

The Impact of Asian Crisis on Trade and FDI-related Policies: The Response of East Asian Countries and its Implication for Viet Nam*

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Abstract

Viet Nam can potentially draw a number of policy lessons from the recent experiences of other East Asian developing economies on trade and FDI-related policies. This paper reviews recent major changes in economic environment related to trade and foreign direct investment and policy responses in East Asian developing countries. The paper argues that the room for the infant industry promotion has become narrower in observing both the devastating effect of the recent Asian crisis on import-substituting industries and maintaining aggressive trade liberalization policy. In addition, it is claimed that the liberalization of FDI-related policies would not automatically lead to successful industrialization unless a proper policy care were conducted to foster effective linkages between foreign affiliates and local companies. The automobile industry promotion is reviewed as an example.

1. Background

The Asian crisis since July 1997 has had a major impact on the pattern of trade and investment in the East Asian developing economies, and the governments of these economies have been forced to restructure their policy framework on trade and investment in a fundamental manner. Although the future direction is not clearly foreseen yet, this paper tentatively reviews major changes in economic environment in which these economies are reformulating trade and FDI (foreign direct investment)-related policies and discusses a possible future direction of these policies. The author believes that we may find a number of useful clues to think over trade and FDI-related policies of Viet Nam.

Since the latter half of the 1970s and the 1980s, the trade policy of East Asian developing economies has been dictated by the so-called outward-looking development strategy. Under the strategy, trade barriers have gradually been removed, exchange rates have not been overvalued, and the economic condition for export sectors has largely been neutralized. As a result, trade has become the engine of growth in the region. In addition, inward FDI has actively been promoted particularly since the latter half of the 1980s. The core structure of manufacturing sector has been developed as a part of the integrated production-distribution network of multinational enterprises (MNEs).

* The contents of this paper are heavily drawn from Kimura (1999).

It should also be noted that the governments of these countries have played important roles in promoting industries. The outward-looking development strategy did not mean that there is no room for the government. The East Asian Miracle (World Bank (1993)) provides somewhat modest evaluation of the role of government, yet admitting the flexible functioning of governments to cancel out market distortions caused by immature markets and dynamic externalities. With a closer look, the trade regime of these economies has not been under complete free trade. Rather, it has been a mixture of free trade and relatively mild protection for specific import-substituting industries. The tariff structure for upstream and downstream products has often been designed in a careful manner. The liberalization for inward FDI has also been selective in its entry and exit as well as limiting activities after entry.

Being stimulated partially by China's emergence as massive economic entity, the ASEAN (Association of Southeast Asian Nations) countries launched the formulation of economic integration under the scheme of ASEAN Free Trade Area (AFTA) and ASEAN Investment Area (AIA) in the early 1990s. This is interpreted as a joint effort toward free trade and liberalization to realize more efficient allocation of resources and to seek economies of scale at the regional level, while a part of the scheme includes a touch of import substitution. The ASEAN Industrial Cooperation scheme (AICO), though it was introduced as a transitional arrangement before proceeding AFTA as a whole, has so far been utilized mainly by automobile industry with a clear intention of infant industry promotion.

The current Asian crisis is affecting not only the economic performances of the region but the way of thinking on the role of government in the development process. Almost all the virtue of government's involvement praised by East Asian Miracle seems to be negated. Under the IMF (International Monetary Fund)-led economic reform, the government's activism and the traditional government-business relationship, which were once regarded as a part of the keys for East Asia's success, are blamed as a source of inefficiency and injustice. Despite the drastic shrinkage of domestic demand and the expansion of unemployment, the role of government seems to be limited to the minimal set of macroeconomic policy and social policy, largely neglecting microeconomic policy to cancel out market distortions. The removal of government involvement in the market is one of the central themes in the current policy reform.

Although the inefficacy of government's intervention was not probably the major cause of the crisis, the redundant involvement of the government certainly existed in various aspects of the economy and was made clearly visible as the crisis proceeded. The further integration of economic activities across national borders since the early 1990s has also required the removal of government's intervention to the market. We thus have to admit that further liberalization of the economy is a natural direction to go in the process of recovery from the crisis. However, for the middle and long run, we must carefully examine the role of government in the prospective development path. Is the classical infant industry argument completely passe? Is there any room left for infant industry promotion? What should be done for infant industries such as automobile industry in the trend of liberalization? Is the speed of

trade liberalization appropriate? Does hosting FDI automatically guarantee successful industrialization? These are the questions that this paper would like to discuss.

2. The Impact of Asian Crisis on Trade and FDI

Let us briefly review the major lessons we had learned from changes in production, trade, and FDI patterns since the crisis began. Although the updated comprehensive statistical data covering the whole period of the crisis are not yet available at this moment, the Japanese data on foreign affiliates of Japanese firms provide tentative views on the changes in production, trade, and FDI patterns of each industry in the region.

Tables 1 and 2 present the quarterly data of sales, employment, and export ratios of affiliates of Japanese firms located in ASEAN4 (Indonesia, Thailand, Philippines, and Malaysia), NIEs3 (Singapore, Taiwan, and Korea), and China and other Asian countries (India, Viet Nam, Sri Lanka, Pakistan, Bangladesh, and China including Hong Kong). Kigyō Doukoku Chōsa is a statistics newly introduced by MITI in 1997. It collects quarterly data of Japanese manufacturing firms (with more than 50 workers and the capital of more than 30 million yen) that have majority-owned manufacturing foreign affiliates (with more than 50 workers) under the Foreign Exchange Law of Japan. This is a census, not a sample survey. However, since the ratio of firms returning the questionnaire is about two-thirds, the published figures are estimated by using the information on the sample structure and time-series data. The strong point of this statistics is the timeliness.¹

We of course have to be careful on peculiar characteristics of Japanese firms. Particularly we should not neglect the influence of the current recession of the Japanese economy including financial crunches, which slows down the foreign operation of Japanese firms as a whole. However, these figures can still be interpreted as those showing overall changes in each industry's performances in the region. We would like to emphasize the following three observations.

First, the negative impact of the crisis was uneven across industries. A deep trough of domestic economy with the mal-functioning financial system more or less affects all the firms in the negative direction. However, except in Indonesia, the economic environment for production including physical infrastructure, labor market condition, and others was not much aggravated. Thus how deeply a firm was hurt depends on the firm's dependency on domestic demand and the effect of exchange rate devaluation.

In this view, it is understandable that import-substituting industries hurt most in the crisis. Table 1 (a) presents changes in sales and employment by affiliates of Japanese firms since the second quarter of 1997. In ASEAN4, the value of sales in terms of Japanese yen declined to some extent in most of the industries, but the most seriously affected industries were transport equipment (-53.4% from the second quarter of 1997 to the fourth quarter of 1998),

¹ These Japanese data may be supplemented by each country's local data in the later version of this paper.

nonferrous metal (-43.3%), and metal (-43.1%). As for the employment, the half of the industries surprisingly increased the number of workers while it was drastically reduced in transport equipment (-16.7%), nonferrous metal (-17.5%), and metal (-30.0%).

Second, FDI behaved in a completely different way from other sorts of international capital flows. FDI is not a simple capital movement but includes the movement of firm-specific assets such as technology and managerial know-how. Therefore, FDI is not based on the rate of return on general assets but on the firm-specific assets. In addition, FDI is usually accompanied with putty-and-clay physical investment for production, and thus investors tend to think much of the profitability in the medium and long run, rather than in the short run. For these reasons, FDI responded to the crisis very slowly.

The stickiness of FDI can be detected in Table 1. In ASEAN4, the sales of manufacturing affiliates of Japanese firms dropped by 29.3% from the second quarter of 1997 to the fourth quarter of 1998, while the employment was barely decreased by 0.7% in the same period. This indicates that most of the Japanese firms keep their production capacity intact and wait for the recovery of the economy. Japanese firms were not actually very active players of new FDI in the period due to the bad economic condition of Japan itself. Some MNEs originated from other developed countries, particularly from the U.S., took aggressive strategy to penetrate into the East Asian developing economies in the form of M&A, expanding capital shares, and green-field investment. In Thailand and Korea, the amounts of inward FDI were the largest ever in 1998.²

Third, the activities of foreign affiliates in the crisis-hit countries showed tendency to counteract negative shocks of the crisis. Foreign affiliates in less developed countries (LDCs) tend to have large import/export ratios and thus are less likely to be affected by the decline in domestic demand. In addition, foreign affiliates are not prone to get hurt from the financial crisis of the host country. Moreover, large MNEs with a number of affiliates all over the world determine their overall operation strategy by analyzing the economic situation of various countries and exchange rates. For example, if the economic situation of home country (e.g., United States) is good, investment fund may be raised without much difficulty. The depreciation of local currencies in crisis-hit countries may make those countries more suitable for export production bases. The currency depreciation and asset price declines make capital acquisition easier for foreign enterprises. Thus the strategy of MNEs often counteracts the decline of the host country's economy.

The stabilizing function of foreign affiliates is found in Table 2. The affiliates of Japanese firms in ASEAN4 have increased the export ratios, particularly the ratios of exports to Japan since the crisis started. It does not mean that the absolute amount of exports to Japan has drastically increased since the total amount of sales has decreased. However, we can at least say that they have shifted their business from the host countries' markets to export markets,

² Nihon Keizai Shinbun of January 11, 1999 wrote that inward FDI to Thailand in 1998 was 7.6 billion dollars, including 2.2 billion dollars of increasing capital shares in the banking sector. It also said that inward FDI to Korea in 1998 was 8.9 billion dollars.

responding to the recession of the host countries' economies and the depreciation of local currencies. An interesting fact is that the affiliates of Japanese firms in China and others has decreased exports to Japan in terms of both the ratio and the absolute amount. It may suggest that large Japanese MNEs are trying to modify their sales strategy in facing the crisis.

From these three findings, we can conjecture the effects of the crisis on policy formulation on trade and inward FDI. As for trade policy, the skewed impact of the crisis toward import substituting industries would force policymakers to review the traditional infant industry promotion policy. As for FDI, policymakers would realize the importance of promoting inward FDI while they may want to separate FDI from other sorts of capital flows. The next section reviews the recent changes in trade and FDI-related policies.

3 . Responses of Trade and FDI-related Policies

An economic crisis is always accompanied by a slowdown of domestic demand and an increase in unemployment, and hence in general a policy response could be in the direction of protectionism. In case of the current crisis, however, political leaders of East Asian economies have fought against the pressure of protectionists and have kept the momentum of liberalization. This is of course partly due to the effect of IMF-led policy reform in some countries. However, more importantly, it is also based on the strong belief of political leaders that the liberalization of international transactions on the real economy side is vital for the recovery and further development of the economy. Some skepticism on infant industry promotion with observing the slowdown of import-substituting industry may be another reason for the positive attitude toward free trade. The liberalization of trade and FDI has actually accelerated since the crisis started.

