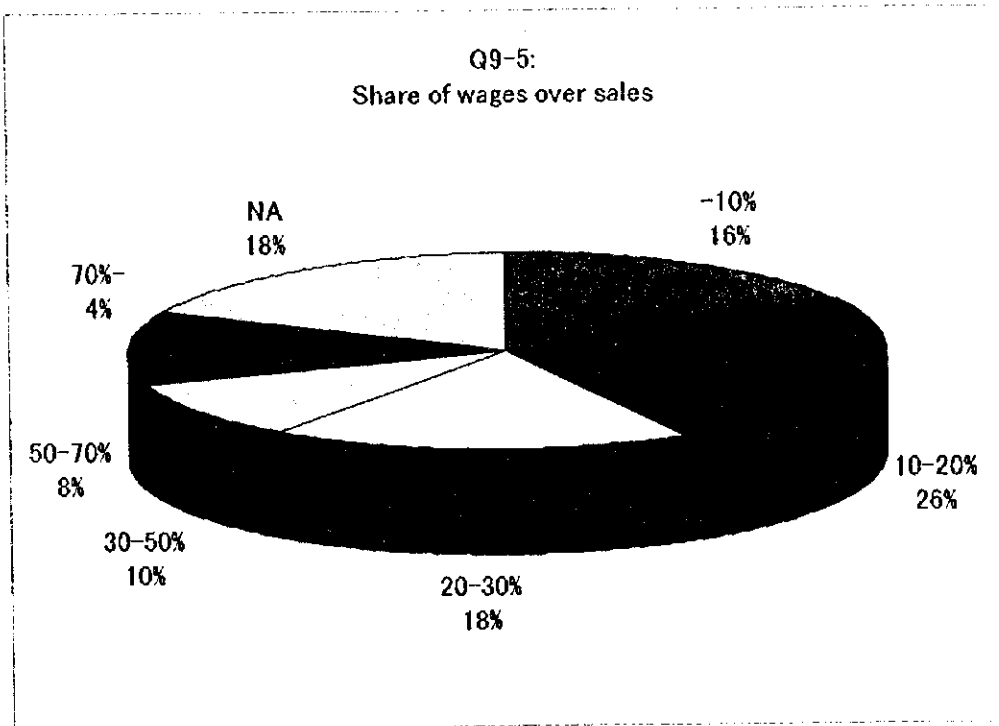
4) The rate of wage increase (Q9-4)

In all job categories, the largest proportion of workers (35.4%) are receiving wage increases of "10-30%." Eighty percent of responding firms said the rate of wage increase was from zero to 30%. Only 10.6% of respondents experienced wage increases of "30% or more."



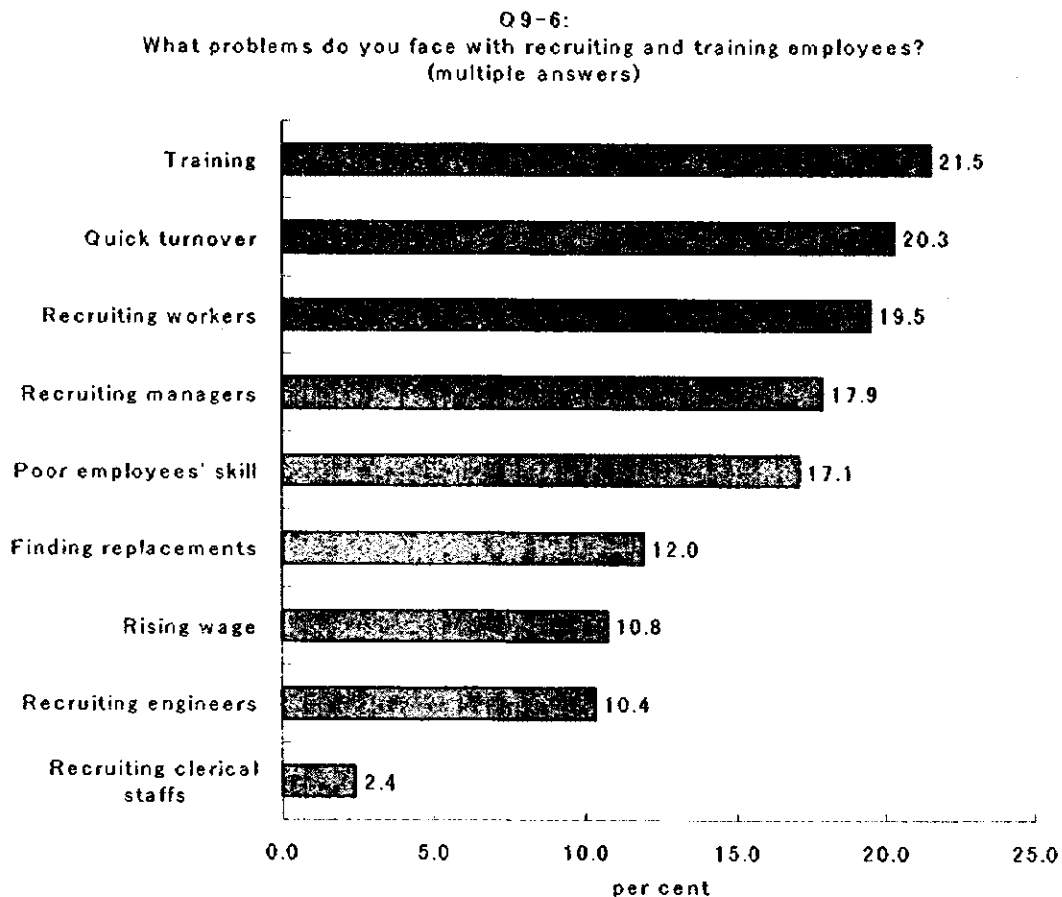
5) The ratio of wage costs to sales (Q9-5)

Generally speaking, the ratio of wage costs to sales is not very high. At 43% of the firms, the ratio of wage costs to sales is less than 20%: "less than 10%" (16%) and "10-20%" (27%). We can, therefore, see that low wages are contributing to the international competitiveness of Vietnamese firms.



6) Problems associated with securing work force (Q9-6)

Many businesses are faced with the problems associated with recruiting and training employees. More than 20% each of the responding firms cited "difficulties in training employees," "high turnover ratios," and "difficulties in securing factory workers." These are the most serious problems for management. Only a small number of firms (2.4%) experience "difficulty in recruiting clerical workers." However, more than 10% of the firms cited "difficulties in securing managerial personnel" (17.9%), "low skill levels" (17.1%), "the absence of a successor" (12%), "sharp wage increases" (10.8%), and "shortage of engineers" (10.4%). In order to promote the development of small and medium-sized businesses, worker education and training are essential.



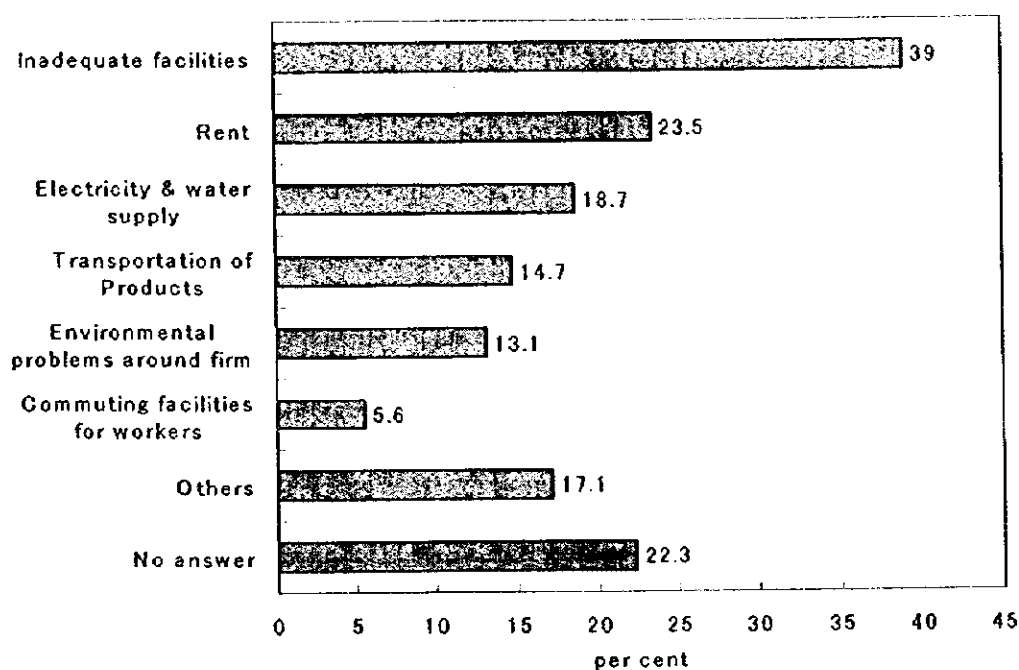
(5) Production facilities

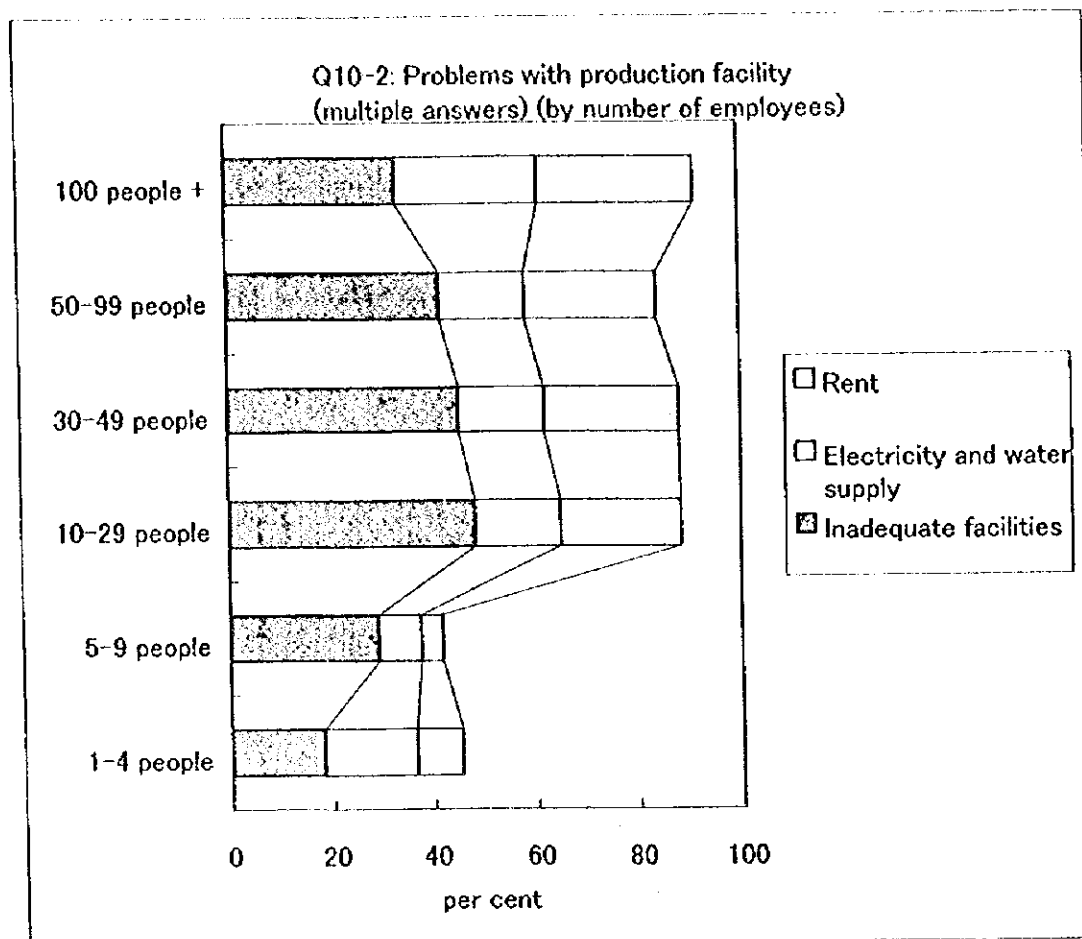
1) Problems associated with production facilities (Q10-2)

There are some serious problems associated with production facilities. Although there are some divergence from industry to industry, on average nearly 40% of responding firms cited "lack of space—small facilities" as a problem. The second problem is "sharp increases in land rent" (23.5%). Nearly 20 percent of firms respectively cited problems associated with basic infrastructure, such as "sharp increases in land rental charges" and "securing electric power and water supplies." Solving these problems will continue to be major priorities in the future as well.

By size of business in terms of the number of employees, although the problems are not very serious for very small businesses employing less than 10 persons, "the lack of factory space" (more than 35%) and "sharp increases in land rental charges" (more than 20%) are serious problems for businesses employing more than 10 persons.

Q10-2: Problems with production facility (multiple answers)

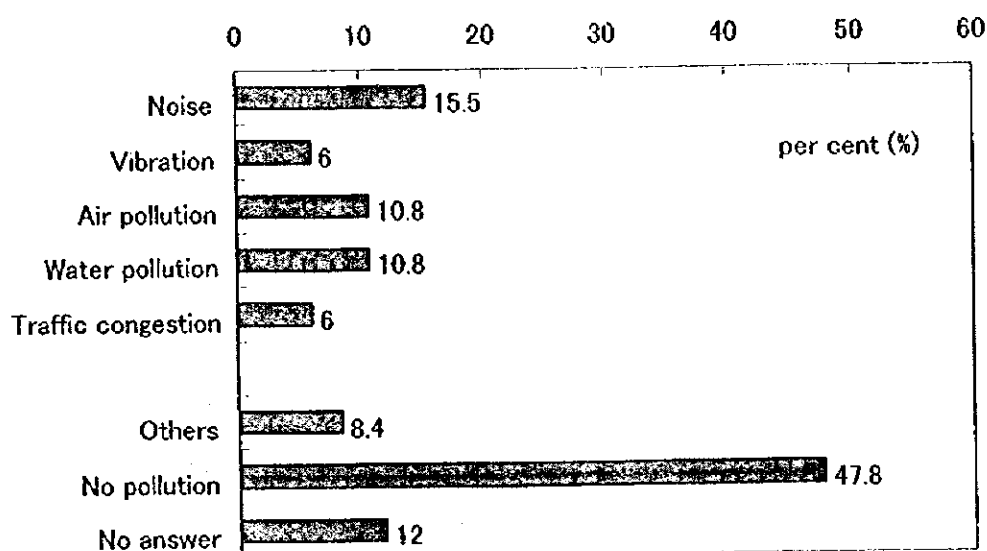




2) Environmental problems (Q10-3)

Among all the respondents, 47.8% replied that there was "no environmental problems." This suggests that in Viet Nam, environmental problems have not surfaced or that awareness of environmental issues among businessmen is very low. Fifteen percent of respondents cited "noise" as a problem, followed by "air pollution" and "water pollution" (approximately 10% each). Only 6% each cited "vibration" and "traffic congestion."