In the East Asian developing countries, the GATT/WTO bound rates of tariff are sometimes significantly higher than the MFN tariff rates, which means that there is some room for raising tariffs in effect even under the discipline of GATT/WTO. Some countries took the advantage and more or less adjusted their tariff structure responding to the crisis. However, the overall trend is obviously in the direction of trade liberalization particularly in the framework of international commitments.

As for the international commitments of trade liberalization, particularly on the tariff reduction for commodity trade, the East Asian developing economies have had a stratified policy framework since the mid-1990s. The first tier is the tariff reduction commitment under the Uruguay Round starting from 1995. The second tier is the long-term target to liberalize trade and investment (so-called Bogor target) declared in the 1994 APEC Meeting. It launched the target that the APEC member countries will liberalize trade under the MFN principle by removing tariffs and major non-tariff measures by 2010 in cases of developed country members, and by 2020 in cases of developing country members. The third tier is liberalization commitments under the scheme of individual action plans (IAPs) and Early Voluntary

Sectoral Liberalization (EVSL) submitted to APEC. These are short-term liberalization commitments to meet the long-run Bogor goals. In addition, the ASEAN countries have the fourth tier under the AFTA scheme. The initially participated countries, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, are supposed to reduce intra-region tariffs (Common Effective Preferential Tariffs: CEPT) to zero by the year 2003, and the newly participated countries, Viet Nam, Laos, and Myanmar will follow a few years after.

The recent situation of each liberalization tier is as follows. As for the first tier, developing countries have not generally been very positive to introduce the trade liberalization of mining and manufacturing commodities as one of the new agenda for the WTO new round starting from the year 2000. However, with a consensus of major developed countries, it is now likely that it will be in the new round in addition to the built-in agenda on agriculture and services. The contents of the negotiation, however, are not specified yet.

As for the second and third tiers, we have to appreciate that the liberalization effort under APEC in the past few years had a successful outcome. There is a pessimistic view on the timely attainment of the Bogor target. However, the contents of IAPs under APEC, which promote faster liberalization than the Uruguay Round commitments, have proceeded pretty well.³ However, the EVSL scheme has not moved forward due to the reluctance of the Japanese Government to negotiate for some specific areas, and the future role of APEC along the line has recently been discussed vigorously. Overall, even after the crisis began, the East Asian developing countries did not lose steam for trade liberalization under APEC.

As for the fourth tier, the recent aggressive effort for trade liberalization is found in the talk of AFTA. The ASEAN Summit held in Hanoi in December 1998 publicized the Hanoi Declaration of 1998 and the Hanoi Plan of Action. On the tariff reduction in the region, the Hanoi Plan of Action stated as follows:

- a. Maximize the number of tariff lines whose CEPT tariff rates shall be reduced to 0-5% by the year 2000 (2003 for Viet Nam and 2005 for Laos and Myanmar);
- b. Maximize the number of tariff lines whose CEPT tariff rates shall be reduced to 0% by the year 2003 (2006 for Viet Nam and 2008 for Laos and Myanmar); and
- c. Expand the coverage of the CEPT Inclusion List by shortening the Temporary Exclusion List, Sensitive List and General Exception List.

The plan also includes the acceleration of customs harmonization, standards and conformity assessment, and other trade facilitation.⁴ These provide a clear message that the ASEAN countries become more aggressive in forming a free trade area.

On the FDI-related policy, the East Asian countries have positively hosted inward FDI by liberalizing the entry and often providing various investment incentives since the 1980s. However, at the same time, these countries have imposed a number of barriers and regulations

³ Yamazawa and Urata (1999) provides the overall assessment of trade and investment liberalization under the APEC.

⁴ The author finds some confusing discordance in contents between the official documents and the statement at the press conference. It will be checked in the later version of the paper.

on inward FDI. The operations of FDI-related policies have sometimes been discretionary, and an effective dispute settlement mechanism has not yet been prepared.

The regulations on inward FDI are classified into two kinds. The first category includes barriers and regulations on the entry of inward FDI. Most of the LDCs have investment regulations to limit industries open to foreign capital and to set upper limits of foreign capital's shares for specific industries. It is also often the case that they regulate mergers and acquisitions by foreign capital, particularly for the hostile ones. In addition, the exits of foreign companies once invested are virtually regulated in some countries. The second category includes regulations on the activities of foreign companies. LDCs often impose performance requirements in exchange of investment conditions and tax incentives, which include various requirements on local contents, exports, trade balancing, domestic sales, employment, technical transfer, and others. Often imposed are regulations on foreign workers' immigration, staying, and working as well as regulations on foreign remittances. In addition to regulations included in these two categories, the instability and non-transparency in the operation and legal procedure can be significant barriers for inward FDI.⁵ The Bogor declaration of APEC included investment liberalization by 2010 for developed country members and by 2020 for developing country members, but the contents have not been clearly itemized.

Since the crisis began, the Asian developing countries have aggressively shifted their FDI-related policies toward liberalization. In Thailand, Indonesia, and Korea, the liberalization has conducted as a part of the policy reform program advised by the IMF and the World Bank. However, not limited to the IMF-led reform, other countries in the region have launched to create favorable investment environment for foreign capital from the fear of possibly receding FDI due to the crisis. Table 3 is a list of FDI-policy reform in Indonesia, Korea, Malaysia, the Philippines, and Thailand compiled by UNCTAD for the period from July 1997 to June 1998. In all of the five countries, the regulations on foreign capital shares are removed or loosened, and the number of regulated sectors is reduced. In particular, the liberalization of hostile M&A in Korea is noted.⁶

The economic ministers of the ASEAN countries signed the framework agreement of ASEAN Investment Area (AIA) and held an unofficial board meeting in Manila in October 1998.⁷ The AIA Agreement covers foreign direct investment in general, not covering portfolio investment and investment under other ASEAN agreements such as investment in services. The Hanoi Plan of Action stated that the AIA is to be realized by liberalizing investment to all ASEAN investors by 2010 or earlier and to all investors by 2020 or earlier, with some exceptions as specified in the Temporary Exclusion List and the Sensitive List. In addition, the Hanoi ASEAN Summit publicized "Short-term Measures to Enhance ASEAN Investment Climate." It stated that the ASEAN countries provide tax and other incentives for inward FDI in the manufacturing sector who submits an application to the ASEAN Investment Agencies from

⁵ The ASEAN Secretariat (1998) provides a list of FDI-related policies in the ASEAN countries.

⁶ The list of FDI-related policy reform will be updated in the later version of this paper.

⁷ The first official AIA board meeting was held in Phuket, Thailand in March 1999.

January 1999 to December 2000 and is approved. These are the moves to try to keep inward FDI through the crisis.

In the process of aggravation of the crisis and the following recovery, it has increasingly been recognized that the wrong sequencing of liberalization of international transaction channels, particularly the timing of the liberalization of short-term capital movements, was one of the major causes of the crisis. The relationship between short-term capital movements and FDI has vigorously been discussed from various viewpoints. Some claim that the liberalization of short-term capital flows is essential to activating FDI. However, the author believes that the behavior of investors for FDI is qualitatively different from that of investors for short-term speculative capital. If we provide a set of facilities for the activities of affiliates of foreign firms, FDI can neatly be hosted even without the liberalization of short-term capital flows. Policymakers in the region have recognized that the FDI-related policy is basically separable from the policy related to short-term capital. Along this line, we have to watch carefully the impact of temporary regulation on foreign exchange markets and capital markets in Malaysia.

4 . Room for Infant Industry Promotion : the Case of Automobile Industry

We so far reviewed the impact of the Asian crisis on trade and FDI in the East Asian developing economies and confirmed the political leaders' strong commitments to free trade and investment. The traditional import-substitution strategy has clearly subsided through the crisis. The long-term commitment to market mechanism seems robust in these economies. We would like to appreciate their determination toward liberalization and deregulation even under the crisis. At the same time, however, we have to recognize the fact that we are now in new environment for fostering industries. The long-run issue we would like to discuss in the following is how to promote infant industries in the rapidly liberalized economies.

As for trade policy, it is now obvious that ten or fifteen years from now on, tariffs cannot be effective policy tools for temporarily protecting industries. Of course, the removal of trade barriers enhances the efficiency of resource allocation. However, it at the same time narrows down the room for infant industry promotion even in the case where considerable dynamic economies of scale exist. Available policy tools will inevitably shift to policies on infrastructure, human capital development, research and development, and export promotion (except direct export subsidies), which are more or less allowed even under the WTO principles and the Washington consensus.

Another concern is on the linkage between affiliates of foreign firms and local indigenous firms in the Southeast Asian countries. Unlike Japan, Korea, or Taiwan, the industrial structure of these countries heavily depends on affiliates of foreign firms. Because the productivity gap between affiliates of foreign firms and local firms is often very large, we cannot take for granted that the successful operation by affiliates of foreign firms automatically promotes local firms. Affiliates of foreign firms tend to form production-

distribution networks among themselves, often not including local firms in the significant manner. How to foster local firms is another important task for the government in the environment of globalizing economy.

Let us review the automobile industry promotion as an example. The automobile industry is a typical import-substituting industry with heavily relying on foreign companies. Dynamic economies of scale external to market are often claimed for the industry on the basis of its strong backward linkage and induced technological progress, and the protection is taken for granted in most of the countries in the politico-economic environment. However, as we reviewed above, the Asian crisis harshly hit the industry, and the East Asian developing countries are now forced to fundamentally review the protection policy. Under the pressure of trade liberalization, the time left for promotion is limited. The promotion for automobile industry is sometimes a politically sensitive issue, and this paper does not intend to draw any definite conclusion. In the following, we look at some figures without any prejudice and provide the material to think over the problem.

Table 4 presents the actual and forecasted number of new vehicle registration in Thailand, the Philippines, Malaysia, and Indonesia from 1988 to 2003. Along with the rapid economic growth, the number of new cars drastically increased before the crisis. However, we have to remember that 200 thousand cars per year for one production line (or one model) are usually regarded as the minimum scale of efficiency in production. In addition, with some notable exceptions, the international competitiveness of automobile plants in the region is not generally strong enough to export extensive amount of cars to developed countries. After the crisis, the number of new cars drastically dropped due to the slowdown of domestic demand and the collapse of consumer financing. The forecast shows a sense of pessimism in the future recovery of demand. The import substitution strategy thus does not seem to work without difficulty.⁸

Even without the crisis, the ASEAN countries would anyway be forced to reformulate the policy framework for automobile industry in a substantial manner. Thailand, the Philippines, Malaysia, and Indonesia are the original members of the WTO and have signed for the TRIM (Trade-Related Investment Measures) agreement. This means that after five-year transition period, i.e., starting from January 2000, they must remove FDI-related regulations on domestic contents, foreign currency earnings, trade balancing, and others. If we literally apply the TRIM rule, the national car scheme applied in some of the countries may not enjoy preferential arrangements anymore, and local contents requirement can be imposed only on the basis of regional economic integration.

The regional economic integration prepares a temporary import-substituting policy arrangement called the AICO. The AICO was introduced as a transitional arrangement toward the complete implementation of CEPT. It allows a low tariff rate for intra-regional

⁸ American automobile companies have taken an aggressive FDI strategy to the Southeast Asian countries since the crisis began. If all the investment plan is implemented, the production capacity in Thailand, for example, will become about 1.2 million cars per year.

trade, which is 5% at maximum. However, the scheme is applied only for the trade that is approved by both exporting and importing countries' authorities. This means that local content requirement and trade balancing are required in effect. As a result, the AICO has not been used extensively so far. Private companies do not seem to have enough economic incentive for utilizing it. The AICO is a symbol of cooperation among the ASEAN countries. The ASEAN countries try to loosen the conditions for applying the scheme, but we have not seen much progress yet. The CEPT tariff rate will also be 5% at maximum, but the approval of the governments will not be required anymore if the commodity includes ASEAN contents of more than 40%.

Except Thailand, the policy framework for automobile industry after the year 2000 is not yet clearly publicized. Table 5 presents the tariff structure of Thailand, the Philippines, Indonesia, Malaysia, and Viet Nam. The AICO tariff is applied until the CEPT tariff rates cover most of the commodities in 2002 (in 2003 for Viet Nam). The CKD tariff is applied if, for example, a Japanese automobile company exports all the parts and components from Japan to these countries for complete knocking down. The BU tariff is applied if a Japanese company exports completely built-up cars from Japan to these countries.

A Japanese automobile expert in an interview says that the production cost of automobiles is still lowest when producing in Japan, even after considering international differences in labor costs and others. In addition, the international transport cost for a built-up car, which runs by itself, is usually cheaper than that for parts and components, which require packaging. The cost gap between the complete knock-down in the ASEAN countries using Japan-made parts and components and the export of complete built-up cars is roughly 30%, he says. Producing parts and components locally requires more cost. Even with considering the local production of Japanese subcontractors, the cost gap between completely localized production and the complete knock-down is again about 30%. By using the rough idea of such cost structure, we can guess each country's strategy from Table 5.

In case of Thailand, the MFN-based CKD tariff will be heightened from 20% to 33% in the year 2000 while keeping the BU tariff as high as 80% (in case of passenger cars), which indicates that the government tries to encourage the local production including parts and components. Thailand has relatively strong supporting industries including metal working industry and is positive in using the AICO. By moving from the AICO to general CEPT tariffs, Thailand will be in a better position in the region. The Philippines, on the other hand, has already lowered the CKD and BU tariff rates to a large extent, which may suggest that the government has half given up the automobile industry promotion through trade protection. Rather than fostering assemblers, it may be targeting the promotion of some specific parts and components. As for Indonesia and Malaysia, the future policy is not clear yet. However, we can at least say that the high BU tariff may not be sustained under the pressure of international community. With reconsidering their national car plan, some drastic move from the governments may be observed in the near future. Viet Nam already has a relatively low BU tariff, which suggests that careful strategic policy making is required in the coming

years.

If we take the Bogor target seriously, the room for infant industry protection is not very large anyway. According to the target, we will have no tariff by the year 2020. If the annual catching-up speed of productivity is 2% on average, the cut-off tariff rate in the year 2000 is 48.6% ($1.02^{20}-1$), neglecting changes in exchange rates. If the catching-up speed is 3% annually, the cut-off rate is 80.6% ($1.03^{20}-1$). If an industry cannot survive with a tariff rate of this high, there is no point of protection. The governments must strategically classify industries into two groups: ones worth being temporarily protected and the other worth not. This is the reality of infant industry promotion in the current policy environment. We must also note that most of the assemblers and the first-tier parts suppliers of automobile industry are affiliates of foreign firms in the ASEAN countries. Local supporting industries are still very thin, and the linkage between foreign companies and local firms is not well developed yet. The hosting countries may criticize the unwillingness of MNEs in using local suppliers. However, the fundamental problem exists in the technological capability of local industry in these countries because even "notorious" Japanese firms can easily find capable local suppliers in North America and Europe. The thin industrial structure is quite different from the standard industrial organization of Japan, Korea, and Taiwan and will possibly become an obstacle to further industrialization. The governments of the ASEAN countries must place more effort to build up constructive linkages between foreign and local firms.

Traditional policy tools for establishing linkages between foreign and local firms include various performance requirements imposed on affiliates of foreign firms, such as local contents requirement, technology transfer requirement, and others. However, these regulations were not proven to be effective in the past experience and rather discouraged incoming FDI. The TRIM agreement has already narrowed down the scope of such regulations. From now on, the governments of the region should not regulate foreign capital but rather try to enhance the capability of local supporting industries more aggressively. There have already been various policies for the promotion of supporting industries, but the overall evaluation of them is needed.

The example of automobile industry shows a sort of extreme case because the industry has been under an unusually clear import-substituting strategy. However, the need for careful reformulation of trade policies and the establishment of effective linkages between foreign and domestic firms are more or less common issues for a number of industries in East Asian developing economies. The rapid economic globalization requires a new policy framework for industrial promotion.

5 . Conclusion

The Asian economies are now recovering from the short-run impact of the crisis, and we must now consider the middle and long run development strategy seriously. The crisis has not slowed down the trend of liberalization but rather has accelerated the process of opening

up the economy. The clock of liberalization has already been set in the form of multi-layered international commitments. We now need to formulate a new policy framework for industrialization in a new economic environment of globalization. The required speed of policy response and the degree of openness are unprecedented, not quite experienced by developed countries in the past.

The analysis of this paper introduces two issues to be discussed for the new policy framework of Viet Nam. First, we may need to reformulate policy tools for infant industry promotion in a fundamental manner. For the coming 5 to 10 years, trade policy must carefully be designed so as to provide effective temporary protection for prospective industries. The author believes that there certainly exist dynamic positive externalities in the development of some industries and thus there is room for the government to actively promote industrial development. The prospective speed of productivity catch-up is crucial when we decide whether to provide temporary protection or not. Furthermore, trade policy will eventually be a less effective policy tool for industry promotion as the overall liberalization will proceed. We must then seek the possibility of other policy tools for industry promotion, particularly ones compatible with the WTO principles and the Washington consensus. Such policy tools may include policies on infrastructure, human development, research and development, and export promotion (except direct export subsidy).

Second, we need to pay more attention to fostering linkages between affiliates of foreign firms and local indigenous firms. To host FDI is one of the most effective ways of taking advantage of backwardness, but we must take a risk of having a skewed industrial structure. At a higher development stage, the thickness of industrial structure and inter-firm linkages become a key for successful industrialization. Compared with the historical data of Japan, Korea, and Taiwan, the Southeast Asian developing countries in general depend by far heavily on affiliates of foreign firms and have thin capable supporting industries. Traditional policy tools for promoting linkages between foreign and domestic firms were various performance requirements imposed on affiliates of foreign firms, but they did not show successful results. The Government of Viet Nam may want to carefully review the existing policy scheme for promoting SMEs and design more effective policy package. Developed countries would also like to support such effort by effectively using the ODA program and others.

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Table 1 Sales and employment by manufacturing affiliates of Japanese firms in Asia

(a) ASEAN4 (Indonesia, Thailand, Philippines, and Malaysia)

	Sales (millions of yen)				Employment (number of persons)									
	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Manufacturing total	1,117,692	1,036,574	909,192	792,440	871,237	933,037	789,782	405,589	409,654	411,764	409,203	401,393	405,165	402,591
Food and tobacco	17,291	13,449	12,137	12,214	16,049	15,887	15,335	4,098	4,169	4,197	4,244	4,269	4,141	4,012
Textiles	51,791	47,778	46,822	41,847	42,215	49,313	44,089	34,772	33,680	33,311	33,054	29,297	29,312	29,378
Wood, pulp, and paper	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chemicals	46,879	44,763	46,484	37,245	43,742	43,557	42,392	12,505	12,559	12,630	12,628	12,865	12,742	12,760
Ceramics, soil, and stone	17,269	17,705	18,676	15,730	16,966	18,251	15,327	6,091	6,343	6,179	6,299	6,123	6,246	6,164
Iron and steel	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonferrous metal	29,446	29,127	25,840	23,143	25,877	28,721	16,686	8,977	9,277	9,335	9,101	8,888	9,180	7,405
Metal	13,316	12,000	10,627	8,419	6,632	6,096	7,582	7,084	6,561	6,369	6,213	4,971	4,964	4,958
General machinery	33,197	34,304	33,377	34,611	37,142	38,847	33,373	13,647	13,976	14,120	14,054	14,644	14,208	14,043
Electrical machinery	623,365	590,738	520,756	483,701	532,457	556,318	465,511	240,440	244,467	247,144	251,140	247,826	250,626	251,227
Transport equipment	209,333	180,864	140,709	90,730	98,335	120,608	97,636	39,361	40,343	40,011	34,010	33,005	33,865	32,787
Precision machinery	21,681	20,708	18,480	17,572	20,415	21,207	19,653	10,801	10,868	10,856	11,080	11,726	11,647	11,735
Other manufacturing	48,320	39,775	30,399	23,250	29,089	31,435	30,019	25,791	25,323	25,545	25,483	26,183	26,679	26,608

(b) NIES3 (Singapore, Taiwan, and Korea)

	Sales (millions of yen)				Employment (number of persons)									
	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Manufacturing total	849,540	886,584	875,267	772,669	741,013	780,169	625,853	119,818	120,854	120,982	116,790	112,362	109,226	104,354
Food and tobacco	43,282	41,518	38,995	34,722	39,807	40,217	31,501	6,145	6,223	6,237	6,262	6,221	6,193	4,868
Textiles	7,431	5,394	6,217	5,869	6,604	4,698	5,763	1,534	1,499	1,542	1,520	1,515	1,493	1,505
Wood, pulp, and paper	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chemicals	56,948	62,718	66,039	52,262	57,444	61,230	50,829	6,670	6,812	6,955	6,738	6,645	6,540	6,282
Ceramics, soil, and stone	18,399	19,407	18,551	15,329	17,226	19,029	18,900	2,571	2,649	2,610	2,594	2,611	2,627	2,651
Iron and steel	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonferrous metal	21,840	24,578	26,502	22,187	24,794	23,178	21,298	2,984	3,035	2,881	2,763	2,693	2,591	2,488
Metal	2,834	2,907	4,306	2,168	2,573	1,969	2,160	743	735	713	737	647	649	646
General machinery	37,052	40,451	39,052	32,975	31,849	34,686	28,904	8,941	9,619	9,767	9,618	9,164	8,961	8,925
Electrical machinery	562,525	588,254	575,030	511,440	464,179	489,435	383,312	69,723	70,148	70,069	67,272	63,594	61,313	59,303
Transport equipment	47,857	49,283	49,512	47,441	45,794	51,981	43,221	7,755	7,493	7,583	7,440	7,914	7,749	7,207
Precision machinery	21,048	20,722	20,609	21,068	19,937	20,649	15,601	5,331	5,317	5,224	4,601	4,564	4,313	4,143
Other manufacturing	28,493	29,611	28,811	25,576	29,195	31,573	23,079	6,962	6,865	6,948	6,797	6,381	6,414	6,057