Q10-3:
Environmental problems

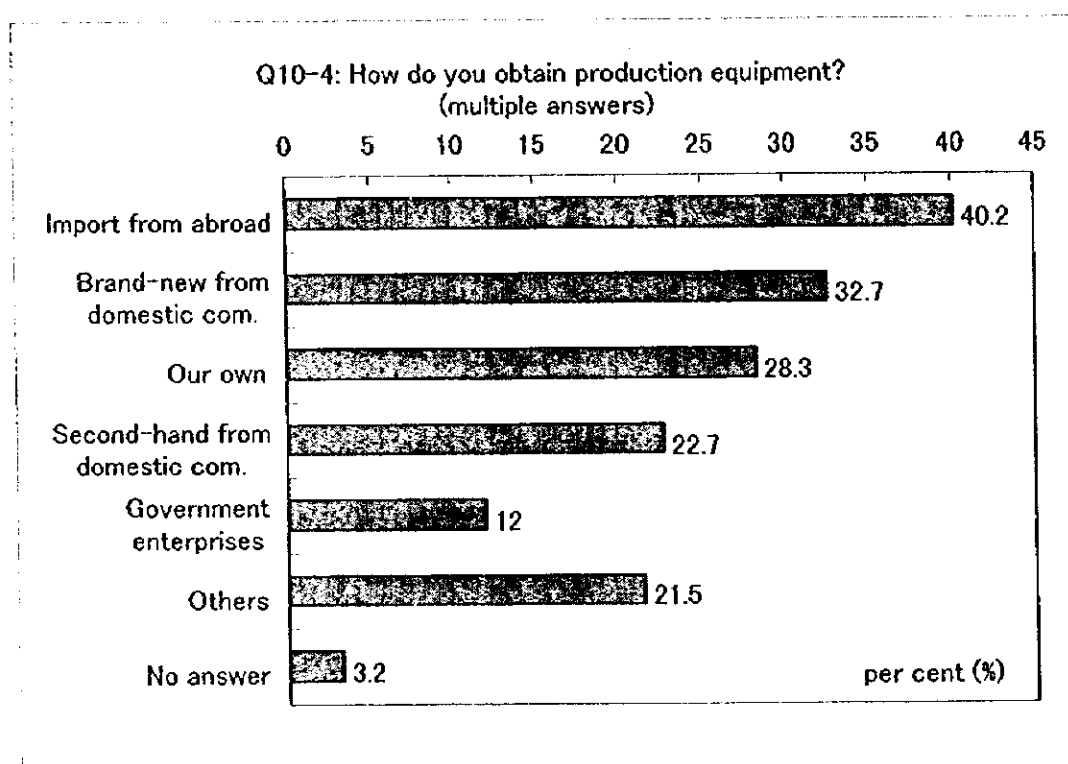


3) Methods of procuring production equipment (Q10-4)

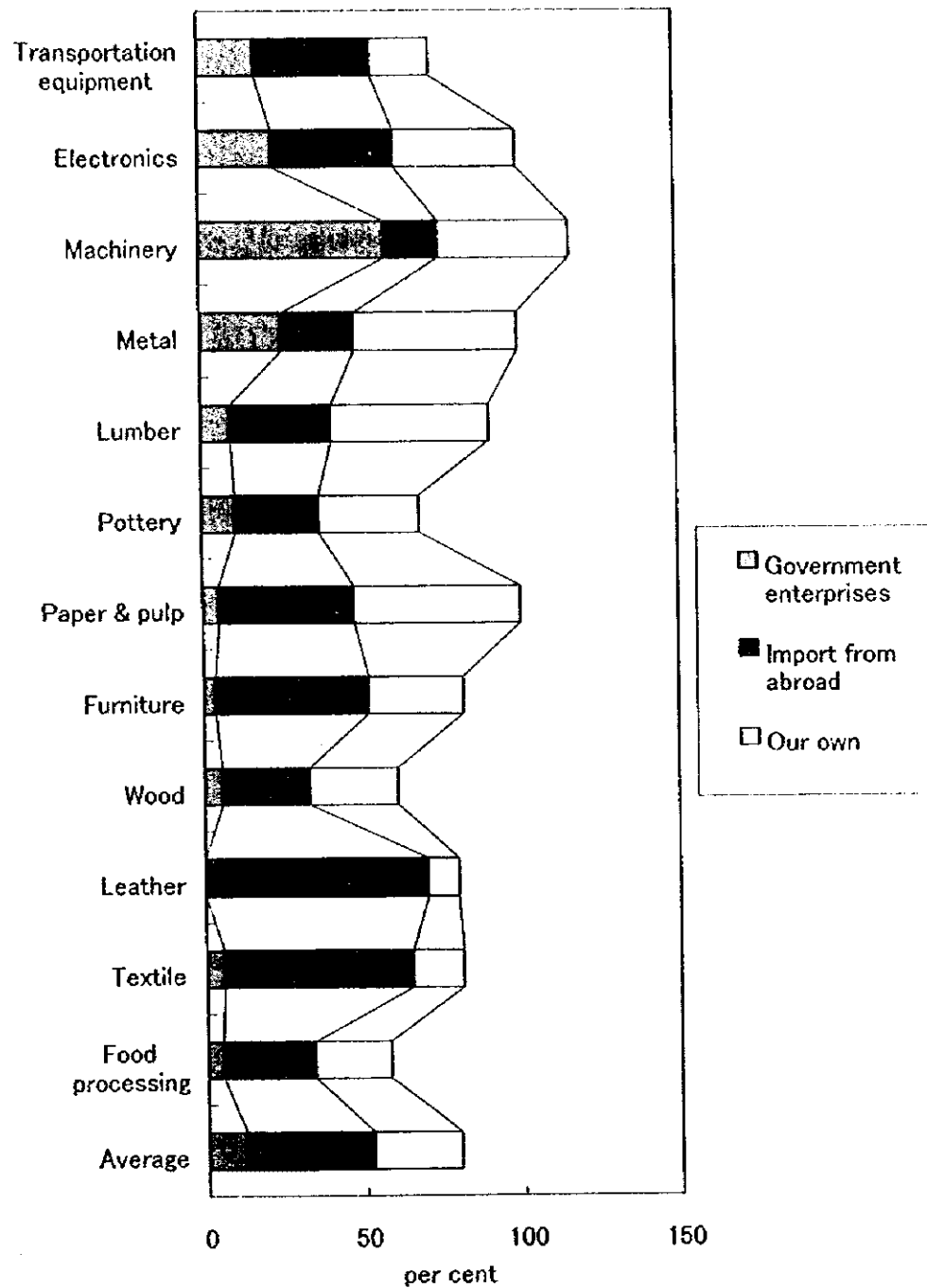
"Imports from overseas" (40.8%) are an outstanding means of procuring production equipment. Domestic procurement also accounts for a large share with "new equipment from other domestic enterprises" (32.7%) and "used equipment from other domestic enterprises" (22.7%). Nearly thirty percent (28.3%) "manufacture production equipment in-house." These figures show that the machinery industry in Viet Nam has not yet well developed.

By type of business, exporting sectors, such as textiles, leather products and furniture, depend heavily on imports for production equipment, with nearly 50% or more of these firms doing so. In the metals and machinery industries, the shares of "used equipment from state-run enterprises" and "in-house production" are higher than in other industries. We can assume that these sectors are relying on state-run enterprises.

By size of business in terms of the number of employees, the larger the firm, the larger the degree of dependence on imports. Conversely, the smaller the size, the higher the share of in-house production of equipment, as indicated in the chart below.

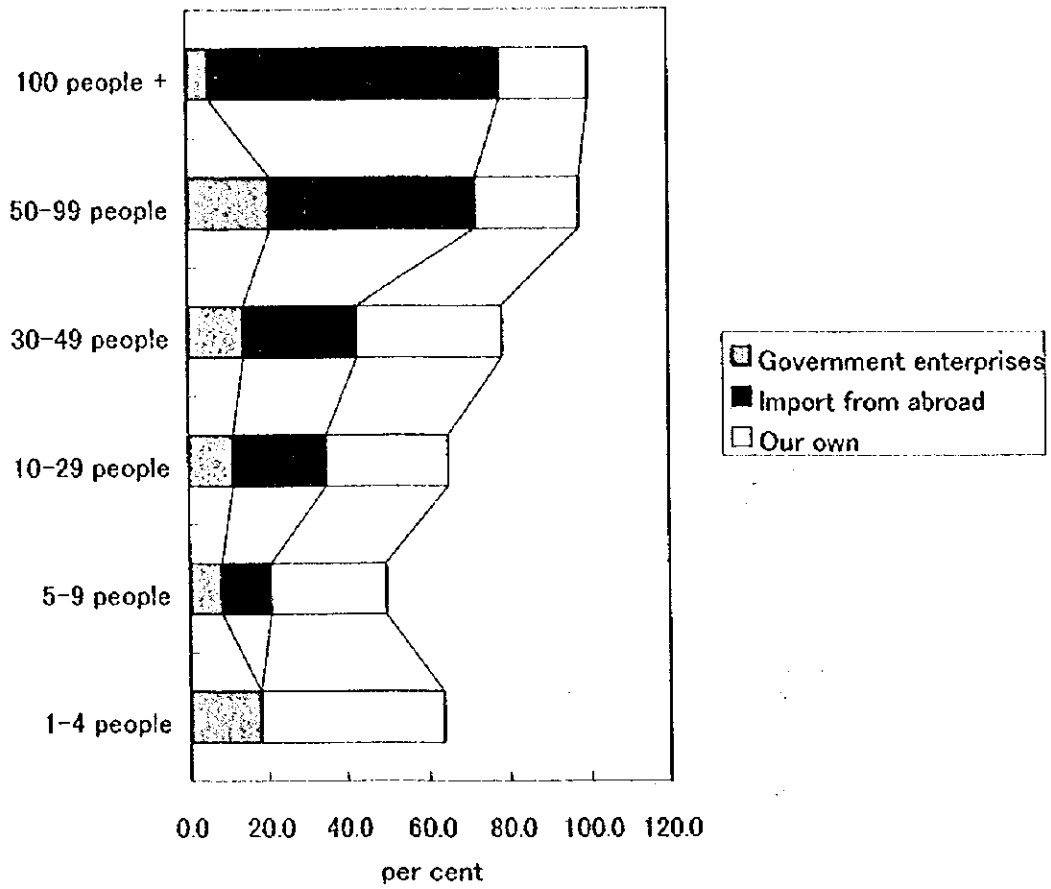


Q10-4:How do you obtain production equipment?
(multiple answers) (by type of business)



Q10-4:

How do you obtain production equipment? (multiple answers) (by number of employees)

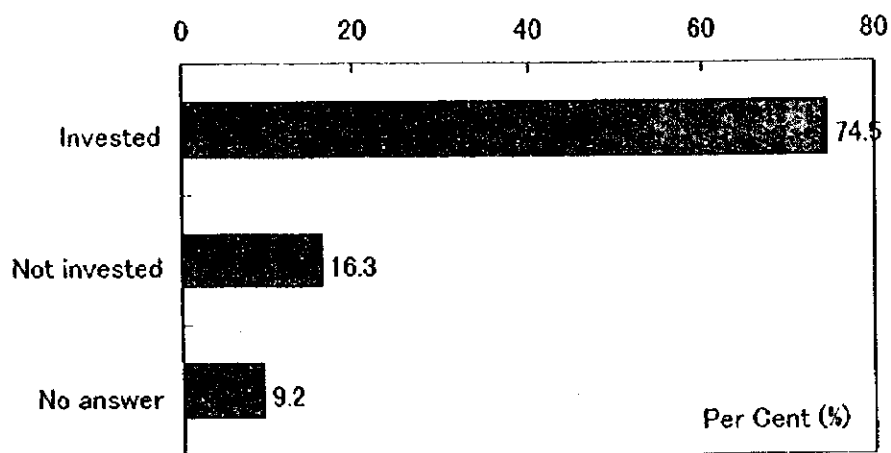


4) Actual capital investment (Q10-5)

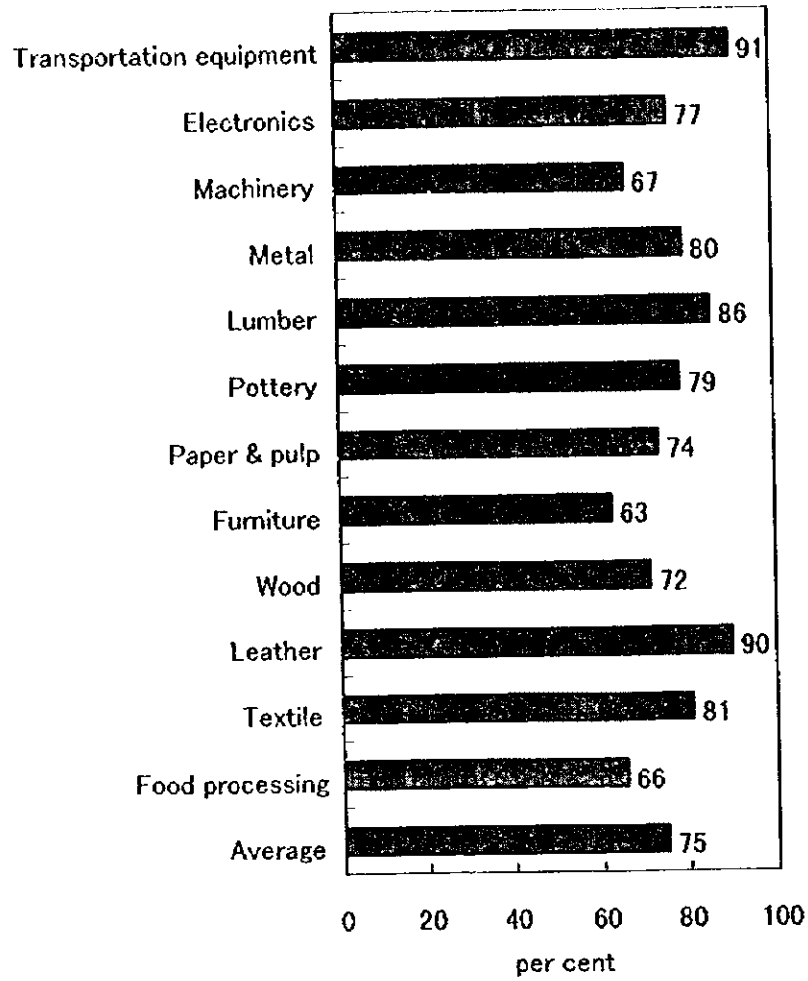
Among all the responding firms, 74.5% are making capital investment.

Although there is some variance from industry to industry, furniture making (63%) and food processing (66%) have the lowest percentage of firms making capital investment (in the 60s), while the percentages are the highest in leather products (90%) and transport equipment (91%).

Q10-5:
Investment in plant or equipment



Q10-5:
Have you invested on facilities? (by type of business)

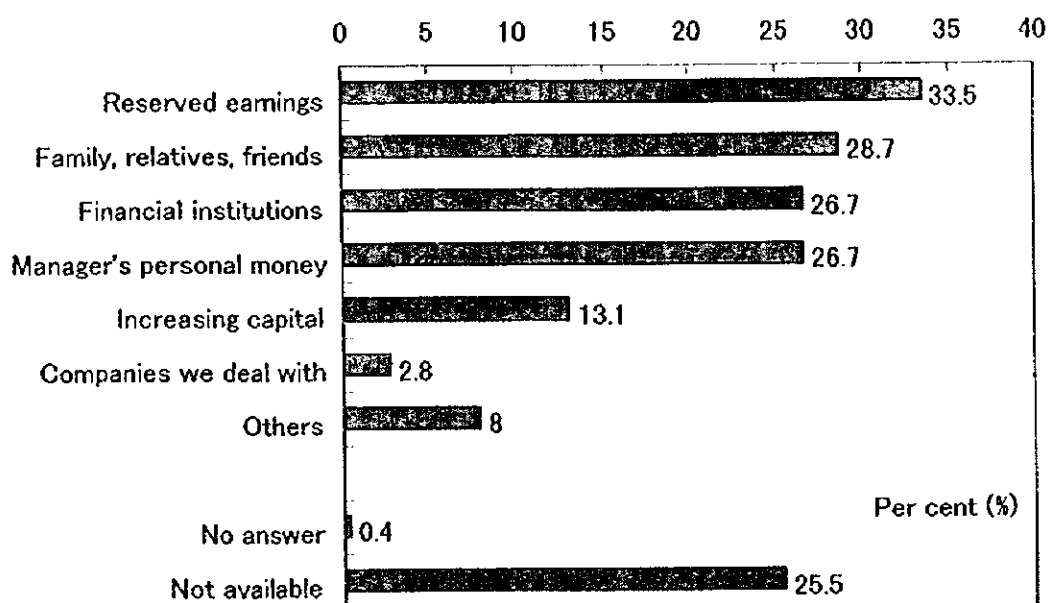


5) Fund-raising methods for capital investment (Q10-6)

As to the method of raising funds for capital investment, the largest share of companies (43.3%) responded that they used "accumulated savings of past earnings." Fund raising through personal contacts was also a major means with "borrowing from family, relatives, and friends" accounting for 28.7% and "personal funds of the president" accounting for 26.7%. Only 26.7% of firms used "financial institutions," indicating that financial institutions do not support businesses very much in Viet Nam.