(c) China and other Asian countries (India, Viet Nam, Sri Lanka, Pakistan, Bangladesh, and China including Hong Kong)

	Sales (millions of yen)				Employment (number of persons)											
	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Q1	1998 Q2
Manufacturing total	568,205	559,938	601,213	607,887	558,813	571,899	521,955	202,734	209,466	213,337	214,216	214,663	214,065	213,280	214,216	214,663
Food and tobacco	12,397	13,021	7,633	11,539	19,690	19,612	8,478	6,909	7,438	7,575	7,700	7,708	8,051	9,266	7,700	7,708
Textiles	15,962	14,569	18,169	13,697	15,342	17,136	16,536	14,450	14,489	15,504	13,721	12,765	12,177	12,010	13,721	12,765
Wood, pulp, and paper	n.a.	n.a.	n.a.	n.a.	1,925	1,763	1,571	n.a.	n.a.	n.a.	n.a.	2,061	2,054	2,096	n.a.	2,061
Chemicals	21,234	20,131	21,979	19,541	18,390	16,521	16,394	10,436	10,542	10,964	10,918	10,466	11,124	10,760	10,918	10,466
Ceramics, soil, and stone	4,106	4,117	3,367	4,980	4,477	5,178	4,413	2,503	2,541	2,943	3,154	3,066	3,222	3,286	3,154	3,066
Iron and steel	n.a.	n.a.	n.a.	n.a.	5,484	3,105	3,003	n.a.	n.a.	n.a.	n.a.	919	588	599	n.a.	919
Nonferrous metal	2,799	2,900	3,282	3,307	3,445	2,820	3,506	1,963	1,986	2,141	2,136	1,965	1,947	2,062	2,136	1,965
Metal	2,799	2,679	2,876	2,460	3,525	3,264	3,425	2,777	3,010	2,988	3,002	3,092	3,248	3,217	3,002	3,092
General machinery	95,478	88,689	94,140	98,299	107,081	99,728	78,993	14,498	15,956	15,974	16,845	16,033	16,202	16,161	16,845	16,033
Electrical machinery	304,669	310,940	340,047	340,209	259,987	286,162	287,686	102,610	105,665	106,903	107,866	110,635	110,643	109,856	107,866	110,635
Transport equipment	19,632	15,862	20,335	19,596	20,105	18,886	19,233	11,424	11,595	11,918	12,364	12,400	12,224	12,821	12,364	12,400
Precision machinery	65,524	63,270	64,756	69,572	77,554	74,620	58,968	19,084	20,219	20,526	20,054	20,436	19,740	18,931	20,054	20,436
Other manufacturing	18,479	18,144	18,175	17,901	21,808	23,104	19,749	12,845	12,758	12,724	13,010	13,117	12,845	12,215	13,010	13,117

The data of the fourth quarter of 1998 are preliminary.

Sources: MITI (1998, 1999).

(a) ASEAN4 (Indonesia, Thailand, Philippines, and Malaysia)

(b) NIES3 (Singapore, Taiwan, and Korea)

The ratio of exports to Japan in total sales (%)

	The ratio of exports in total sales (%)				The ratio of exports to Japan in total sales (%)									
	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Manufacturing total	56.2	56.8	56.8	54.4	54.9	56.5	54.7	16.7	16.6	17.8	17.1	17.1	16.1	16.0
Food and tobacco	41.0	49.3	45.0	45.1	41.3	41.7	48.0	9.7	11.9	11.7	11.6	12.3	12.3	12.6
Textiles	23.8	22.5	22.5	26.8	22.9	21.5	17.1	3.6	3.6	3.5	3.3	3.1	3.2	3.0
Wood, pulp, and paper	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chemicals	48.4	51.6	50.4	45.3	49.7	48.1	51.7	1.1	1.1	1.3	1.4	1.6	1.2	1.7
Ceramics, soil, and stone	35.7	36.6	38.4	39.0	37.5	34.3	32.7	23.1	23.8	21.8	18.3	16.7	13.4	13.3
Iron and steel	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonferrous metal	55.0	48.2	46.3	51.6	47.7	46.9	44.9	8.7	7.1	7.3	8.1	6.2	6.3	2.4
Metal	44.0	50.0	10.9	17.5	34.0	16.5	19.8	3.7	8.3	4.5	7.3	4.0	3.9	9.1
General machinery	50.4	50.4	51.1	52.7	54.4	53.5	48.0	22.7	28.6	24.9	27.3	29.1	29.0	24.5
Electrical machinery	62.1	62.2	62.6	59.1	60.4	63.8	61.1	17.9	17.4	19.5	18.1	18.6	17.1	17.5
Transport equipment	7.3	8.2	13.6	13.3	12.3	8.4	8.7	2.8	1.9	1.9	1.3	2.9	2.5	2.6
Precision machinery	93.3	92.5	93.1	90.5	89.6	92.0	94.6	80.7	83.4	86.9	83.4	82.6	82.6	88.4
Other manufacturing	68.2	64.6	65.9	64.5	68.4	70.0	72.2	12.1	9.4	12.3	10.7	9.6	9.3	12.0

(c) China and other Asian countries (India, Viet Nam, Sri Lanka, Pakistan, Bangladesh, and China including Hong Kong)

	The ratio of exports in total sales (%)				The ratio of exports to Japan in total sales (%)									
	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Manufacturing total	64.4	67.6	65.6	64.4	56.0	57.7	61.2	27.9	29.6	28.8	27.4	25.8	25.6	24.6
Food and tobacco	2.6	2.7	3.1	4.0	3.1	3.4	4.1	2.6	2.7	2.7	3.6	3.0	3.1	3.3
Textiles	46.2	51.1	51.5	58.3	48.3	45.8	46.2	29.4	32.0	29.8	31.4	20.9	24.7	24.8
Wood, pulp, and paper	n.a.	n.a.	n.a.	n.a.	2.2	2.5	3.3	n.a.	n.a.	n.a.	n.a.	2.2	2.5	3.3
Chemicals	40.8	42.0	42.0	43.5	52.3	50.6	50.8	34.1	34.8	33.9	32.1	40.8	38.1	37.8
Ceramics, soil, and stone	61.3	57.3	55.3	50.4	58.8	53.7	52.7	11.5	7.7	9.7	13.9	15.0	21.8	20.6
Iron and steel	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0
Nonferrous metal	48.1	54.9	48.3	36.5	33.3	37.8	38.2	35.5	37.3	39.7	36.5	33.3	37.8	38.2
Metal	45.0	50.6	42.4	34.0	38.7	38.6	33.3	44.1	49.9	40.6	33.0	38.0	37.8	31.8
General machinery	56.7	64.2	61.2	49.9	50.7	53.1	48.6	35.2	40.2	43.3	39.0	28.1	31.1	32.3
Electrical machinery	76.7	78.6	74.9	77.0	64.8	66.1	70.4	23.4	24.4	21.5	21.3	20.1	19.2	17.5
Transport equipment	37.2	40.0	38.1	44.5	48.3	51.0	51.2	12.7	15.7	14.2	13.3	13.3	14.9	14.5
Precision machinery	55.3	59.8	59.9	54.2	55.0	54.3	57.0	48.7	51.4	56.1	50.8	51.7	51.3	54.0
Other manufacturing	68.1	62.2	65.8	68.6	69.5	68.6	69.6	22.6	24.5	23.5	24.5	22.4	19.9	20.5

The data of the fourth quarter of 1998 are preliminary.

Sources: MITI (1998, 1999).

Table 3 Changes in FDI-related policies in five East Asian countries (From June 1997 to June 1998)

Indonesia :

- Eliminated the 49 per cent limit on foreign share holdings in firms other than financial firms in September 1997.
- Allowed 100 per cent foreign ownership of non-bank financial firms, including insurance companies.
- Guaranteed existing foreign ownership in financial institutions.
- Under the new "reformation policy on investment" announced by the Office of the Ministry of Investment/ Investment Coordinating Branch on 29 May 1998, opened retail and wholesale trading and palm oil sectors to foreign investment. (Import export trading had been opened earlier for foreign investment.) For the time being, foreign investment in retail and wholesale trading should be in the form of joint ventures with Indonesian nationals/companies.
- Under the above-mentioned "reformation policy" package, simplified various procedures applying to foreign investors.
- Presidential Decree Number 96/1998 revised the list of industries and activities fully or partially closed to foreign investment. The new list is valid for three years but subject to annual review, if necessary. All other industries and activities are open to FDI.

Korea, Republic of :

- Hostile takeovers of Korean companies were fully liberalized in May 1998.
- With the exception of those companies determined as having national security concerns, the requirement of government approval for takeovers of Korean companies with assets of 2 trillion won or more was abolished in April 1998.
- Allowed the establishment of subsidiaries of foreign banks and foreign securities firms in March 1998.
- Restrictions on the use of long-term loans with maturities of over five years, brought into the country by foreign manufactures were abolished.
- The ceiling on individual and aggregate foreign ownership of listed Korean shares were abolished in May 1998.
- Korea's major FDI Promotion Programme established the Foreign Investment Promotion Act, which fully permits M&As, opens all types of businesses to foreign investors in principle, allows foreign participation in equity transactions in large public enterprises and key industries, provides for a one-stop service and introduces an automatic approval system, liberalizes the real estate market and offers tax and other incentives for foreign investors.
- The number of industries restricted to FDI will be diminished from 42 to 31: of these remaining industries, 13 are closed and 18 partially restricted. There are 1,148 industries in the Republic of Korea.

Malaysia :

- Relaxed the limits on foreign equity holdings. The limit now is 30 per cent foreign equity, except for export-oriented industries, high-technology industries and multimedia companies with MSC status. Foreign equity holding in local licences basic telecommunications companies has been raised from a previous maximum of 30 per cent to a new maximum of 49 per cent. Malaysia is prepared to consider applications to raise the foreign equity holdings up to a maximum of 61 per cent, provided that the companies concerned shall reduce their foreign equity holdings to a maximum of 49 per cent within 5 years.
- Guaranteed up to 51 per cent foreign equity participation in existing insurance companies by current holders. Malaysia's revised offers following the WTO negotiation concluded in December 1997 in respect of foreign equity participation in the insurance sector are as follows :
 - New foreign entrants into the local insurance industry will be restricted to an equity stake of 30 per cent. However, foreigners with an existing presence in the local industry will be allowed a maximum of 51 per cent foreign equity participation under the following circumstances :
 - a foreign direct insurer operating in Malaysia as a branch, and which locally incorporates its operation in compliance with the insurance Act, 1996, can retain up to 51 per cent of the equity of the locally-incorporated entity :
 - an existing foreign owner of a locally-incorporated insurer which has yet to restructure can retain up to 51 per cent of the equity of the restructured company, provided aggregate foreign shareholding does not exceed 51 per cent ; and

- the present foreign shareholders which were the original owners of locally-incorporated insurance companies that have restructured in line with requirements under the National Development Policy, can increase their shareholdings to 51 per cent provided aggregate foreign shareholdings do not exceed 51 per cent.