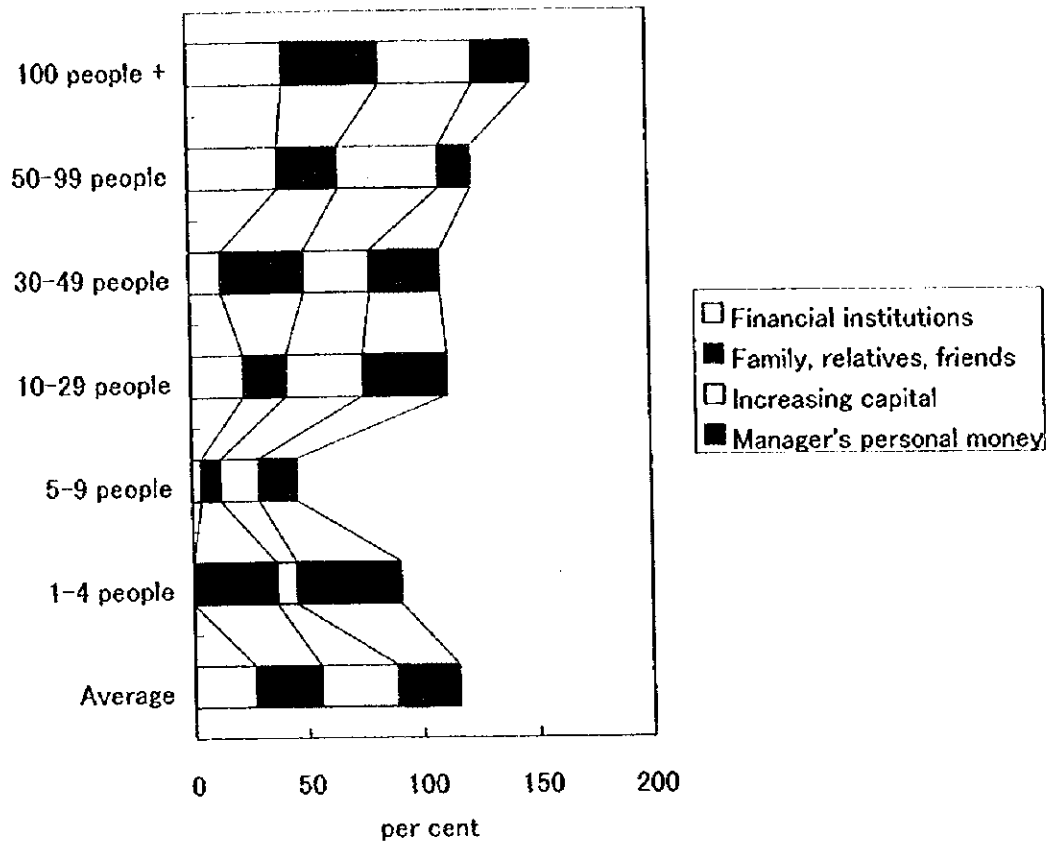
By size of business in terms of the number of employees, the smaller the business, the more frequent the use of personal ties for fund raising. Conversely, the larger the business, the larger the shares of "capital increases" and "borrowing from financial institutions or money lenders."

Q10-6:
Source of investment funds



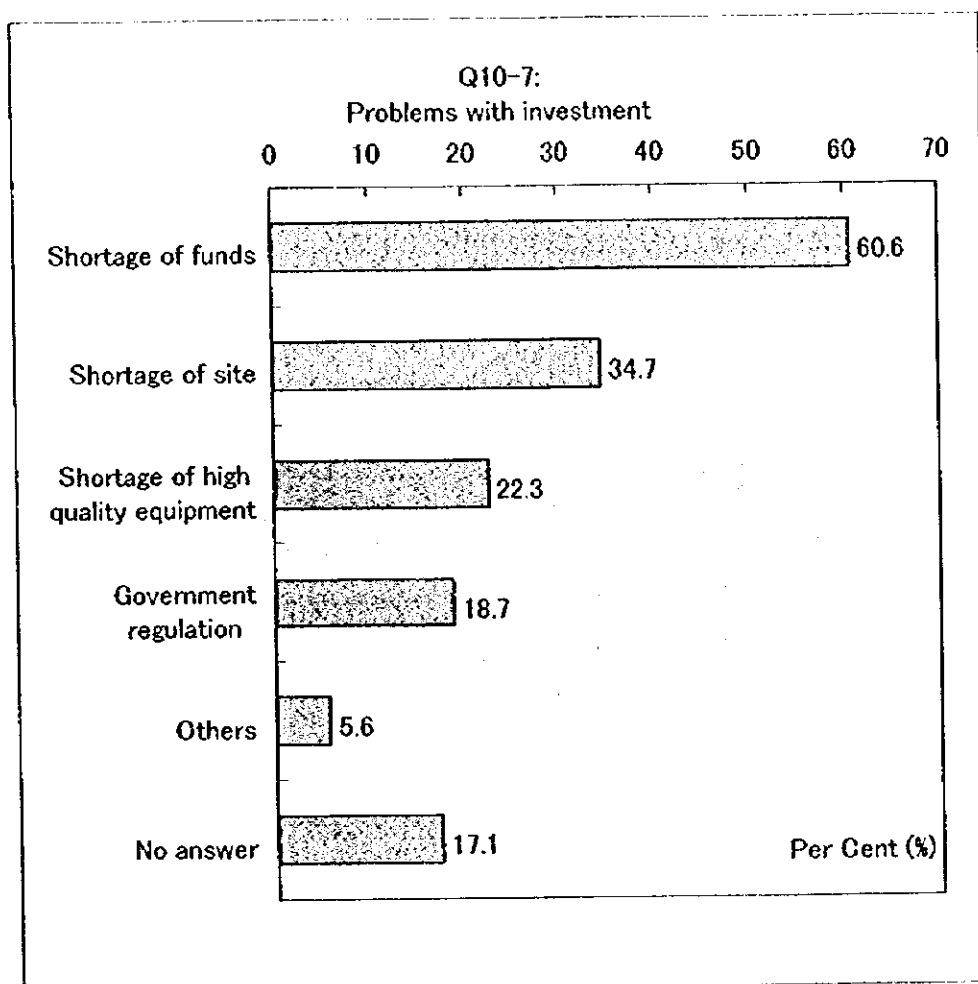
Q10-6:

How did you finance your investment? (multiple answers) (by number of employees)



6) Problems associated with capital investment (Q10-7)

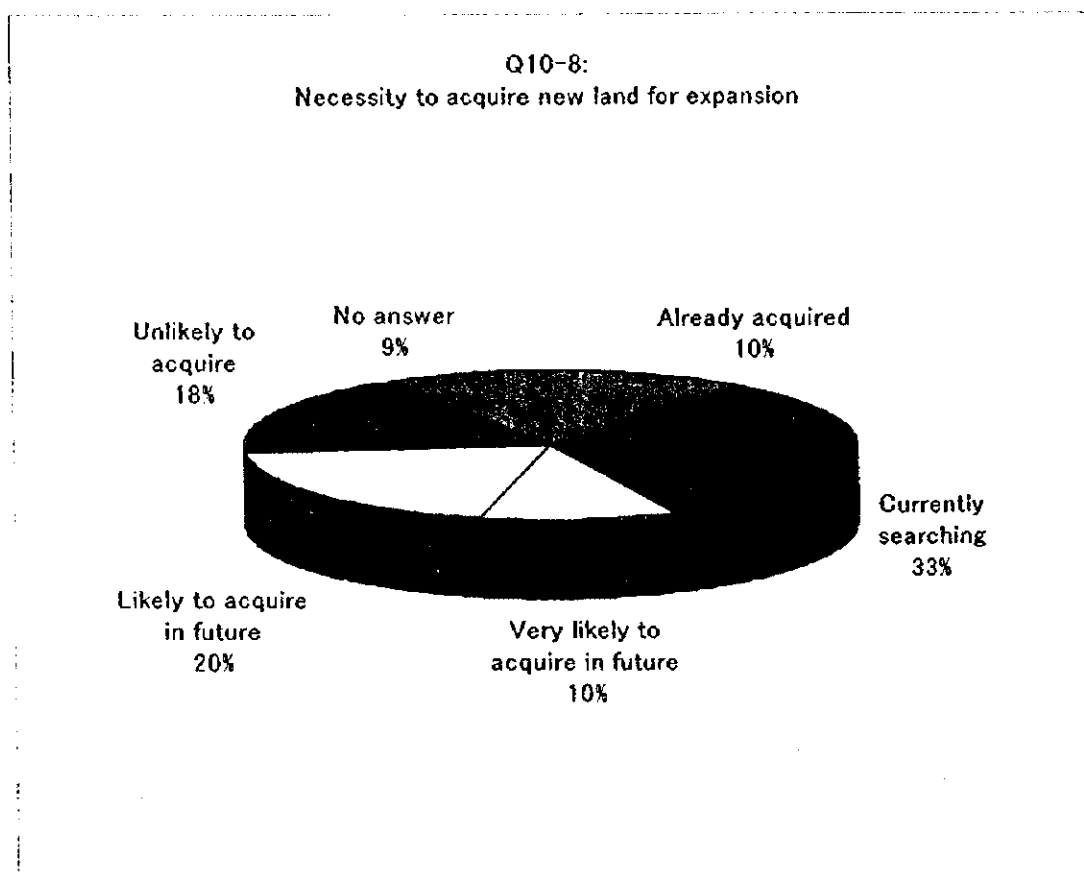
The most serious problem is "the shortage of funds for capital investment," with more than 60% of firms citing this factor. We believe that the fact that only a small share of firms responded that they borrowed from financial institutions to the previous question is the cause of this problem. Other problems cited are "cannot add facilities due to lack of land space" (35%), "it is difficult to purchase high-performance production equipment" (22%), and "difficulties in obtaining government approval for plant and equipment investment" (19%). These responses show that there are problems other than those associated with funds procurement.



7) Obtaining land for facilities expansion (Q10-8)

Only 10% of responding firms answered that "they have secured new industrial land." However, more than 60% of firms indicate that they need to obtain more land, with 33% responding that "they are looking for land at present", 10% saying that "there is a strong probability that they will need more land in the near future" and 20% saying "there is possibility that they will need more land in the future." These figures indicate that the development of industrial land is needed for further development of Vietnamese businesses.

By size of business, many companies employing more than 10 persons are currently looking for new land, indicating that they intend to expand their businesses. Very small firms with less than 10 employees do not feel that they need additional land, perhaps because of their small scale of operations.

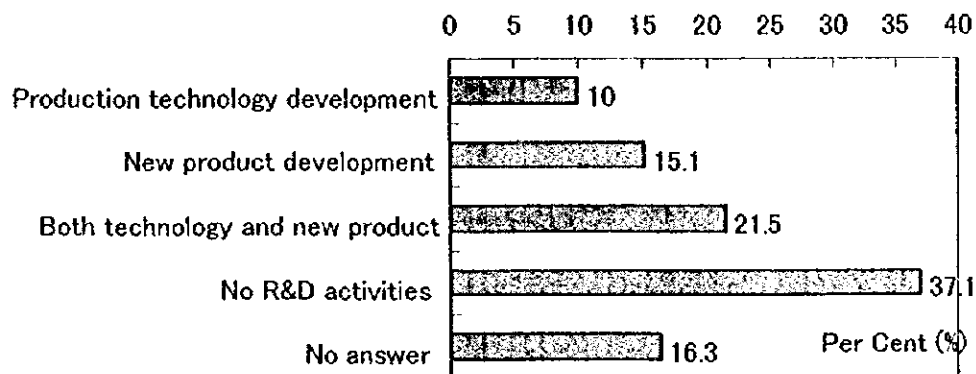


(6) R&D Activities

1) Execution of R & D (Q11-1)

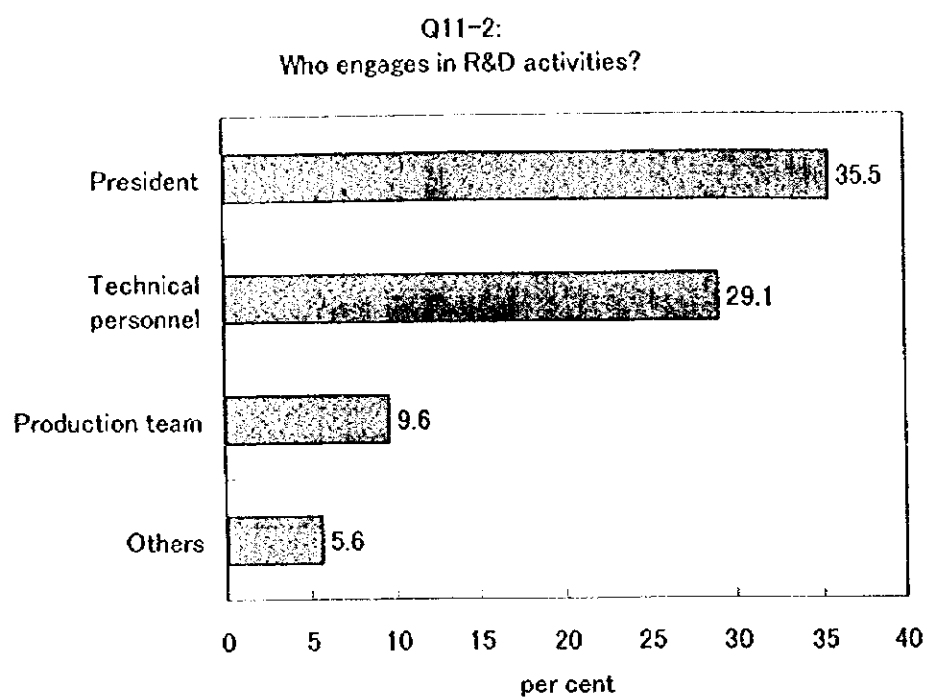
A relatively large proportion of firms, 37%, responded that “they are not engaged in R&D activities at present.” Firms engaged in “both the development of production technologies and new products” accounted for 21.5%. Firms engaged in “mainly the development of new products” accounted for 10%, while those engaged in “mainly the development of production technologies” accounted for 15%.

Q11-1:
Engagement in R&D activities



2) Who is engaged in R&D? (Q11-2)

Almost half of the responding firms did not have special R&D staff, with “the president himself engaged in R&D activity” at 35.5% of the firms, and “production staff is also engaged in R&D” at 10% of the firms. Firms where “special technical staff is engaged in R&D” accounted for 29.1%.

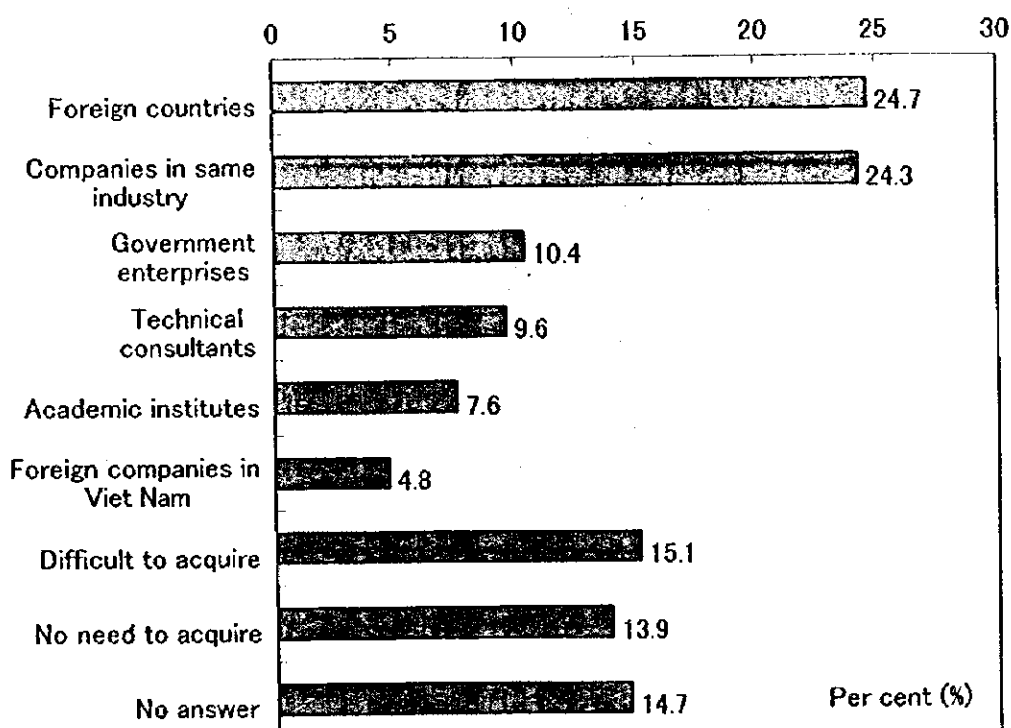


3) Methods of acquiring technology (Q11-3)

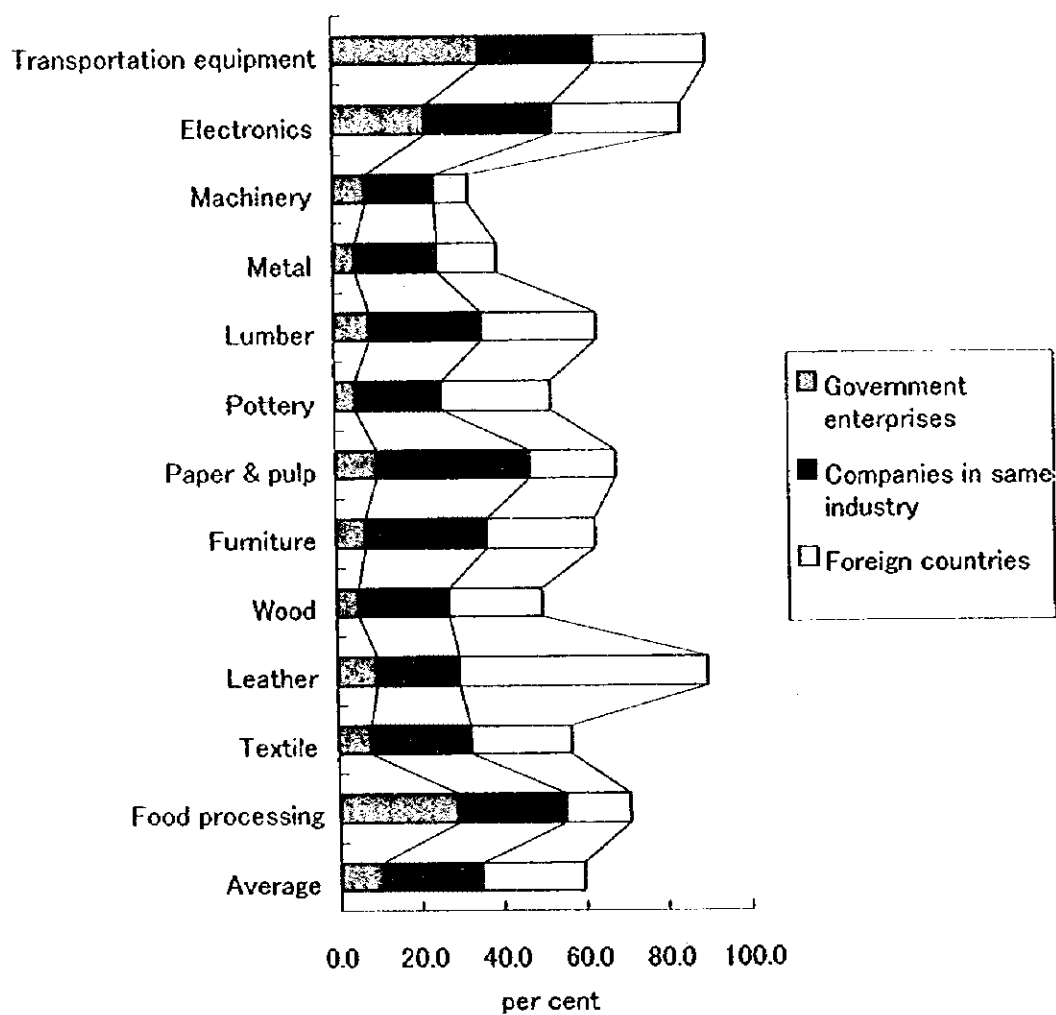
A large proportion of firms responded that they obtained the technologies they lacked "from overseas" (25%) or "from other firms in the industry" (24%). Only 10% of the respondents obtained needed technologies from "state-run enterprises." However, a relatively large share of firms are not acquiring technologies, because "it is difficult, though we want to introduce new technologies" (15%) or "have no need" (14%).

By type of business, approximately 20% of firms in all sectors are acquiring technologies they lack from "other firms in the industry." Relatively large shares (approximately 30%) of firms in the food processing, electrical machinery, and transport equipment industries are obtaining technologies from "state-run enterprises." In the leather product industry, which is exporting a large share of products, "from foreign companies in Viet Nam" accounts for 60%, indicating that they have access to foreign technologies.

Q11-3:
How to acquire technology for improvement

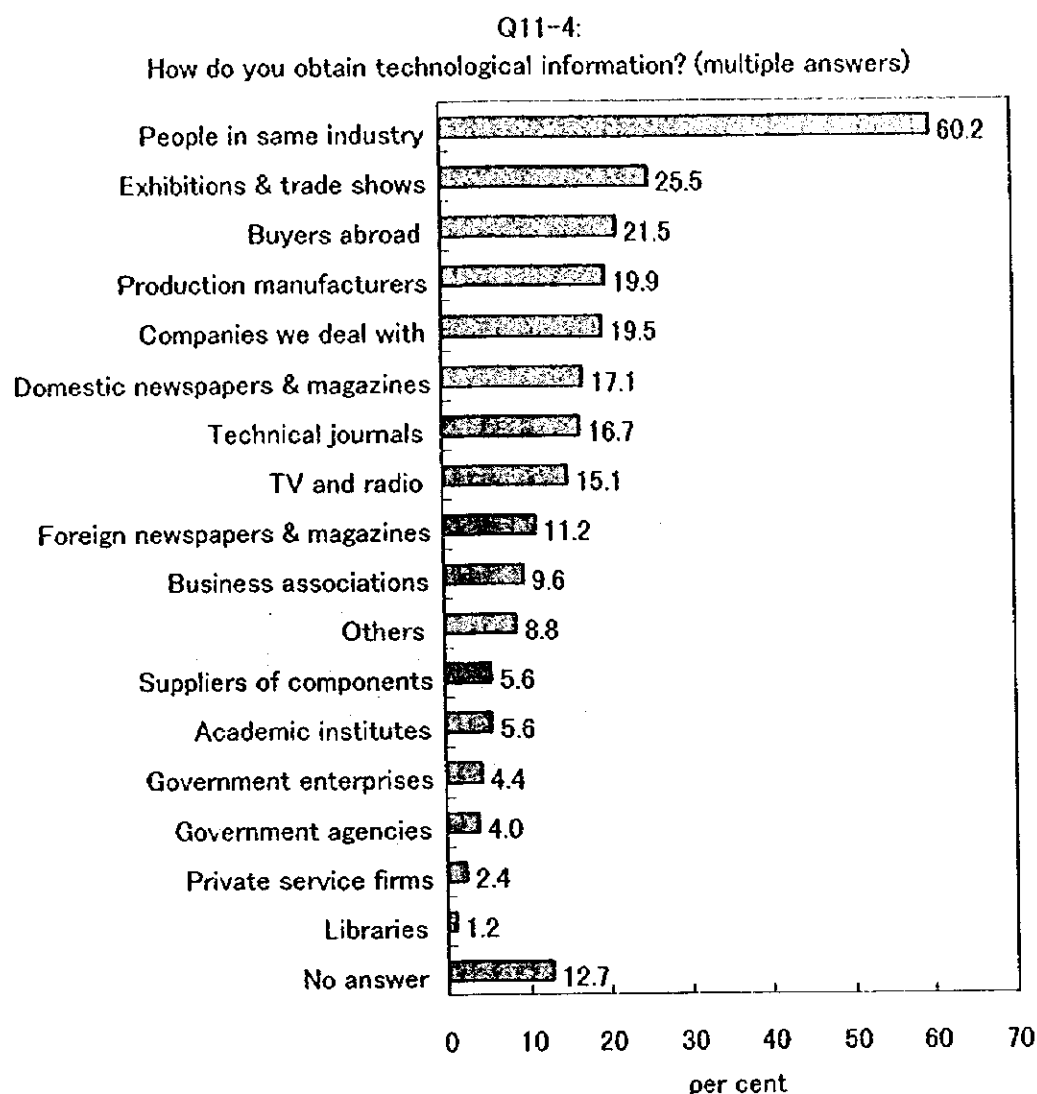


Q11-3:
How do you obtain technological information? (by type of business)



4) Methods of acquiring technological information (Q11-4)

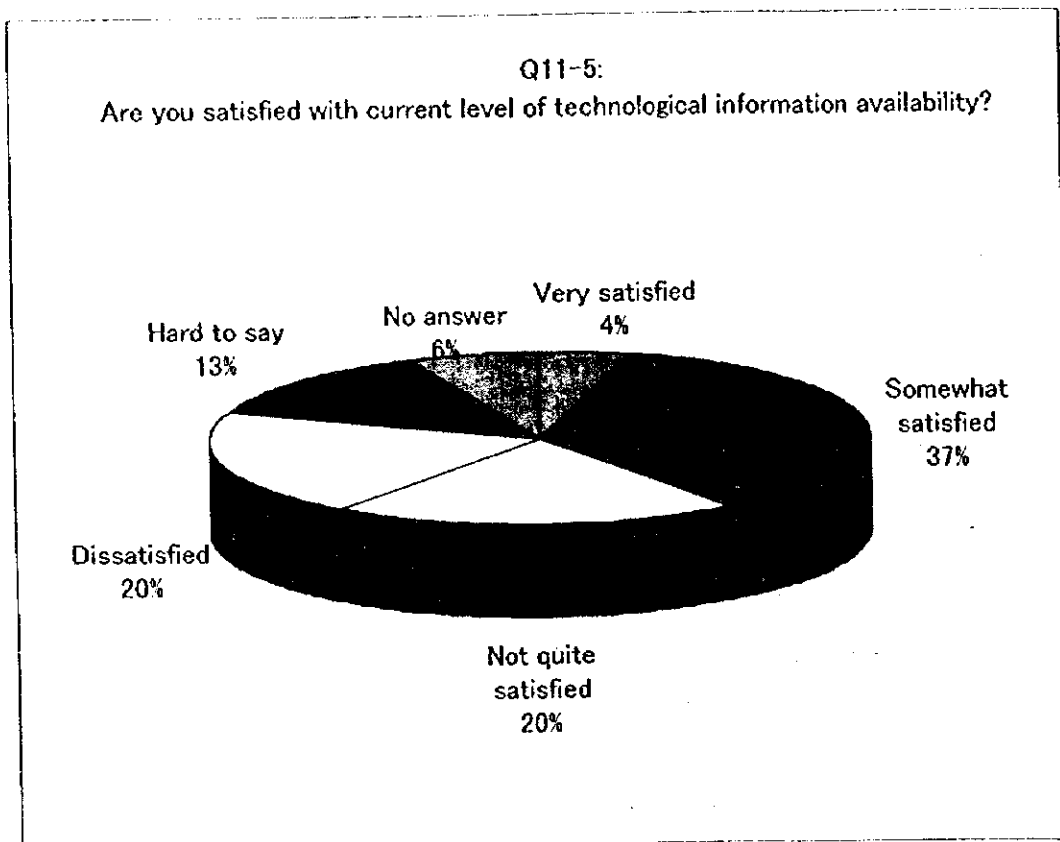
A predominantly large share of firms (60.2%) obtain technological information "from other firms in the industry." "At fairs and exhibits," "from foreign buyers," and "from machinery makers," respectively account for 20%. It appears that businesses are obtaining information by various means.



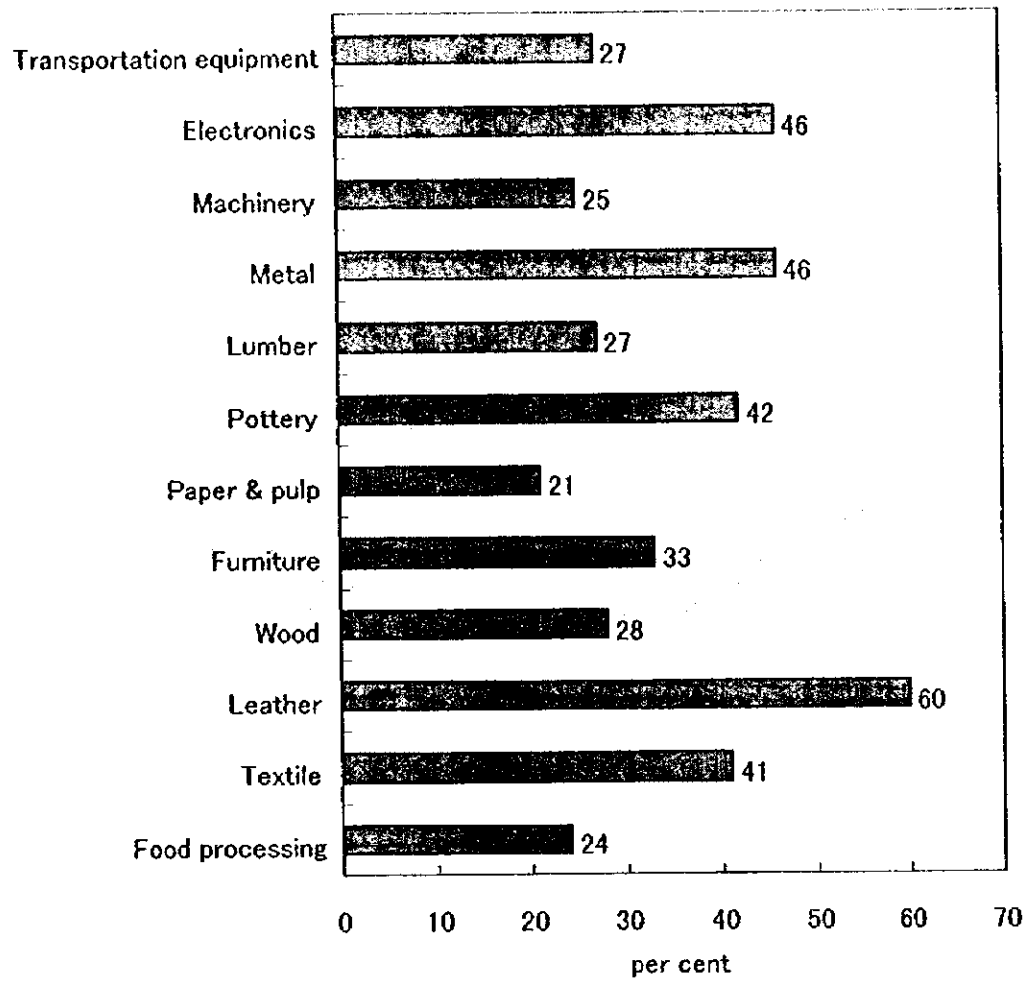
5) The degree of satisfaction with availability of technological information (Q11-5)

Only 4% of the responding firms are "very satisfied," while a high 37% responded that they are "fairly satisfied." Even so, a large portion of firms responded "fairly dissatisfied" (20%) or "very dissatisfied" (20%). There is a large variance in the degree of satisfaction among the firms.

There are no outstanding characteristics due to business category. However, in the leather product industry, "fairly satisfied" (60%) account for a large share. Their access to overseas information (see Q11-4) appears to be contributing to this fact.

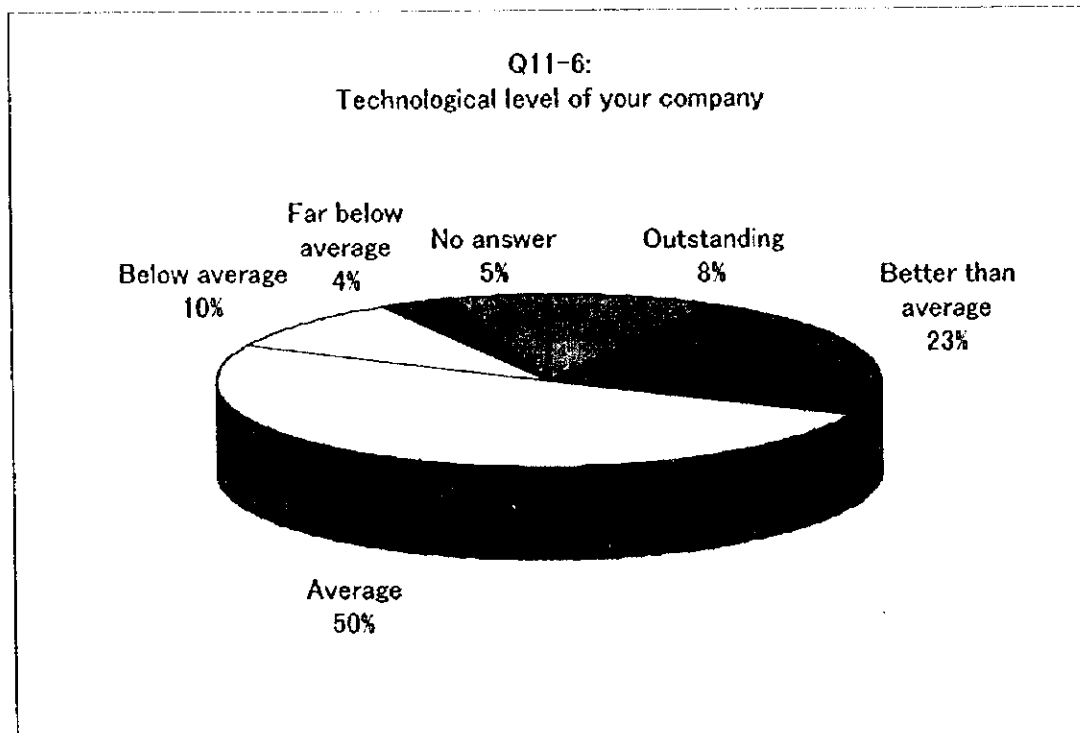


Q11-5:
How much are you satisfied with current level of information availability?
(by type of business)