These restrictions do not apply to foreign professional reinsurers that are allowed to operate as branches in Malaysia, or in the case of locally-incorporated joint venture reinsurance companies, the foreign partner may retain up to an aggregate of 49 per cent of equity in the joint venture company.

- Fully/majority foreign-owned fund-management companies will allowed.
- Relaxed bumiputera policy. Relaxation of regulations on the release of a 30 per cent share of listed firms owned by bumiputera to non-bumiputera. Approval on a case by case basis of acquisitions of bumiputera firms by non-bumiputera.
- The Minister of International Trade and Industry relaxed the country's equity policy for the manufacturing sector as follows (from 31 July 1998) :
 - With the exception of activities in a specific exclusion list, all new projects in manufacturing, including for expansion and diversification will be exempted from both equity and export conditions. This means that project owners can hold 100 per cent equity and will not need to meet any export requirements.
 - This policy will apply to all applications received from 31 July 1998 to 31 December 2000 as well as applications already received, but for which decisions are pending.
 - All projects approved under the new policy will not be required to restructure their equity after the period.
 - The Government will review this policy after 31 December 2000.

Philippines :

Amendments were made to The Investment House Act (October 1997) and the Financing Company Act (February 1998). Key changes which affect foreign investment are :

- Allowable foreign equity participation has been increased to 60 per cent for both investment houses and finance and leasing companies, subject to reciprocity rights.
- Paid up capital for investment houses is now 300 million pesos.
- Paid up capital for finance and leasing companies is now :
 - at least 10 million pesos for those located in Metro Manila and other first class cities ;
 - 5 million pesos for those situated in other classes of cities ; and
 - 2.5 million pesos in municipalities.

Thailand :

- Foreign equity holdings were limited to no more than 49 per cent except for export-oriented projects with at least 80 per cent export share located in Zone 3, where 100 per cent foreign ownership was allowed. The Board of Investment relaxed this regulation in 1997 for companies with financial difficulties so that they could have foreign ownership of more than 51 per cent on the condition that Thai shareholders of that company agree and confirm their acceptance in writing of the change in ownership to the Board of Investment.
- The Minister of Finance, upon the recommendation of the Bank of Thailand, may release the 25 per cent limit for foreign interests in locally-incorporated banks and finance and credit companies for 10 years. The absolute amount of foreign equity holdings up to 100 per cent will be protected if acquired during this period.
- Existing shareholding structures of foreign bank branches are guaranteed.
- Announced that majority foreign ownership of existing promoted firms in certain industrial zones would be permitted if agreed by existing Thai shareholders.
- The 30 per cent export requirement for exemption of import duties used in the manufactures of exports has been eliminated.

Source : UNCTAD (1998, pp. 341-343).

- a Paper packaging ; plastic packaging (bottles, films, sheets and bags) ; plastic injection moulding components ; metal stamping, metal fabrication and electroplating ; wire harness ; printing, and steel service centre.

Table 4 New vehicle registration in major ASEAN countries
(Thousand units)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Thailand	146	209	304	269	363	402	486	572	589	362	133	170	213	266	319	392
Philippines	20	47	51	43	57	85	103	130	162	144	77	68	81	97	117	140
Malaysia	80	123	185	183	145	168	201	286	365	405	160	233	251	274	279	294
Indonesia	158	178	277	264	170	210	324	381	332	387	58	52	102	156	231	268
Total	404	557	817	759	735	865	1,114	1,369	1,448	1,298	428	523	647	793	946	1,094

1988-1998: actual

1999-2003: forecast

Data from a private source.

Table 5 The tariff structure for automobiles in ASEAN countries

		AICO tariff (CKD, BU) 1999-		CKD tariff 1999		BU tariff 1999-	
		1999-	2000-	1999	2000-	1999-	2000-
Thailand	Passenger cars	Max 5%	Max 5%	20%	33%	80%	33%
	Commercial vehicles	Max 5%	Max 5%	20%	33%	60%	33%
Philippines	Passenger cars	Max 5%	Max 5%	10%	10%	40%	10%
	Commercial vehicles	Max 5%	Max 5%	3%	3%	30 - 40%	3%
Indonesia*	Passenger cars	Max 5%	Max 5%	0 - 65%	n.a.	125 - 200%	n.a.
	Commercial vehicles	Max 5%	Max 5%	0 - 25%	n.a.	50 - 105%	n.a.
Malaysia	Passenger cars (Proton)	Max 5%	Max 5%	13%	n.a.	-	n.a.
	Passenger cars (general)	Max 5%	Max 5%	42 - 80%	n.a.	140 - 300%	n.a.
	Commercial vehicles	Max 5%	Max 5%	5 - 40%	n.a.	42 - 140%	n.a.
Viet Nam	Passenger cars	Max 5%	Max 5%	10 - 50%	10 - 50%	55%	10 - 50%
	Commercial vehicles	Max 5%	Max 5%	8 - 40%	8 - 40%	60%	8 - 40%

CKD: parts and components for complete knockdown

BU: built-up vehicles.

* The Indonesian government announced drastic changes in tariff and tax structure for motor vehicles in June 1999 though the detail is not available yet.

Data from a private source.

Viet Nam's Textile and Garment Development Directions

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1 . Role of Viet Nam's Textile and Garment

Viet Nam's Textile and Garment plays an important role in the national economy, it is not only satisfying domestic demand but also producing various export products that bring remarkable foreign exchange revenues to the country. In 1998, export value of Garment industry alone achieved US\$ 1,450 million and it ranked the second largest position, following to crude oil. Textile and Garment creates jobs for approximately 500,000 people, accounting for 27.7 percent of nation's industrial labor force. It, therefore, has taken part in political, economic and social stability, national defense strengthening and generation of material sources to other industries.

2 . Actual Situation of Viet Nam's Textile and Garment Markets

Subsequent to the reunification of the country (April, 1975), Viet Nam's textile and garment got a good opportunity for rapid development, i.e., it had to meet demand for domestic consumption and export to the former Soviet Union and East European countries in compliance with a cooperation framework, set by Economic Mutual Assistance Council. It was a large market with no high quality demand nor frequent model change and stable prices specified in long-term agreements. In addition, export volume was also specified in annexes of the agreements, the highest annual quantity was 25-30 million products. The supply of materials, machines, equipment, chemicals and dye to Viet Nam's textile and garment was, in its turn, guaranteed by the agreements. After the collapse of the former Soviet Union and East European markets, Viet Nam's textile and garment encountered with great difficulty in both of the consumption market of finished products and the supply market of materials, machines, equipment and spare parts, to keep the production development stable. The period of 1990-1992 was the most difficult time of Viet Nam's textile and garment.

To overcome the situation, Viet Nam signed a textile and garment trading agreement with European Community on 15 December 1992. The agreement was effective on 1 January 1993. It gave Viet Nam the access to a newly important market of more than 350 million people with high living standards and large consumption demand. Total annual trading merchandise volume is about 22,000-23,000 tons. In addition, Viet Nam has also accelerated exports under the forms of subcontracts and normal trading with some developed countries, e.g., Japan, Canada, and to newly industrialized countries like South Korea, Singapore, Taiwan, Hong

Kong. Particularly, Viet Nam's export has gradually accessed the USA markets after the lifting of America's embargo and the normalizing diplomatic relationship between two countries though Viet Nam has not yet enjoyed status of the most favored nations (MFN).

Although markets have been enlarged, Viet Nam's textile and garment is still faced with big challenges. It is the challenge to meet the demand for model, quality, prices, and product delivering time which varies greatly to seasons as well as differences of trading practices.

Up to now, Viet Nam's textile and garment has commercial relations with more than 200 companies of 40 countries in the world. However, it has not yet stabilized its export markets, of which some are without MFN status.

Regarding domestic markets, foreign textile products from various sources that flooded due to trade liberalization trend and poor control over smuggling products, have impacted domestic production. The tastes of domestic consumers have also changed. Its state-owned trade network has not yet adjusted its operation modes in timely manner to control the markets, leading to the dominance of private traders.

3 . Ownership and Institutional Structure of Viet Nam's Textile and Garment

Viet Nam is a country with narrow but long shape, stretching more than 2,000 kilometers from the North to the South. textile and garment industry is mainly concentrated on the two ends of the country: in the North, it locates mainly in Hanoi and Red River Delta; and in the South, it focuses in Ho Chi Minh City and Mekong River Delta. In Central Region, the textile and garment sector has been still in a small size. In the future, the textile and garment may be evenly distributed over the three regions as follows:

- < Region I includes Mekong River Delta and Southeastern Region with the center in Ho Chi Minh City (its output accounts for 50 - 60 percent);
- < Region II includes Red River Delta and some surrounding provinces with the center in Hanoi (its output accounts for 30 - 40 percent);
- < Region III includes Southern Coastal Region, stretching from Thua-Thien-Hue to Khanh Hoa province with the center in Da Nang (its output accounts for 10 percent).

Regarding institutional structure, Viet Nam's textile and garment can be broken down in four categories:

- < State-owned enterprises;
- < Collective and private enterprises;
- < Joint-ventures, and joint - business enterprises;
- < Enterprises with 100 percent of foreign capital.

State-owned textile and garment enterprise includes centrally and locally managed ones as follows:

- < At present, there have been 28 centrally managed state-owned textile enterprises, including three mechanical engineering enterprises that are managed by textile-garment corporation of Viet Nam (VINATEX);

- < There have been 26 centrally managed state-owned garment enterprises, of which 16 are managed by VINATEX and the remaining units are under the management of National Defense Ministry, Ministry of Police and Trade Ministry;
- < The management of locally managed state-owned enterprises are presently assigned by the State to provincial People's Committees. They consist of 24 textile and 84 garment enterprises. In addition, there are another eight garment enterprises under the management of social organizations.

Collective and private enterprise sector comprises cooperatives, limited liability companies, private enterprises, production groups and units, and production households. They are under the management of local Industrial Departments. In textile sector, there are 227 enterprises and about 10,000 production households; the figures in garment sector are, respectively, 384 enterprises and 30,000 production households.

Joint-ventures and joint business sector includes 22 textile units and 36 garment units (the numbers in 31 December 1996).