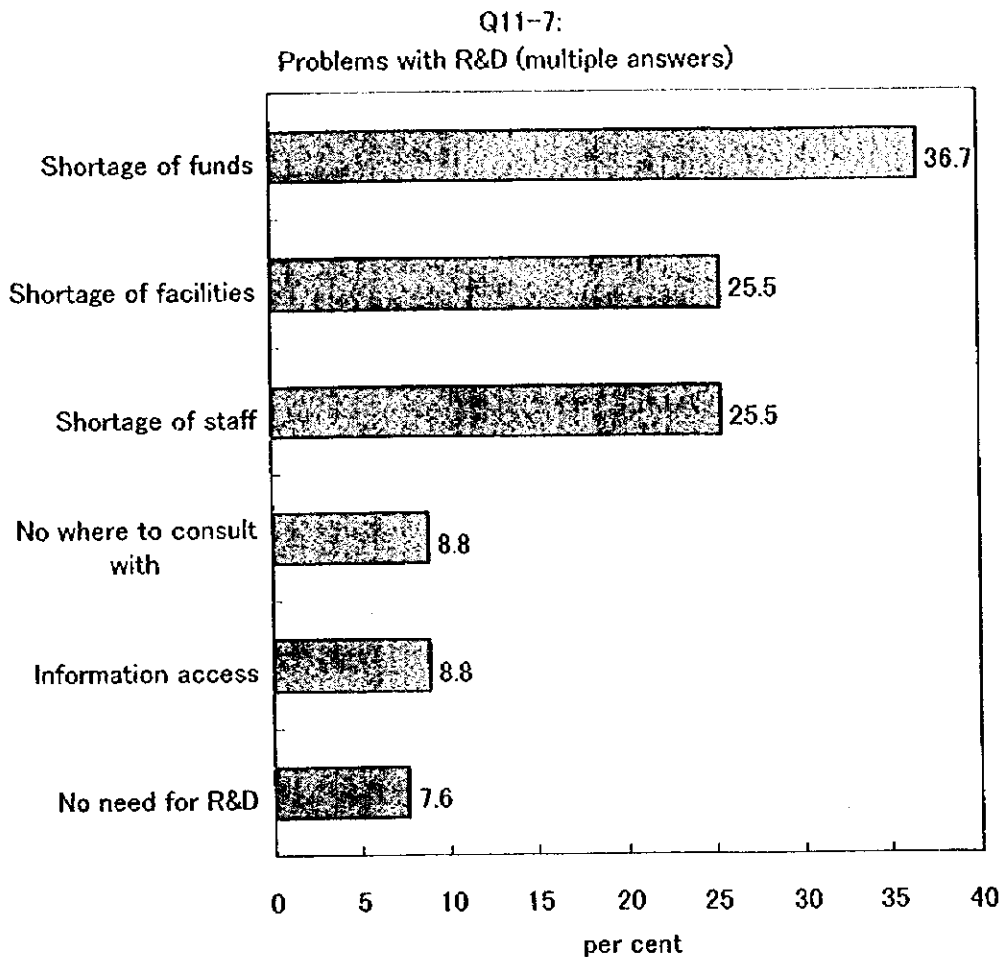
6) Evaluation of the firm's own technological level (Q11-6)

Half of the responding firms said that their technological level is "average for the industry." More than 30% are very bullish, responding "very superior" (8%) or "superior" (23%). Only a small proportion of the firms are pessimistic: "inferior" (9.6%) and "far inferior" (3.6%).



7) Problems associated with technology development (Q11-7)

The most serious problem is financial, with 36.7% of firms responding "lack of funds for technology development." Firms citing "shortage of equipment necessary for technology development" and "shortage of technological staff" each accounted for 25.5%. Some firms appear to place no emphasis on technology development, as 7.6% of the firms responded "no need for technology development."

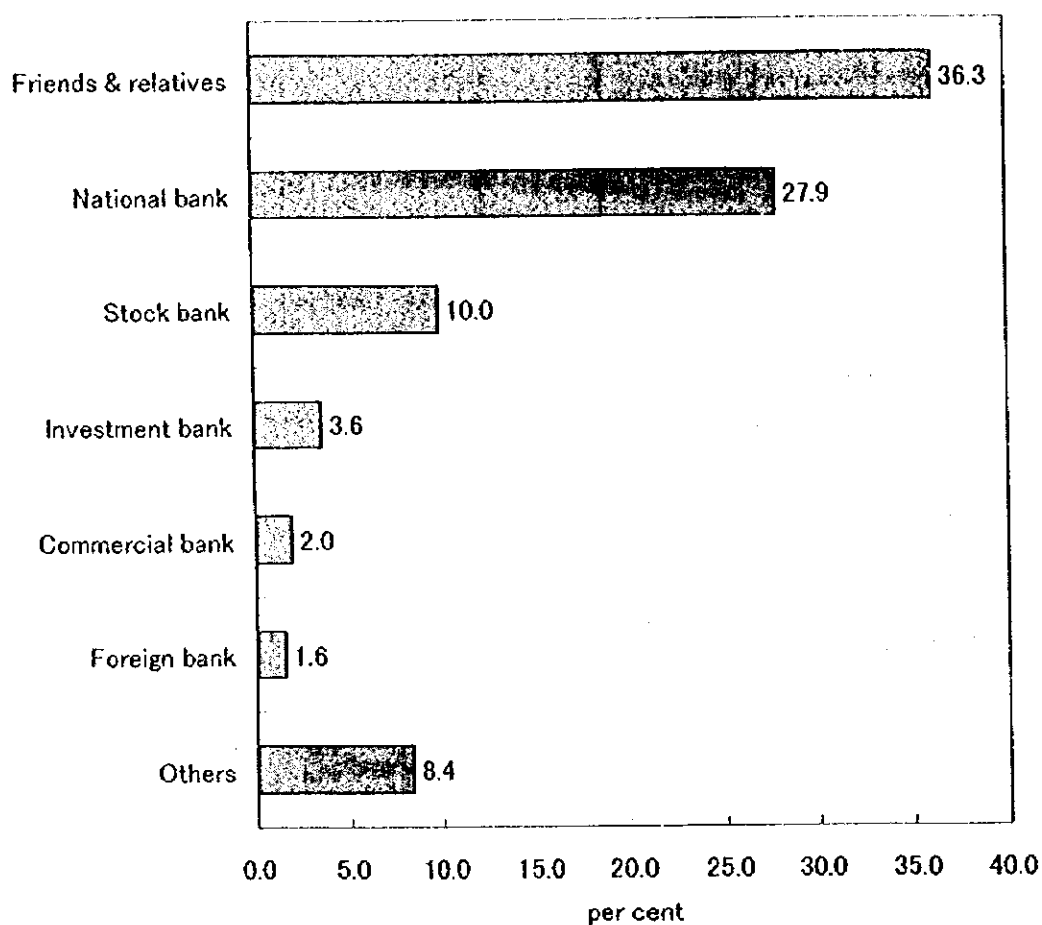


(7) Financing

1) financial resources (Q12-3)

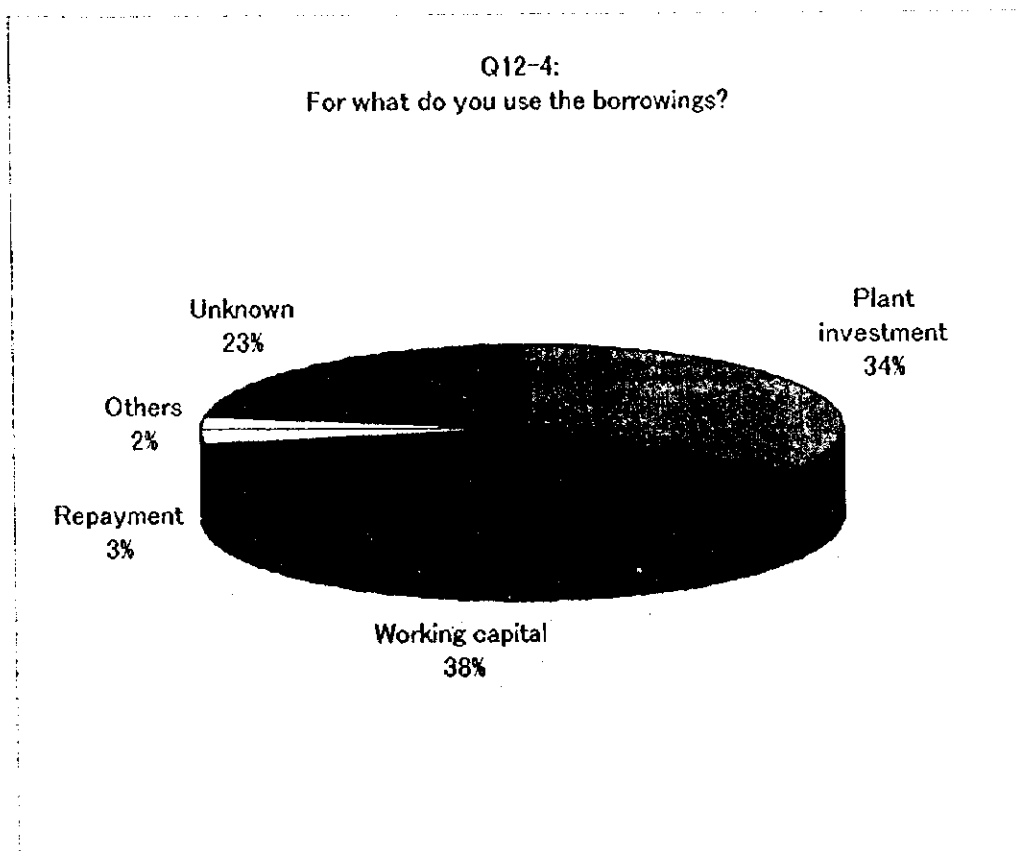
"Friends and relatives" is the most frequent answer, which means that people obtain finances from personal resources rather than financial institutions. The second most frequent answer is "National bank;" however, other types of bank finances score ten per cent or less. Therefore, the use of commercial banks has not been yet popular in Viet Nam.

Q12-3: From whom do you obtain your financial resources?



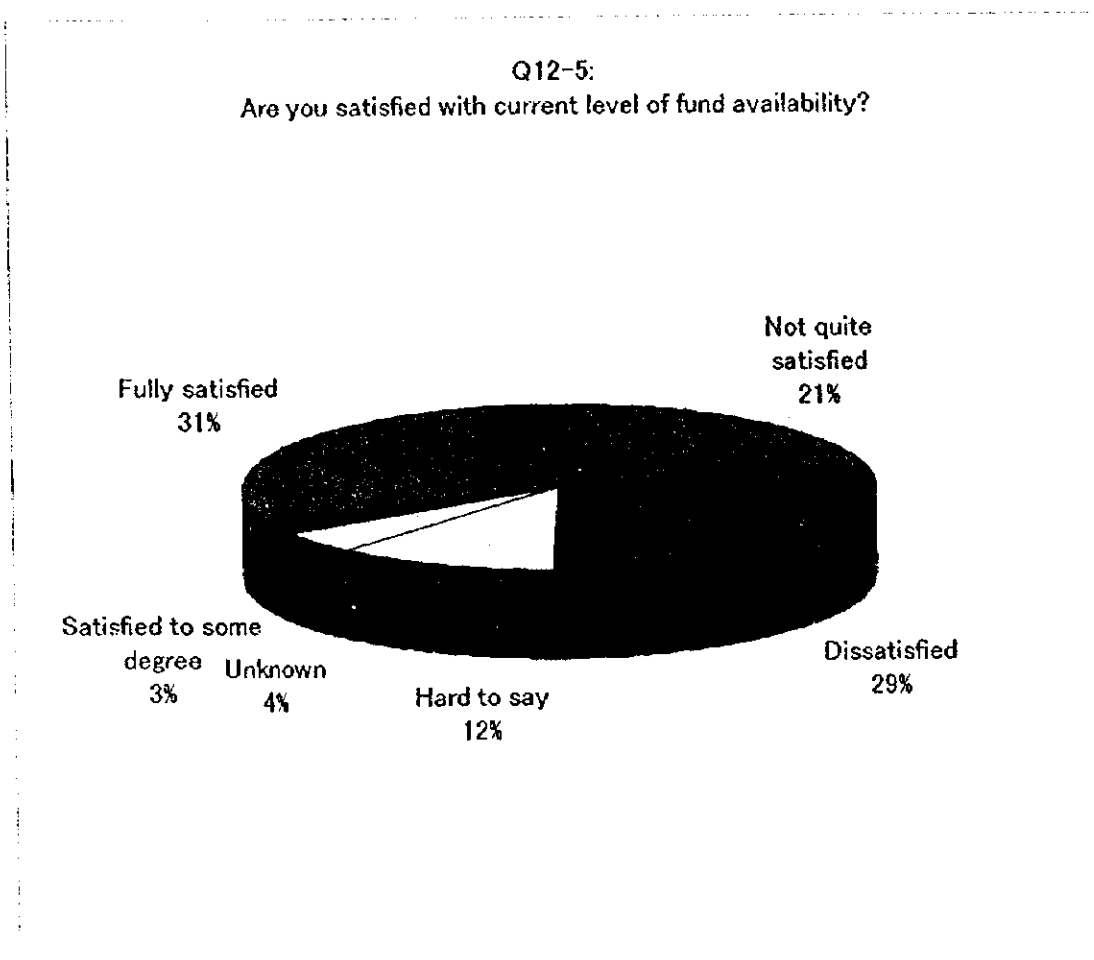
2) Application of borrowed funds (Q12-4)

There are two major categories, with 34% responding "for plant and equipment investment" and 38% responding "for operating funds." There is no significant difference by type of business in this trend.



3) Degree of satisfaction with fund availability (Q12-5)

Approximately half of respondents expressed dissatisfaction with the current fund availability, with "fairly dissatisfied" accounting for 21% and "very dissatisfied" accounting for 29%. On the other hand, 31% responded that they were "rather satisfied," indicating wide variance in the levels of fund availability among businesses.



(8) Export behavior

Among the 251 firms that responded to the survey, 60 percent replied that these questions did not apply to them, indicating a majority of firms covered in the survey were not involved in export activities.

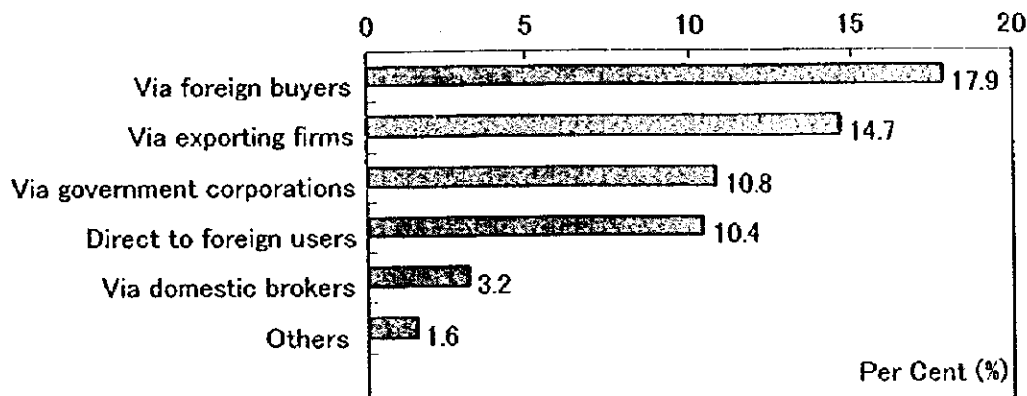
By type of business, while more than 80 percent of leather product makers are exporters, only a very small percentage, 10%, of metals and machinery makers engaged in export business.

1) Manner of export (Q13-1)

The manner of export that was cited most frequently was "through overseas buyers" (17.9%), followed by "supply parts and products to exporters" (14.7%). "Through state-run Trade Corporations" and "direct export to overseas users" each accounted for approximately 10%.

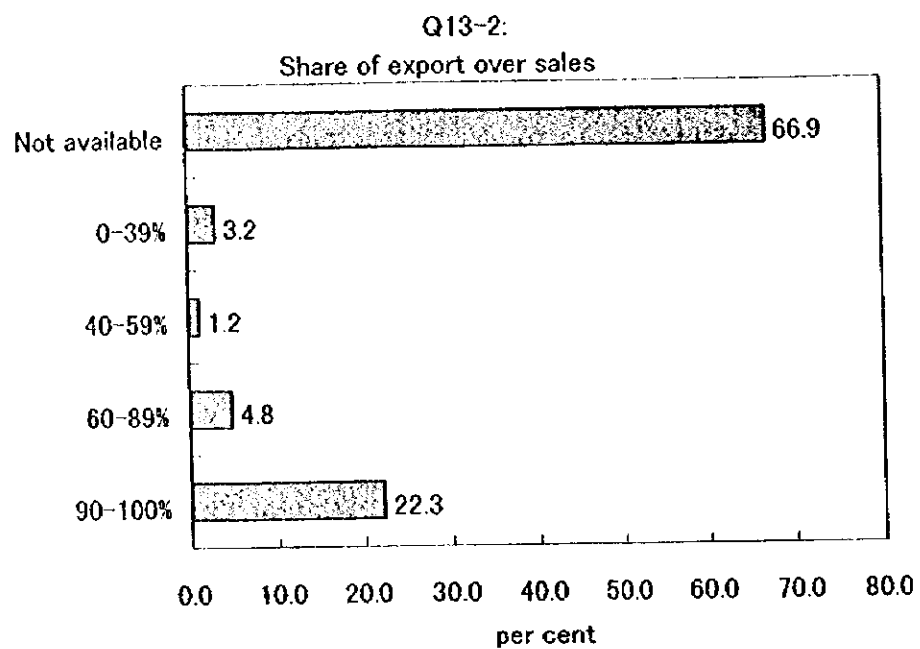
The manner of exports varied depending on the type of business. In the textiles, leather products, lumber, furniture, paper products and transport equipment industries, the percentages of firms responding "through overseas buyers" and "direct exports to overseas users" were large, with firms adopting one or both of these means accounting for more than 20%. On the other hand, many firms in the ceramics, rubber, metals, machinery, electrical machinery and food processing industries were not exporting at all. The ratio of these firms using buyers and brokers for exports is also very low.

Q13-1:
How to export products



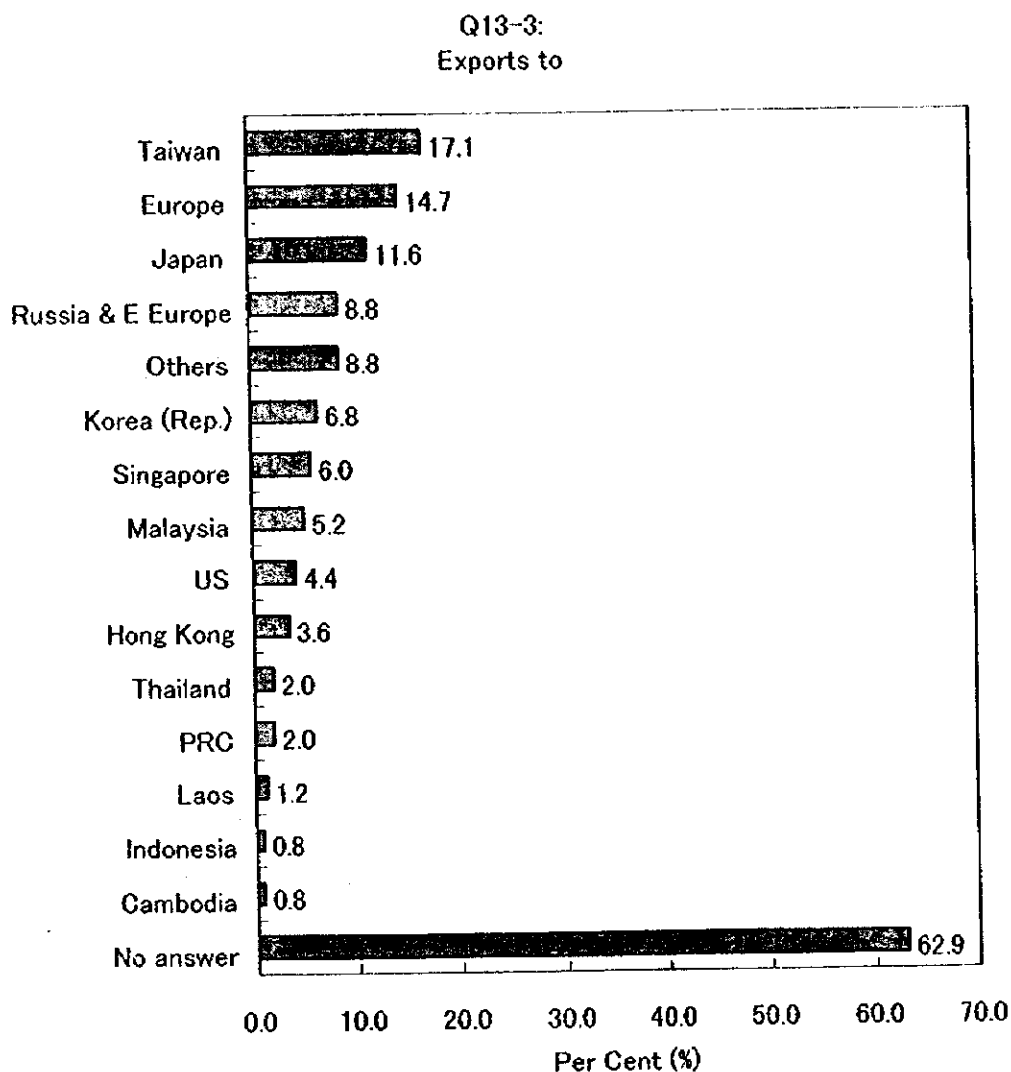
2) Ratio of exports to total sales (Q13-2)

Companies exporting 90-100% of their total production accounted for 22.3%, with very few companies exporting less than 90% of their production. This means firms are either specializing in exports or in domestic sales.



3) Major export destinations (Q13-3)

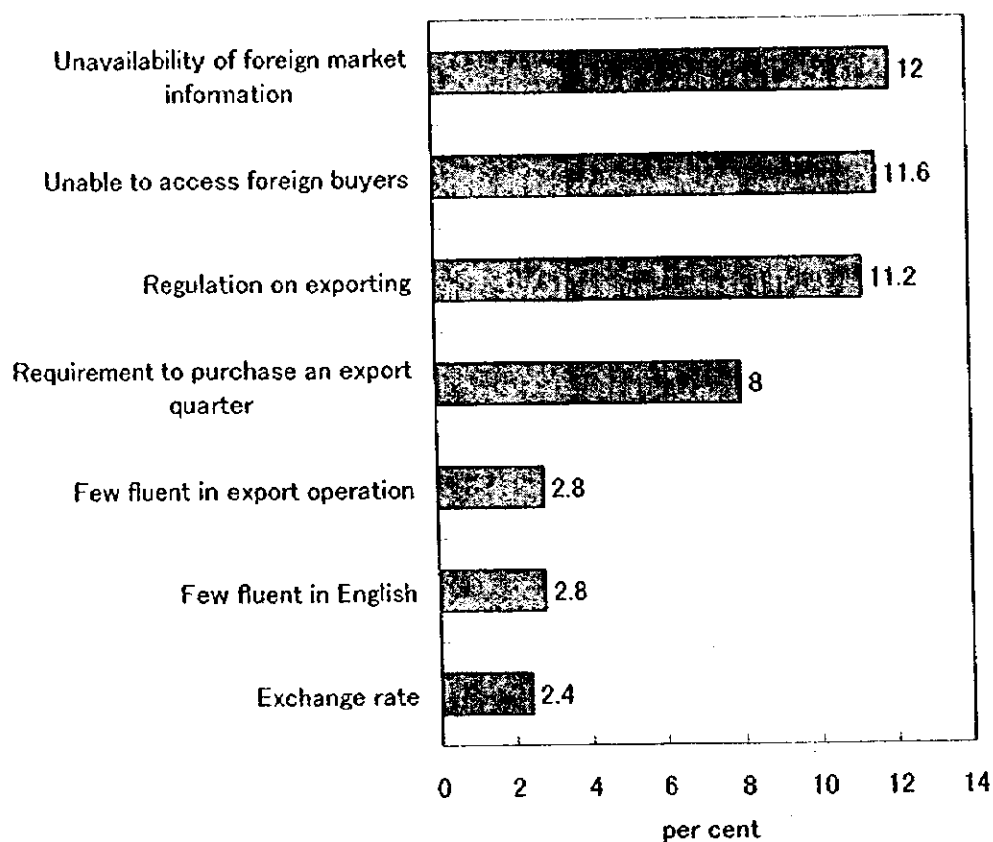
The most frequently cited destination of exports is "Taiwan" (17%), followed by "Europe" (15%) and "Japan" (12%). "Russia and Eastern Europe" (8.8%), "The U.S." (4.4%), and the ASEAN countries are also export destinations.



4) Constraints on export (Q13-5)

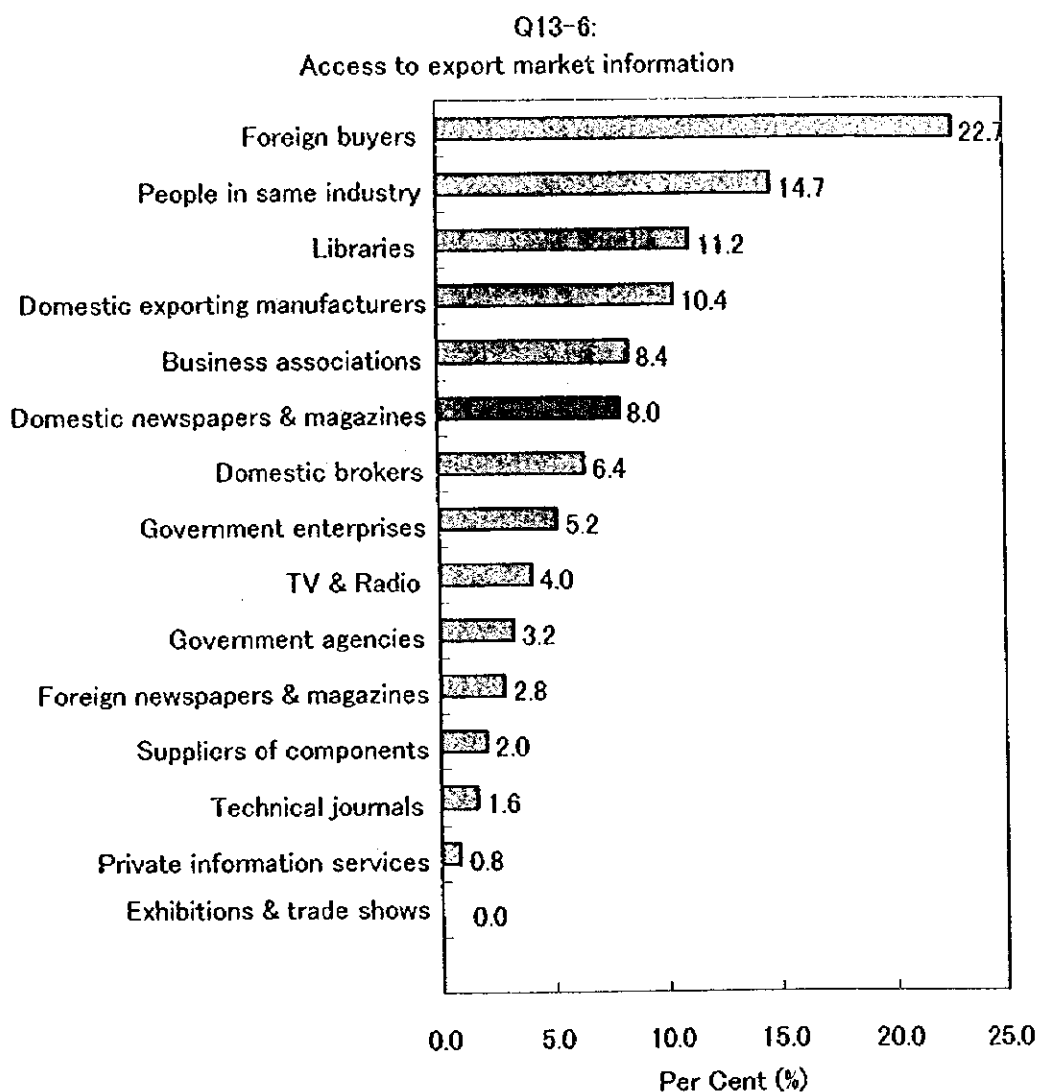
There are four major constraints. They are "difficulties in obtaining overseas market information" (12%), "lack of direct access to overseas buyers" (11.6%), "government regulations on exports" (11.2%), and "the requirement to purchase export quotas from state-run enterprises" (8%).

Q13-5:
Problems with exporting (multiple answers)



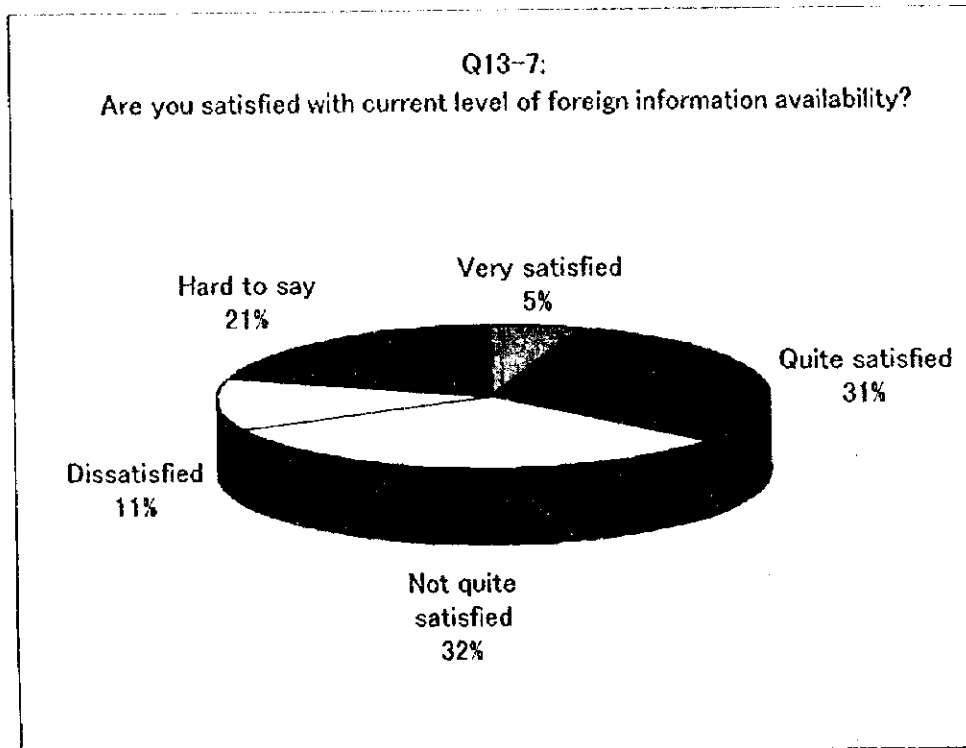
5) Access to overseas market information (Q13-6)

Companies are acquiring overseas market information through various means, with 22.7% doing so through "overseas buyers," 14.7% from "the firms in the same industry," and 10.4% from "domestic makers engaged in exports." Most firms seem to obtain information from private sources. "Libraries" were cited by 11.2% of respondents. On the other hand, "state-run enterprises" and "government agencies" each accounted for less than 5%, indicating that they are not used very much.



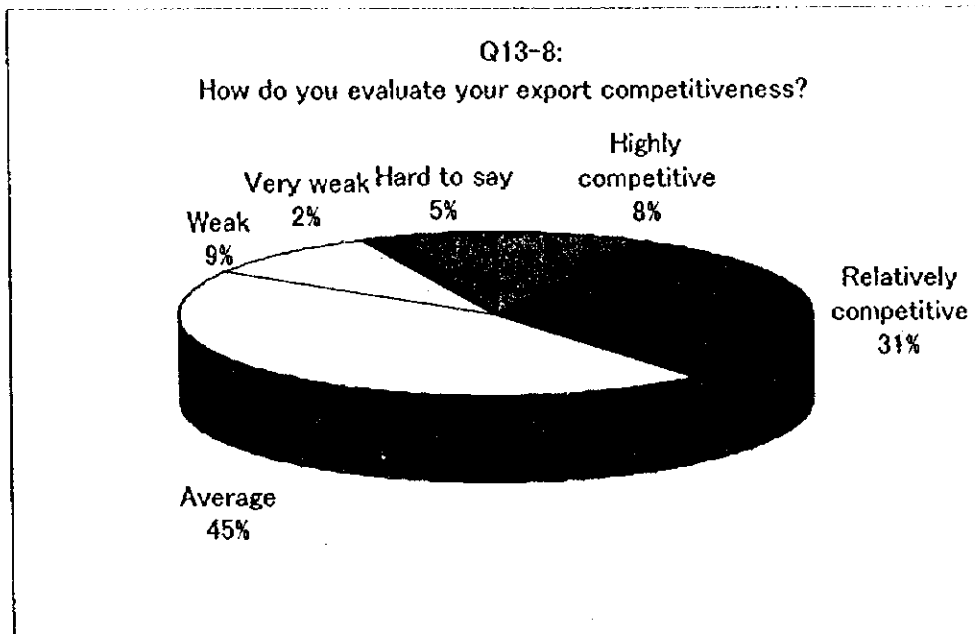
6) The degree of satisfaction with overseas market information (Q13-7)

"Fairly satisfied" accounted for 31%, while "rather dissatisfied" accounted for 32%, indicating that the balance between the satisfied and dissatisfied firms is about even and that a majority of firms are neither "very satisfied" nor "very dissatisfied," which respectively accounted for less than 4%.