Enterprises with 100 percent of foreign capital include 36 textile units and 52 garment units (the numbers in 31 December 1996).

4 . Capacity of Viet Nam's Textile and Garment

- < Fiber spinning: Capacity of fiber spinning is mainly in centrally state-owned plants. The highest fiber spinning capacity reached in the end of 1980s, which was about 60,000 tons per year. Average index was Nm = 40. At present, spinning capacity can reach 72,000 tons per year and the index is Nm = 61;
- < Fabrics weaving: Total capacity of fabrics weaving by all economic sectors achieves 380 million m² per year;
- < Knitting: Capacity of round knitting achieves 19,500 tons per year. In addition, there is the capacity of 5,000 tons of nylon mosquito-net, curtains, shocks and woolen weaving;
- < Printing and dyeing: Its capacity is sufficient to meet the demand for printing and dyeing of textile sector at full capacity;
- < Garment: Annual output amount is 275 million products.

In addition, annual capacity of enterprises with foreign capital when their construction is completed will reach to 167,400 tons PES fiber, 133,500 tons PES filament, 89,300 tons spinning fiber, 420 million m² fabrics and 106 million garment pieces.

5 . Actual Situation of Equipment and Technology

- < Fiber spinning: In the last years of 1980s, there were only 860,000 spindles and 2,000 non-spindle rotors in the whole industry. Over the years, equipment becomes old and backward, resulting in poor quality of spinning fiber. Enterprises must gradually replace the equipment. At the end of 1996, there were 800,124 spindles and 3,520 rotors, including

90,600 new spindles (accounting for 11.32 percent) ; 55,960 spindles of second-hand machines purchased from Western Europe (accounting for 7 percent) ; 107,000 upgraded spindles (accounting for 13.4 percent).

- < Shuttle looms : New looms account for only 15 percent of total looms, upgraded and improved looms account for 45 percent, the remaining is old and backward ones.
- < Knitting weaving : Prior to 1986, knitting weaving equipment were mainly from China, former Czechoslovakia and Eastern Germany. After 1986, new knitting weaving equipment have been imported from Japan, South Korea, Taiwan and Germany, of which many are computer-controlled, leading to high product quality. The number of new knitting weaving equipment accounts for 30 percent of total existing ones.
- < Printing and dyeing : At present, old printing and dyeing equipment has been replaced; laboratories are modernized and modern machines are presently used in production, for instance, high pressure dyeing machines, starch machine with shape-defined starch casting, anti-shrinking machines, anti-wrinkling machines, cotton scratching machines, glossy ginning machines etc. Generally, good printing and dyeing equipment accounts for 30 percent, improved and upgraded ones account for 35 percent and the remaining old and backward should be gradually liquidated.
- < Garment : Prior to 1991, the majority of sewing machines were old. Since 1991, the Garment Industry has continuously invested in production expansion and equipment renewing to meet world markets' demand for high quality products. In the cutting stage, following machines are equipped : circle cutting machines with air sucker, which ensure highly precise cuts ; modern, high-speed and strong manually pushing cutters, continuously sticky compressors with high productivity and quality from Federal Republic of Germany and Japan. In the sewing stage, there are new, modern and high-speed sewing machines with speed of 4,000-5,000 rounds per minute, automatic oiling, and highly industrial sanitary compliance. In some enterprises, there are computerized-controlled repeatedly stitching machines with automatic thread cutting equipment. Specialized equipment has been also modernized, for instance, twin-needle, rolling spools, whip sewing, zigzag sewing, band sewing, button hole making. Advanced technology must be compatible with equipment in order to meet the demand in export markets.

6 . Viet Nam's Textile and Garment Development Master Plan up to the Year 2010

To meet increasingly high requirements of the world textile and garment markets and integration trend by Viet Nam into global economy, Viet Nam's Textile and Garment has to make remarkable progress in both of quality and quantity. Otherwise, it can not produce high quality products with nice models, low costs and stay competitive in the world and regional markets. Particularly, textile industry has to make intensive investment in renewing synchronously equipment, which requires estimated US\$ 1 billion capital. The investment

should be completed as soon as possible so that the industry can integrate into ASEAN, APEC and then into WTO in a timely manner. Therefore, planning for Viet Nam's textile and garment development up to the year 2000 is very important for ensuring that the industry's development bases on Viet Nam's conditions but integrates with the region and does not lag much behind it.

TEXTILE - GARMENT INDUSTRY DEVELOPMENT MASTER PLAN UP TO THE YEAR 2010.

1. Balance of Major Requirements

Table 1. Requirements for shuttle woven fabric up to the year 2010

	Unit	1996	2000	2005	2010
Balance of fabrics for use	Million m ²	835	1,790	2,490	3,420
< Requirement of fabric for export	"	495	1,050	1,590	2,100
< Requirement of fabric for domestic use	"	340	740	900	1,320
Balance of domestically produced and imported fabric					
< Domestic produced	"	281	600	1,000	1,500
< Imported	"	554	1,190	1,490	1,930
of which: + Fabric of subcontracting	"	445	900	1,100	1,260
+ Imported fabric	"	109	200	300	660

Table 2. Requirements for shuttle woven fabric up to the year 2010

Unit: ton

Year	100% cotton yarn		Pe/Co yarn	Synthetic filament	Total
	Fine combed	Coarse combed			
2000	45,000	32,200	35,500	37,890	150,000
2005	69,000	49,400	58,000	66,600	243,000
2010	100,000	69,000	88,500	102,500	360,000

Table 3. Requirement for main materials

Unit: ton

Raw materials	2000	2005	2010
< Fibrous cotton	98,000	150,000	216,000
of which: + Domestic produced	18,000	35,000	60,000
+ Imported	70,000	115,000	156,000
< Fiber PES	24,000	39,000	59,000
< PES, PA ,,, filament	37,800	66,600	102,500

Table 4. New investment requirements in spinning and textile equipment

Target	Unit	2000	2005	2010	Total
1. Bobbin					
Spinning fiber requirement for production	Ton/year	118,000	175,000	255,500	
Number of newly invested spindles	spindles	200,000	600,000	700,000	1,500,000
Spinning capacity after being invested	tone/year	100,000	170,000	250,000	spindles
Fiber needs to be imported	tone/year	18,000	5,000	5,500	
2. Shuttle loom					
Textile capacity needs to be newly invested	Million m2/year	100,0	320,0	450,0	870 million m2
Number of shuttle loom needs to be newly invested	loom	1,200	3,500	4,000	8,700 looms
3. Knitting weaving machine					
Textile capacity needs to be newly invested	tone/year	2,000	6,000	8,250	16,250 tones
Number of knitting looms needs to be newly invested	unit	40	100	100	240

Table 5. Calculation of investment capital for new projects in garment industry during 1996 - 2010

No	Investment items	Average size of one factory	Estimated number of new factories	Investment capital in equipment (million USD)	of which, capital contributed by Vietnam	
					%	Capital (million USD)
	Garment for export					
1	Suits	300,000 sets/year	13	44.2	60%	26.5
2	Jean Clothes	780,000 products/year	11	7.557	80%	6.0
3	Jackets	500,000 products/year	94	43.240	90%	39.0
4	Shirts	2,000,000 products/year	22	13.662	90%	12.3
5	Others	2,000,000 products/year	94	53.110	85%	45.2
	Garment for domestic market					
6	Sorted clothes	2,000,000 products/year	87	45.410		45.2
	Total		321	207.2		174.4

Table 6. Summary of investment capital for new projects in textile - garment industry during 1996 - 2010

Unit: Million USD

	Textile	Garment	Total
Total investment in the entire industry	2,306.2	210.2	2,516.4
of which: - Investment in equipment	2,301.2	207.2	2,508.4
- Investment in scientific and technical institutions	5.0	3.0	8.0
Of which: Investment by Viet Nam (%)	859.4	177.4	1,036.8
Foreign investment (%)	37.2%	84.2%	41%
	1,446.8	32.8	1,479.6
	62.8%	15.8	59.0

Note: Total investment in textile - Garment construction: USD 700 million + equipment: 2,516.4 = 3,216.4 million USD

Table 7. Requirement for main dyeing agents

Unit: ton

Chemical - dye	2,000	2,005	2,010
Sodium hydroxide NaOH 98%	14,400	23,750	35,250
Sodium carbon-trioxide Na ₂ CO ₃	2,160	3,560	5,250
Hydrogen peroxide H ₂ O ₂ :35-50%	4,200	6,900	10,500
Sulfuric acid H ₂ SO ₄ 64°	720	1,200	1,800
Optic blue	216	345	530
Active, scatter, completion dye	504	832	1,234
Azo, direct dye	720	1,200	1,760
Other types of dye	110	180	264

2. Regional Plan for Textile Development

The objective of textile - garment development master plan up to the year 2010 is to achieve an annual growth rate of 13%.

< Woven fabric:	1,500 million m ²
< Knitting products:	70,000 tons
< Cotton towel products:	40,000 tons
< Other types of woven fabric:	25,000 tons

To fulfill the above - mentioned objective, it is necessary to have:

< yarn:	360,000 tons
Of which:	
< Cotton yarn and mixed yarn:	255,500 tons
< Synthetic filament:	104,500 tons

Average yarn consumption per capital by the year 2010 is 360,000 tones/100 million people equal to 3.6 kg/person

This is still lower than that in other countries in the region and the world (world average: 7.2 kg/person).

To achieve above-mentioned objectives, the textile industry must invest not only in improving and renewing its existing units' equipment and technologies but also in constructing new plants in the nation-wide scale in the coming years. Total required capital for equipment would amount US\$ 2,508.4 million or average annual investment of \$ 179 million.

Estimated investment contribution is:

Viet Nam side:	41 %
Foreign investment:	59 %

The regional development master plan will form a guidance basis for domestic and foreign investors to invest in construction of plants that will be at suitable sizes and ground area in Viet Nam. It is also a basis for provinces and cities to call foreign investment and for domestic and foreign enterprises to select their counterparts suitable to their investment projects.

Regional planning

Combining geographical characteristics, traditional practices, current and future development capacity of textile industry with economic, scientific, technical, transportation and communication conditions of each region, we would propose three regions for textile development as follows:

< Region I includes Southeastern Region and Mekong Delta with focus on the provinces: Ho Chi Minh City, Dong Nai, An Giang, Song Be, Dong Thap, Tay Ninh, Long An. In this region, Ho Chi Minh City will be the center.

It is estimated that its textile output will account for 50-60 percent of the industry.

< Region II comprises Red River Delta and some surrounding provinces, including Hanoi and following provinces: Ha Tay, Hai Hung, Hai Phong, Thai Binh, Nam Dinh, Ha Nam, Vinh Phu, Nghe An. Hanoi will be its center.

It is estimated that its textile output will account for 30-40 percent of the industry.

< Region III comprises Southern Coastal Region and some provinces in the Northern Coastal Region, including Da Nang City and Quang Nam, Khanh Hoa, Thua-Thien-Hue provinces. Its center is Da Nang.

It is estimated that its textile output will account for 10 percent of the industry.

7. System of Development Policies

7.1 Economic policies

7.1.1 Viewpoint on policy formulation

Textile and garment is a component of consumer industry, playing an important role in the early stage of industrialization modernization process. In Viet Nam, the development of textile and garment industry is based on the following major advantages:

< Textile and garment is a long-standing industry which can be developed nationwide, from urban, delta areas to rural and mountainous ones;

< Abundance of human resources in both terms of quality and quantify;

< Huge consumption market for textile and garment for products.

However, textile and garment industry can not strongly develop without appropriate policies, which should be formulated according to the following point of views:

< Firstly, to encourage the development of textile and garment industry in line with its potentials and strengths.

< Secondly, to develop textile and garment industry on the basis of self - reliance without depending heavily on foreign investment or government's subsidies. The government should create favorable environment for the development of textile and garment through incentive policies and mechanism.

< Thirdly, policies must be appropriate and synchronous ones, covering the following areas:

—Market;

- Finance;
- Development investment;
- Science and technology;
- Developing material resources;
- Human development.

7.1.2. Leading viewpoints on development of textile and garment industry in Viet Nam

1. Top priority should be given to textile and garment development as an focused industry in industrialization and modernization;
2. Developing textile and garment industry through modernizing its facilities and diversifying its products;
3. Promoting garment and textile industry on the basis of combination between export orientation and import substitution;
4. Encouraging utilization of local materials to gradually substitute for imported input in production;
5. To diversify the ownership in the industry, especially pay attention on the development of small and medium enterprises;
6. The development of textile and garment industry should be closely linked to the development of agriculture and other economic sectors.

7.1.3. Development policies

1. Policy on domestic market

a) Domestic market

In domestic market, several factors that have important impact on development of textile and garment industry are including:

- < National income and its distribution for the social members;
- < Population;
- < State policy on consumption;
- < Retail price, which influences public purchasing power, subsequently cause counter-impact on production.

a) Export market/international market

The following issues of concern should be taken into account when entering international market:

- < Policy on economic integration regionally and internationally;
- < Ensuring the reliance of the products;
- < Providing reasonable protective measures towards local industry in line with international and regional practices.

1. Financial policy

Although textile and garment industry does not require as huge investment as heavy industry (investment capital for creating one working place in textile and garment industry

is 1000 US\$), it needs to be invested adequately through appropriate financial policy:

- < The government should provide initial investment capital and working capital for state owned enterprises. Other enterprises should be assured to have access to concession loans;
- < Textile and garment industry should be allowed to utilize partly risk insurance fund in key projects.
- < It should be considered to make some adjustment of value added tax to increase domestic product competitiveness.
- < Projects on rehabilitation of old facilities and renovation of technology should be given priority in getting access to concession loans.
- < Projects on investment for production expansion or new construction should be enjoyed longer time of profit tax exemption.

1. Policy on investment and development.

- < Encouraging foreign investment forms into textile and garment industry.

Textile production requires larger investment than garment, especially in dyeing and finished stage. Therefore foreign direct investment should be attracted into this field. 100% foreign invested projects are given special preferential treatment.

In garment and additives production, that requires not large investment capital, the investment form of joint venture should be encouraged and the 100% foreign invested projects are restricted.

- < The government should only invest in key projects. Thus, investment by other economic sectors should be encouraged in the textile and garment industry, especially in small and medium projects.

Equitizing several enterprises.

1. Policy on research and technological transfer:

Technological renovation in garment and textile industry depends heavily on research and technological transfer and other supportive industries such as chemical, mechanical engineering and automatic level etc. Therefore attention should be paid to the following major issues:

- < To increase funds for scientific researching and technological transferring activities from state budget and enterprise's capital;
- < To allow enterprises to abstract at least 2% from revenue for research activities;
- < To invest in research facilities as well as in training research staff for research institutes and centers;
- < The researches need to link closely to the production and combine with other units in both of internal and external sectors;
- < To pay attention on transferring advanced technology to small and medium enterprises.

1. Policy on development of material sources:

Positively creating domestic material sources for textile and garment plays an important part in steady and firm development. In order to do that, it is necessary to have appropriate encouraging policies in particular as follows:

- < The government should approve immediately the plan of natural fiber source areas for the textile industry including cotton growing areas, mulberry growing and silkworm breeding areas, jute planting areas. However, they must guarantee the food supply and other essentials for the peasants in areas growing raw material crops and have suitable mechanism in exploiting, preserving and developing raw material sources;
- < Allowing to put aside a percentage of turnover as compensating expense for the planning of raw material source development;
- < Reducing or exempting VAT imposed on production output made of domestic raw materials;
- < Pushing the construction process of petrochemical industrial zones to have raw materials for producing synthetic fabrics.

1. Policy on development of human resources:

Labour is a crucial factor in the textile and garment industry. Labour used in this industry does not require sophistication and high skill so it is easy to train. After a short time of training, workers can skillfully operate all kinds of machinery and equipment in the industry. However, labour in this industry is hard, polluted (dust, heat, noise) whereas income is low so it tends to move to other technical and economic branches.

Today, students do not like learning textile and garment technology. This leads to the shortage of gray matter in this field. Therefore, the government should have the following policies to solve the problems:

- < Improving working environment, resisting against industrial pollution, encouraging payment in according to product to raise income;
- < The textile and garment corporation coordinates with other firms in this industry to establish a scholarship fund which can encourage students to register in textile and garment special branches;
- < Create good conditions for excellent students so they can enter universities in developed countries.
- < Invest in physical and technical fundamental for technological worker training schools and update training contents and programs to catch up other developed countries' technology standards.

7.2. Integration policies

Viet Nam has become an ASEAN member and officially taken part in APTA/CEPT, joined APEC and is under negotiation way to joining WTO. Viet Nam is also having talks to sign a Vietnamese-American trade agreement. In this integration process, the textile and garment industry has both new advantages and lots of difficulties. Due to different levels of competitiveness, the textile and garment has to divide into 2 branches: garment and fabric textile.

1. Garment :

Like the leather and shoe industry, the garment branch has created a lot of jobs, increased

quickly foreign investment and domestic production capacity. It has been invested for the renovation with new equipment and technology. The quality and unit prices can compete with those of other countries in the region and in the world so the branch can be put into the competitive commodity category. But its weakness is that the production is mainly in form of subcontracting. Viet Nam lacks both of input material and consumption markets. Although labour costs is cheap while labour productivity is not high and the ability of organizing production from designing, material purchase and quality checking links to exporting link is still bad, so unit prices are high. This has badly effected on the competitive advantage. Moreover, the world textile and garment market is highly protected with both tariffs and quotas by import countries so it restrains the branch development. WTO's multi-fabric agreement stipulate the removal of quotas in the next decade so Viet Nam should join WTO soon in order to receive the MFN status under the non-preferential treatment rule. This is more important than the removal of quotas. Therefore, if Viet Nam is able to sign a trade agreement with United States soon, garments will have an access to this large market.

To integrate quickly into the world, Viet Nam's textile and garment industry should do the following things soon:

- < Increasing the deep investment and upgrading the management ability to produce quality and low-priced products.
- < Promoting researches on markets, fashion styles to raise gradually the ability of product designing and to reduce subcontracting form.
- < Expanding export markets while maintaining the domestic market.
- < Continue to attract and stimulate foreign investment.
- < Standardize products according to ISO-9000.

Tariff deduction schedule:

In AFTA/CEPT, kinds of clothes and garments are imposed high import tariff rates (50 %) but the rates will be deducted gradually to 5% by the year 2006. Therefore, overcoming solutions should be found out from now on.

With the WTO, the garment branch is expected to stand in highly protected areas. The committed ceiling tariff rates might be 40% and protection period reaches to 2010 in order to have enough time for developing steadily and pushing up the textile branch to meet the domestic material demand.

1. Textile:

Compared with other countries, Viet Nam has an advantage on cheap labour but machinery and equipment are out of date; technology, quantity and quality are low; samples and types are poor. These weaknesses lead to high prices. It can be said that Viet Nam's textile has weak competitiveness, shown as follows:

- < In the fabric production, only short fabrics whose quality can substitute for imported materials are produced, long fabrics still need importing.
- < In the textile and finishing dyeing field, at present, only 30% of obsolescent equipment and technology has been innovated. Therefore, just a small part of export and 40%

domestic demand is met.

Tariff deduction schedule:

According to AFTA/CEPT, most of fabric products are tariff deducted, but cloth is taxed at 35% to 50%. However, they have not been put into immediate tariff reduction list yet. Except woolen fabric is expected to be deducted tariff from 2000, the majority of fabrics starts to be deducted in 2002 while cotton is due in 2003.

WTO expected the medium protection level at 30% committed ceiling tariff rate, and the ceiling tariff rate of 40% for synthetic fabric and filament.

To integrate successfully, some work needs to be implemented in the short run:

- < Innovating technology;
- < Raising enough investment capital;
- < Standardizing quality according to ISO-9000;
- < Planning market strategies;
- < Upgrading organization, mechanism of firms;
- < Urgently training staff.

1. Plan on upgrading firms' organization and mechanism.

The corporation model (VINATEX) still relies on the administrative management between Corporation and member enterprises as the middle level so it hinders the business self-control of independent accounting member enterprises. Thus, the solution is to reorganize holding companies and subsidiaries under the voluntary rule between enterprises as follows:

- < Voluntary member enterprise is a dependent accounting member under the holding company's control. The holding company has the right to transfer capital and other resources to the subsidiary. The subsidiary is obliged to use, preserve and develop the capital.
- < Cooperation on the basis that the holding company has a share in the subsidiary companies. In this case, holding companies and subsidiaries are both independent legal persons.

The government considers the above issues. Government's enterpriserearrangement scheme should be linked with the issues of firms' reorganization in order to establish and expand models of small and medium independent enterprises.

Characteristics of SMEs (Small and Medium-sized Enterprises) in Viet Nam

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1. SME Establishments

1) SME's in Manufacturing Industry (1995)

	Num. of Enterprises	Percentage of SMEs	
		Less than 200 Employees	Less than 5 billion. Dong Capital
Industry in general	8577	90	86
Machinery equipment/parts (*)	1150	85-90	80-85
Electric/electronic	164	85	60
Textile/garment/leather	801	73	75
Food processing	3200	94	93
Wood processing/handcraft	656	93	90

Source: GSO, (*)NRI's estimate from the data by GSO and MOT

2) Private manufacturers by employee size across selected industries (estimate for 1998)

	Total	Less than 100	100~299	More than 300
Total firms	5620	5155	299	166
Garment	220	88	85	47
Food	3105	3026	48	31
Others	116	1029	102	35

Source: "Viet Nam's Undersized Engine" June, 1999 by MPDF

2. Characteristics of Industrial Structure from SMEs and PEs standpoint

(Over-all Characteristics)

- Weak linkage between SOEs and PEs
- Joint ventures with foreign capital is almost limited to SOEs
- Weak vertical linkage between LE and SME in private sector
- About 2 million small household enterprises operating independently, except for those in light manufacturing industries such as handicraft including those selling to foreign markets, and garment products for local market.