7) Assessment of competitiveness in export markets (Q13-8)

The most frequent response was "average level" (45%). Eight percent responded "very strong" and 31% "strong," indicating that a large percentage of firms are very confident of their competitiveness.

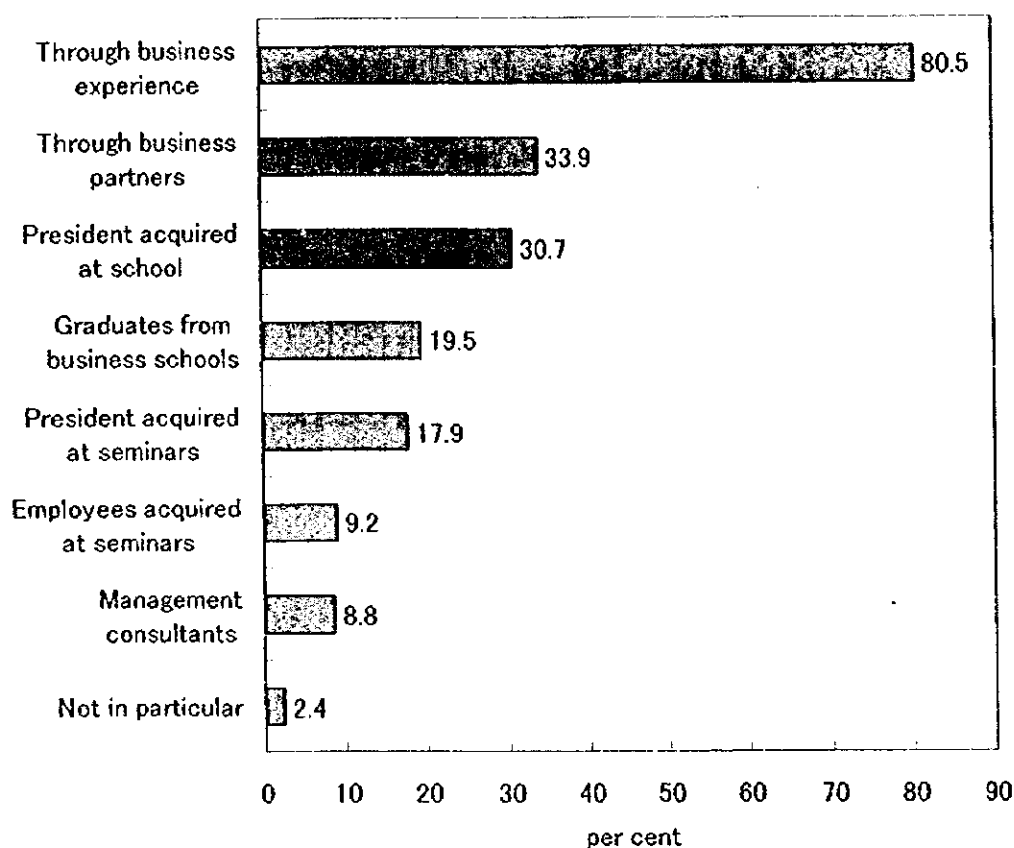


(9) Management

1) Means of acquiring management know-how (Q14)

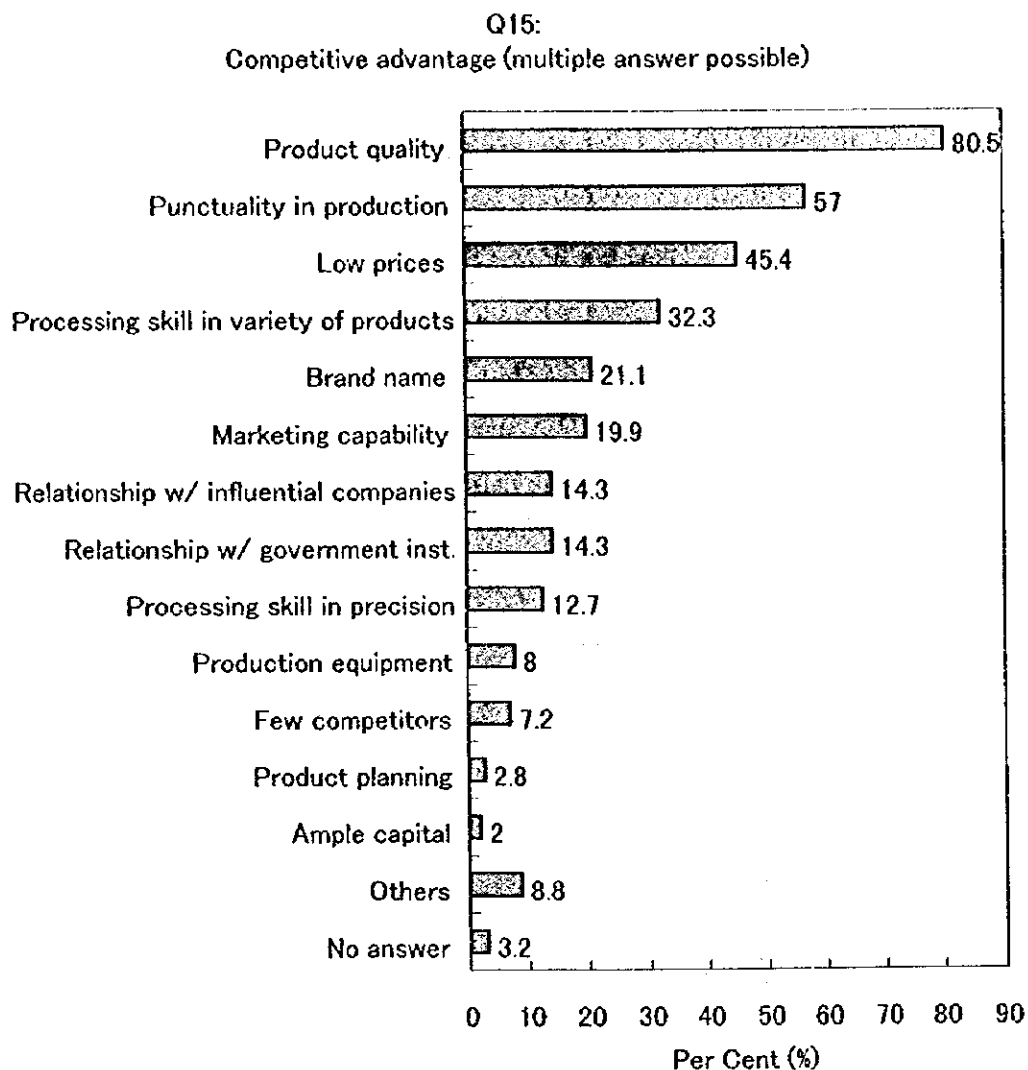
OJT is predominant with 80.9% acquiring management know-how "through actual business operations" and 33.9% "through business partners." The percentages of "president has learned from attending seminars and training sessions" (17.9%) and "employees have learned from attending seminars and training sessions" (9.2%) were small compared with other responses. It appears that the attendance at training sessions and seminars is still very low or that these opportunities are not provided very often.

Q14: How do you obtain business know-how? (multiple answers)



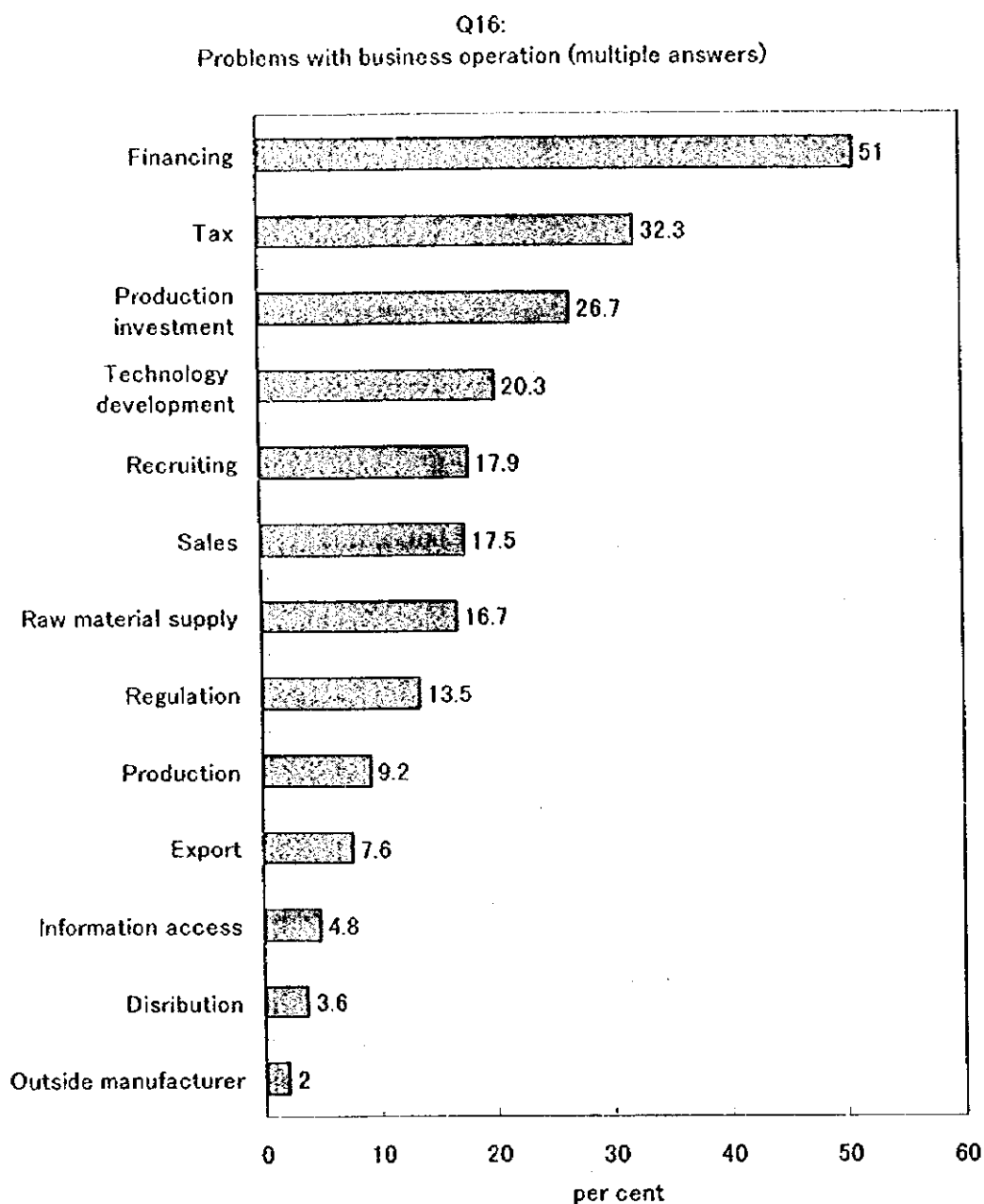
2) Business's strength (Q15)

More than 80 percent of respondents answered "high product quality," followed by "always meet delivery date" (57%). Although it had been assumed that many firms would cite "low product prices," this factor was mentioned by only 45%, ranking third among the factors contributing to comparative advantage of Viet Nam. Other factors are "capacity to process a large variety of products" (32%) and "brand-name power" (21%). Overall, the firms that are confident of their product quality and technological strength stand out.



3) Management priorities (Q16)

It is evident that financial matters are major priorities with 51% of firms citing "fund procurement" and 32% "taxes." "Capital investment" (27%) and "technology development" (20%) indicate that improvement of production and technology development capabilities will be major priorities as the national economy develops further.



The following is the data collected and categorized according to types of business. "Financing," "Tax," and "Production investment" are the top three issues for every type of business. For leather industry, "Financing" is remarkably high as it scores 90%.

Raw data of Q16: What kind of problems do you have? (multiple answers) (by type of business) (%)

		Type of Industry												
Problems		Avg.	Fo	Tex	Le	W	Fu	Pa	Po	Lu	Me	Ma	E	Tr
1	Sales	17.5	26.3	8.1	20.0	33.3	11.1	15.8	15.8	22.7	22.9		7.7	9.1
2	Production	9.2	2.6	10.8		5.6	11.1	5.3	10.5	9.1	14.3		23.1	
3	Technology development	20.3	13.2	10.8	40.0	16.7	22.2	21.1	31.6	22.7	22.9	33.3	15.4	36.4
4	Financing	51.0	47.4	48.6	90.0	44.4	59.3	42.1	68.4	54.5	54.3	33.3	46.2	63.6
5	Recruiting	17.9	5.3	37.8	30.0	11.1	18.5	10.5	15.8	13.6	14.3	16.7	30.8	27.3
6	Outside manufacture	2.0		8.0			11.0							
7	Raw material supply	16.7	18.4	13.5	10.0	27.8	29.6	26.3	26.3	9.1	11.4		23.1	27.3
8	Production investment	26.7	10.5	40.5	30.0	16.7	25.9	36.8	26.3	27.3	25.7	41.7	23.1	45.5
9	Distribution	3.6	11.0	3.0	10.0	6.0					8.0			4.0
10	Information access	4.8	3.0	5.0	10.0		5.0	5.0	9.0	6.0			9.0	4.0
11	Export	7.6	5.3	21.6			14.8	5.3	5.3	9.1	2.9	8.3		
12	Regulations	13.5	7.9	21.6		16.7	14.8	10.5	26.3	9.1	8.6	16.7	30.8	18.2
13	Tax	32.3	47.4	29.7	50.0	33.3	11.1	15.8	52.6	31.8	20.0	33.3	30.8	18.2

Note 1) The abbreviations in type of business stand as follows:

Avg.	Average
Fo	Food processing
Tex	Textile
Le	Leather
W	Wood
Fu	Furniture
Pa	Paper & pulp
Po	Pottery
Lu	Lumber
Me	Metal
Ma	Machinery
E	Electronics
Tr	Transportation equipment

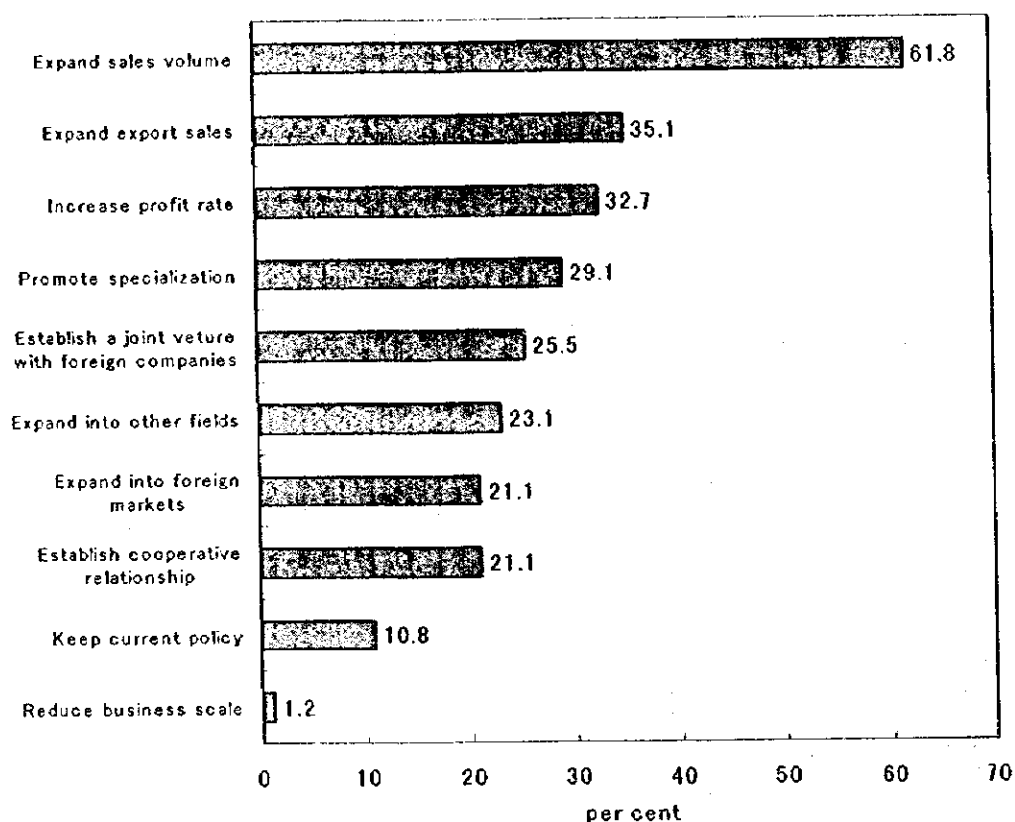
Note 2) A blank means that no company fitted to the question.

4) Future management policy (Q17)

The most frequent response was "to seek quantitative increases in orders" (62%), which is always the most basic policy in business management. Many firms are also paying close attention to "improving the profit ratio," which was cited by 32.7% of the respondents.

The second most frequent response was "to seek export increases" cited by 35%. However, there is a large variance in the proportion of this response from industry to industry. In the exporting industries, such as textiles and leather products, this factor was cited by more than 70% of the firms, but in the metals and machinery industries less than 10% of the firms responded in this way. For the latter group of industries, the immediate objective appears to be to enhance domestic sales. With respect to "cooperation with other firms in the industry," the machinery and other heavy industries appear to be more aggressive.

Q17:
What is your future management policy? (multiple answers)



Looking by type of business, there are remarkable differences among different industries. First, four industries, food processing, paper, pottery, and electronics, actively plan to "Expand sales volume," which suggest that they expect the markets of these four industries to expand substantially in the near future. Meanwhile, the textile industry, 45.9%, does not expect to expand as much as other industries. Secondly, the textile and leather industries, which have already been involved in exporting, prefer to "Expand export sales" (over 70%). Third, the short-term strategy of the metal and machinery industries is perhaps to expand domestic sales as they show little interest for "Expand into foreign markets" (less than 10%). Heavy industries, such as machineries, tend to "Establish cooperative relationship." Finally, the management policy of the leather industry to "Promote specialization" (50%) is highly recognized than that of the whole industry (29.1%).

Raw data of Q17: What is your management policy in future? (multiple answers) (by type of business)(%)

Policy		Type of Industry												
		Avg.	Fo	Tex	Le	W	Fu	Pa	Po	Lu	Me	Ma	E	Tr
1	Keep current policy	10.8	15.8	2.7	10.0		11.0	5.0	16.0	5.0	14.0	17.0		9.0
2	Expand sales volume	61.8	71.1	45.9	50.0	61.1	63.0	73.7	73.7	68.2	62.9	66.7	92.3	54.5
3	Increase profit rate	32.7	26.3	37.8	20.0	38.9	37.0	42.1	47.4	36.4	20.0	16.7	46.2	45.5
4	Expand export sales	35.1	26.3	73.0	70.0	38.9	48.1	42.1	47.4	36.4	11.4		30.8	18.2
5	Promote specialization	29.1	13.2	35.1	50.0	16.7	18.5	31.6	21.1	36.4	40.0	33.3	23.1	36.4
6	Reduce business scale	1.2	2.6	2.6		5.6					2.9			
7	Establish cooperative relationship	21.1	13.2	24.3	30.0	16.7	25.9	26.3	26.3	27.3	31.4	16.7	23.1	45.5
8	Establish a joint venture with foreign companies	25.5	13.2	40.5	40.0	16.7	33.3	36.8	26.3	36.4	17.1	16.7	38.5	54.5
9	Expand into other fields	23.1	13.0	41.0	40.0	17.0	33.0	37.0	26.0	36.0	17.0	17.0	38.0	55.0
10	Expand into foreign markets	21.1	10.5	40.5	50.0	27.8	29.6	36.8	26.3	22.7	2.9		7.7	9.1

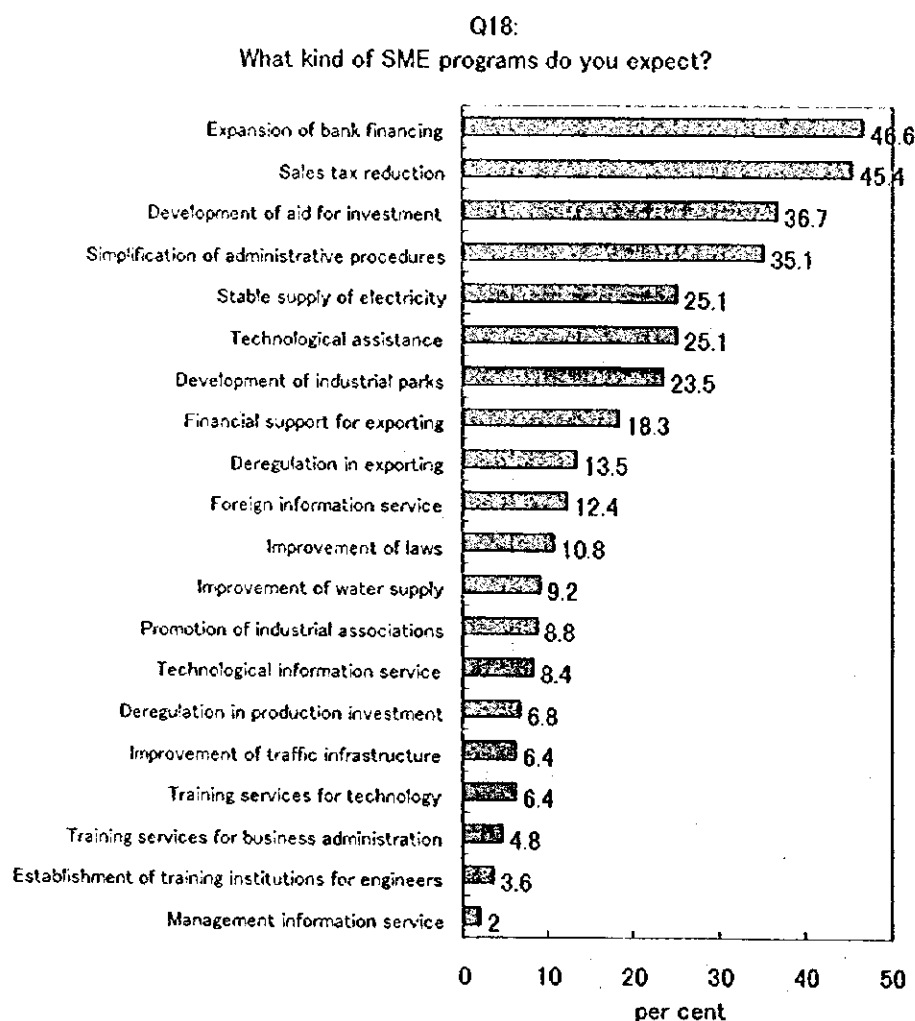
Notes

- 1) The abbreviations in type of business stand as in Question 16.
- 2) A blank means that no company fitted to the question.

(10) Policy needs

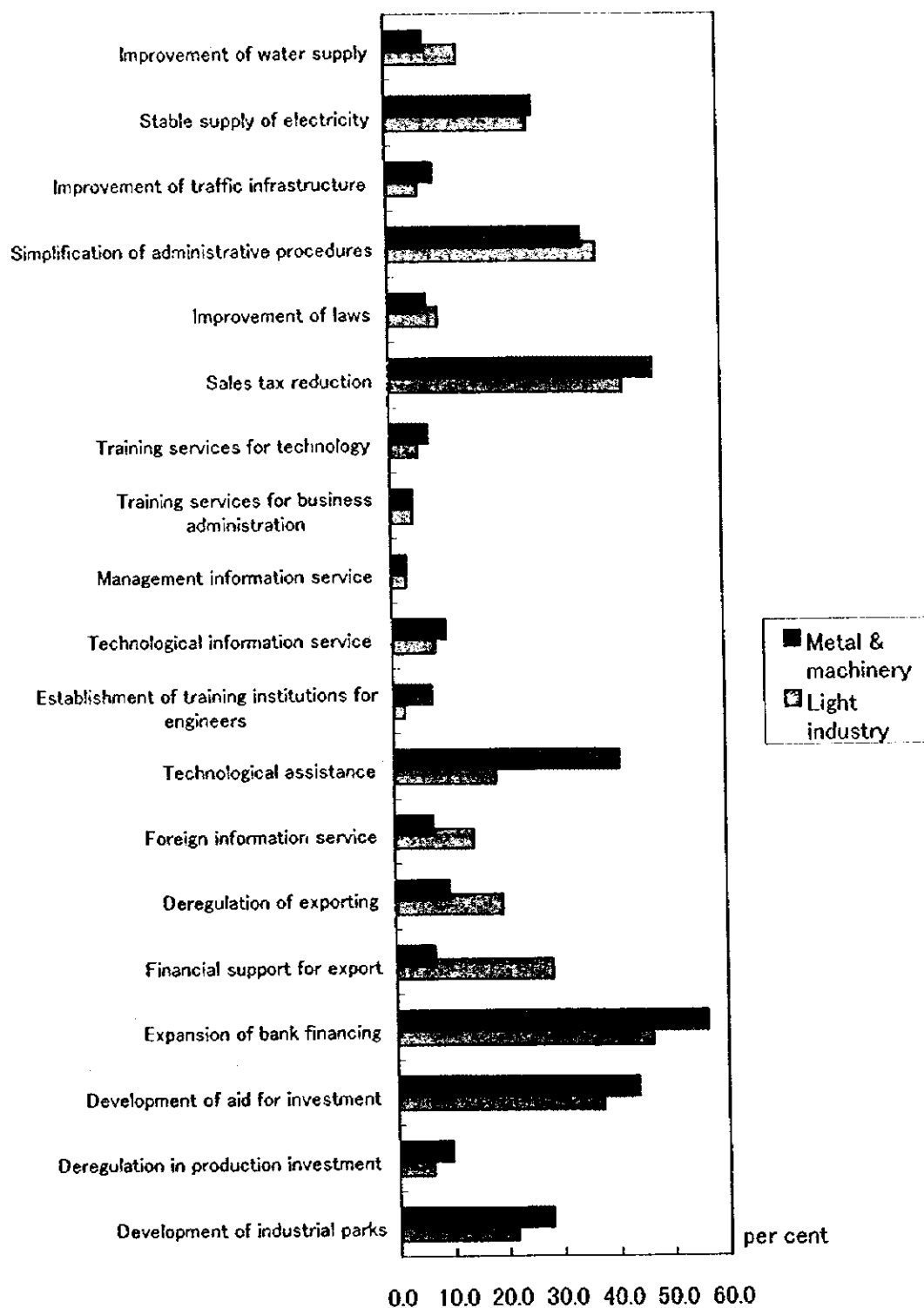
1) Support desired to help small and medium-sized businesses (Q18)

The top three responses were "expansion of bank credit" (47%), "preferential treatment on or exemption from sales taxes" (45%), and "enhancement of government's investment promotion funds" (37%), indicating that financial support is the most desired type of assistance. Almost 25% of firms expressed the desire for "stable electric power supply," "development of industrial parks to allow business relocation and expansion" and other improvement in infrastructure. The government will have to actively solve the problems related to regulations, as "streamlining of red tape" and "easing of regulations on export approval" were cited by 35% and 13.5%, respectively.



Q18:

What kind of SME programs do you expect? (multiple answers) (by type of business)



Looking by types of business, the questionnaire tells that leather industry strongly expects "Expansion of bank financing." It should be noted that pottery industry expects "Financial support for export."

For further analysis, a new industrial classification is introduced; a heavy industry includes steel and machinery industries, and light industry covers living-related and material industries. The light industry more expects "Foreign information service," "Deregulation of export licensing," and "Financial support for export." Meanwhile, the heavy industry tends to expect "Technological assistance."

By size of business, the bigger a company is, the more it expects "Financial support for export," and "Deregulation of export licensing" because a company of more than 50 employees produce for exports rather than a company with fewer workers.

Raw data of Q18: What kind of SME support do you expect in future?
(multiple answers: according to type of business) (%)

Expected Support		Type of business												
		Avg.	Fo	Tex	Le	W	Fu	Pa	Po	Lu	Mc	Ma	E	Tr
1	Development of industrial parks	23.5	15.8	35.1	30.0	16.7	11.1	26.3	10.5	27.3	17.1	50.0	30.8	36.4
2	Deregulation in production investment	6.8	5.3	8.1		11.1	3.7		10.5	9.1	8.6	8.3	15.4	9.1
3	Development of aid for investment	36.7	15.8	37.8	60.0	44.4	40.7	47.4	52.6	31.8	42.9	50.0	38.5	45.5
4	Expansion of bank financing	46.6	39.5	51.4	80.0	33.3	51.9	36.8	52.6	40.9	60.0	33.3	61.5	63.6
5	Financial support for export	18.3	10.5	35.1	30.0	22.2	44.4	26.3	52.6	13.6	8.6		7.7	9.1
6	Deregulation of export licensing	13.5	7.9	37.8	10.0	11.1	33.3	10.5	15.8	13.6	11.4		15.4	9.1
7	Foreign information service	12.4	18.4	18.9	30.0	5.6	14.8	10.5	10.5	4.5	11.4			9.1
8	Technological assistance	25.1	13.2	18.9	10.0	22.2	11.1	31.6	26.3	18.2	54.3	33.3	23.1	27.3
9	Establishment of institutions for engineers	3.6		8.1					5.3		8.6	8.3		9.1
10	Technological information service	8.4	10.5		10.0	11.1	7.4	10.5	10.5	9.1	17.1			9.1
11	Management information service	2.0	2.6			5.6	7.4			4.5	2.9			9.1
12	Training services for business administration	4.8	2.6	5.4			11.1			9.1	2.9	8.3	7.7	
13	Training services for technology	6.4	5.3	2.7	10.0	5.6	3.7	10.5		9.1	2.9	25.0	7.7	
14	Sales tax reduction	45.4	42.1	43.2	60.0	16.7	51.9	42.1	36.8	45.5	48.6	58.3	46.2	36.4
15	Improvement of laws	10.8	5.3	10.8	30.0	11.1	3.7	10.5	10.5	4.5	8.6	8.3	7.7	
16	Simplification of administrative procedures	35.1	21.1	59.5	50.0	38.9	40.7	31.6	42.1	22.7	25.7	33.3	38.5	63.6
17	Improvement of traffic infrastructure	6.4	7.9	2.7		16.7	3.7		5.3	9.1	2.9	8.3	15.4	18.2
18	Stable supply of electricity	25.1	23.7	37.8	30.0	16.7	25.9	15.8	21.1	27.3	2.0	33.3	23.1	45.5
19	Improvement of water supply	9.2	21.1	10.8		11.1	7.4	21.1	15.8	9.1	5.7		15.4	9.1
20	Promotion of industrial associations	8.8	7.9	16.2		5.6	3.7		10.5	18.2	5.7		7.7	9.1

Notes

- 1) The abbreviations in type of business stand as in Question 16.
- 2) A blank means that no company fitted to the question.

Raw data of Q18: What kind of SME support do you expect in future?
(multiple answers: according to size of company) (%)

		Size of Company (Number of Employee)							Exporting	
		Avg.	1-4	5-9	10-39	30-49	50-99	100+	Non-Ex	Ex
Expected Support										
1	Development of industrial parks	23.5	18.2	4.2	25.0	28.6	25.6	26.1	26.8	22.0
2	Deregulation in production investment	6.8			10.0	4.8	7.0	8.7	7.2	7.0
3	Development of aid for investment	36.7	18.2	29.2	41.7	35.7	34.9	40.6	38.4	39.0
4	Expansion of bank financing	46.6	45.5	33.3	51.7	40.5	48.8	50.7	51.4	46.0
5	Financial support for export	18.3			6.7	14.3	25.6	36.2	3.6	41.0
6	Deregulation of export licensing	13.5		8.3	3.3	4.8	18.6	29.0	4.3	28.0
7	Foreign information service	12.4		16.7	6.7	7.1	16.3	18.8	8.0	20.0
8	Technological assistance	25.1	18.2	12.5	31.7	35.7	23.3	20.3	31.2	20.0
9	Establishment of institutions for engineers	3.6		4.2		2.4	7.0	5.8	3.6	4.0
10	Technological information service	8.4	18.2	4.2	16.7	7.1	7.0	2.9	12.3	4.0
11	Management information service	2.0			3.3	4.8	2.3		3.6	
12	Training services for business administration	4.8			3.3		16.3	4.3	4.3	6.0
13	Training services for technology	6.4		4.2	11.7	2.4	7.0	5.8	8.0	5.0
14	Sales tax reduction	45.4	72.7	62.5	40.0	47.6	51.2	36.2	55.8	37.0
15	Improvement of laws	10.8		20.8	6.7	11.9	4.7	15.9	11.6	11.0
16	Simplification of administrative procedures	35.1	18.2	33.3	23.3	45.2	41.9	39.1	34.1	41.0
17	Improvement of traffic infrastructure	6.4		4.2	3.3	7.1	4.7	11.6	5.8	8.0
18	Stable supply of electricity	25.1	27.3	25.0	30.0	14.3	16.3	33.3	25.4	28.0
19	Improvement of water supply	9.2	9.1	12.5	8.3	4.8	2.3	15.9	8.7	11.0
20	Promotion of industrial associations	8.8	9.1	4.2	11.7	9.5	11.6	5.8	10.9	7.0

Note A blank means that no company fitted to the question.

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