- Weak basis for SI (supporting industry) development
(Abbreviations) PE: Private Enterprise, LE: Large enterprise

(Characteristics of Selected Industries)

Machinery Industry

- SOEs are involved in full-set production as major players in the industry. 400 state owned SMEs, which are built in the large SOEs, provide them with parts for equipment and partial mechanical or metal processing.
- SMEs in private sectors in mechanical industry are not built-in in industrial pyramids. They are operating with employees of mostly less than 100.
- Followings are the products and services provided by SMEs in the private sector.
 - maintenance and repair(motorcycles, bicycles, etc.)
 - repair parts(agricultural machinery , copied parts, etc.)
 - home utensils(chairs, shelves, knives, scissors, etc.)
 - parts for bicycles
- There is an emergence of so-called supporting industry, though with a small scale, which provide metal processing as specialized house.

Electric/electronic industry

- There are more than 90 SMEs (75% of the total 125 companies) in the electric and electronic industry. Besides, there are about 20 SI (supporting industry) companies such as resin casting, and 500 information machines dealers, some of which are engaged in assembling hardware and developing software.
- The number of the SMEs, which are owned by the State, has decreased to 17. This decrease is due to their change of business into other industry or importer. Most of the 17 companies are the JVs with Japanese and Korean companies, which are now in the process of restructuring, are compelled to diversify their business activities for their survival.
- There are 45 private SMEs (manufacturing electric fan, electric pot, cable, etc.), that supply the products for domestic market with depreciated technology and facilities. Recently, they face severe competition with Chinese products.
- 75% of the mentioned SI companies are private ones. They do not meet the international standard. Therefore, they cannot deal with foreign companies.
- Recently, private companies have entered such business areas as assembling PCs and developing software. The number of these companies has reached at 450.
- Most of the 30 foreign or JV SMEs are engaged in either assembling such electric apparatus as TV, radio or assembling such electronic parts as coil, motor. The former is mainly for the domestic market; the latter is mainly for the export market.

Garment industry

- The number of the companies, which were engaged in the textile and garment business, was at 1140 in 1997. 514 companies of them are the garment companies, while 487 of them

are the textile companies.

- According to the business location census, the number of business locations in the textile and garment industry including headquarters and branches of corporations and non-corporations is at 127,854, out of which 82,876 are in garment industry. This enormous figure shows the existence of vast micro enterprises.
- These SMEs and micro enterprises, as the suppliers to the SOEs, provide such daily products as pants and shirts, etc to the domestic market, occupying the domestic market share of more than 50% in specific areas.
- It is widely known that there are more companies, which employ more than 500 employees in the private garment companies than other private business areas.
- Among the private companies, those, which employ more than 100 employees manufacture the products for the export market.

3 . Leveling Playing Fields as a Key Management Environmental Issue for SME /PE

There are following discriminatory practices between SOEs and private SMEs, which works against the latter. Leveling playing field are needed between SOEs and private SMEs.

- SOEs can take out loans from banks because of explicit or implicit guarantee by the government.
- SOEs have easier access to use and to land use right which is not easy for private enterprises to use as collateral, when borrowing money from banks. They can also offer this right as investment in kind, when forming joint ventures with foreign companies. When private enterprises get finance from banks, Bank Law requires them to take collateral.
- Joint ventures between SOEs and foreign companies are in a better position to receive services or considerations from the government and to obtain business licenses and permits than joint ventures between private SMEs and foreign companies.
- SOEs are given priority in export quota allocation in garment industry.
- When a foreign partners' stake in a joint venture is sold to another foreign capital-affiliated companies, a 25% capital gain tax is levied. The capital gains tax rate is 10% for sales to SMEs but zero when sales are made to SOEs.

4 . Key Issues for SMEs Promotion

- Financing, information both of market and technology, and fostering human resources are the key problems to be solved, especially for future growth.
- Large portion of SMEs, however, have room for improvement by the introduction of daily operational basic management techniques.
- Problems cited through the field study underway are often those of near-term such as finding customers for tomorrow. Discussion about future growth and its barrier, especially

about political measures, can rarely be the subject of discussion.

- The management of private enterprises contacted are mostly serious and challenging to uncertainties of today and future courageously. But for enhancing SME's function in the industry, much more competent entrepreneurs to enter business world are required.
- For that purpose as well, enhancement of mutual trust between private companies and and government, for which the above mentioned leveling playing fields issue is one of the keys, are highly required.

Viet Nam's General Corporations: Their Outline and a Comparison with Chinese Industrial Groups*

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The Vietnamese government launched a policy to integrate its state-owned enterprises (SOEs) into large corporations, which are called general corporations (GCs, *Tong cong ty*), since 1994. This policy is said to be inspired by the success (at that time) of Korean chaebols. The Chinese government's policy on the creation of large industrial groups has much in common with that of Viet Nam. This policy too was influenced by the Korean experience, and it envisaged a hundred or so competitive enterprise groups organizing mainly SOEs, some of which entering into the rank of Fortune's world top five hundred companies.

This paper aims to describe the outline of Viet Nam's GCs and the problems they face. The information on Vietnamese GCs is insufficient but since the Chinese policy on industrial groups began a little earlier than the Viet Namese policy on GCs, we can conjecture from the Chinese experience some problems which Vietnamese GCs are facing or will face in the future.

The History of Vietnamese GCs

Viet Nam pursued a heavy-industrialization policy under planned economy since its reunification in 1976. During this period, enterprise unions (*lien hiep xi nghiep*) were established as intermediate organizations between the government's ministries and SOEs. These were modeled after the enterprise unions (*obyedineniye*) of the former Soviet Union, created by horizontal or vertical integration of SOEs. Enterprise unions controlled the management of affiliated SOEs, including production goal management, procurement of materials and machinery, and sales of products. Enterprise unions can be understood as government agencies which control the management of SOEs on behalf of the government.

During the period of *Doi Moi* after 1986, SOEs were to enjoy more autonomy in their management, and this would strip enterprise unions of their role as government agencies. But enterprise unions were defined as organizers of the production and investment planning, sales of products and procurement of materials of their affiliated SOEs by the Decree on Enterprise Unions issued in 1989. Enterprise unions survived *Doi Moi* and this meant that the

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expansion of autonomy on the side of affiliated SOEs was limited. (Jerneck 1997; Takeuchi, 1996)

Decree 90-Ttg. and 91-Ttg. issued by the Prime Minister in March 1994 decided to reorganize enterprise unions into real business entities. The decrees aimed to strip the enterprise unions of their characteristics as governmental agencies, and to turn them into business companies, integrating their affiliated SOEs. This policy was launched shortly after the visit of Vietnamese political leaders to South Korea, and said to be influenced by the experiences of Korean *chaebols*.

Decree 90-Ttg. requires existing enterprise unions to reregister, and the condition to be considered re-registration are to have more than five affiliated enterprises and to have more than five hundred billion dong legal capital. Decree 91-Ttg. is on the experimental establishment of large corporations, which requires them to have more than seven affiliated enterprises and to have more than one thousand billion dong legal capital.

By November 1998, there were eighteen corporations established according to Decree 91-Ttg., and seventy-two corporations according to Decree 90-Ttg.. These ninety corporations organized a total of 1,392 enterprises. The Decree 91-Ttg. corporations are called general corporations, while the Decree 90-Ttg. corporations are called special corporations in some English articles (Jerneck 1997), while the Vietnamese word, *Tong cong ty* is used by both types of corporations. This paper focuses on the former.

The decrees stipulate that by organizing these corporations, the managerial efficiency of SOEs can be enhanced, the international competitiveness of Vietnamese industry can be enforced, and simultaneously the regulations of line ministries can be gradually repealed. The corporations established according to Decree 91-Ttg. are supervised by the Prime Minister, and their general manager and management council members (seven to nine people) are appointed by the Prime Minister.

A Comparison with Chinese industrial groups

There were attempts to establish enterprise unions in China during the period of planned economy, but unlike Viet Nam the Chinese enterprise unions were established only in a few industries. In 1964, the Chinese government considered creating enterprise unions (which were called *tuolasi* or trusts) after the model of Soviet Union and Eastern Europe and established three corporations, including China Automobile Industrial Corporation, as test cases. But these corporations were very short-lived: they were regarded as reactionary organs and demolished during the Cultural Revolution (1966-).

In the 1980s, "administrative corporations," which had similar functions to the Vietnamese enterprise unions, were established in some industries. For example, China National Petroleum Corporation (CNPC), which integrated oil and gas fields, China Petrochemical Corporation (SINOPEC), which integrated petrochemical plants, the Non-ferrous Metal Corporation, and some military industry corporations. Most of SOEs in China, however, were governed directly by central or local government ministries, and only a limited number of industries

had such corporations. Besides these corporations under the central government, some local governments also established "administrative corporations" to supervise SOEs under their jurisdiction.

It was in early 1980s that some SOEs in China started to organize industrial groups. These groups can be distinguished from "administrative corporations" by the fact that the purpose of organizing them is to strengthen production and financial relationships among the member enterprises, not to facilitate the supervision of the member SOEs. The Jiefang United Automotive Corporation, organized by First Automotive Works, and the Dongfeng United Automotive Corporation, organized by Second Automotive Works, are the earliest groups to be established. The cores of these groups were big automobile companies, and smaller automobile companies and parts makers were organized into the group, forming subcontracting relationships with the core companies.

Stimulated by the experience of earlier groups, the creation of industrial groups of SOEs became a national agenda in 1991. Fifty-five SOEs were selected from all industrial sectors, and nominated as core companies to organize industrial groups. Sixty-five more were added in 1996 to the list. The Jiefang Corporation and the Dongfeng Corporation were included, but "administrative corporations" such as CNPC and SINOPEC were not. It seems that "administrative corporations" were not regarded as proper organizations to foster internationally competitive industrial groups, as they were monopolies that integrated all the enterprises of a government-regulated industry, and as such, they had administrative functions to design and implement industrial policies.

The industrial groups which the Chinese government is trying to foster are the groups which SOEs, with some support and suggestions by the government, spontaneously organized since they acquired autonomy. By contrast, the Vietnamese are trying to turn the former planning organs, which resemble Chinese "administrative corporations," into competitive industrial groups, so the task seems more difficult than that of China. I will discuss this point later in this report.

The Management of Vietnamese General Corporations

The position of General Corporations in Vietnamese Economy

Major indicators of the eighteen general corporations are summarized in Table 1. We can see from the table that the eighteen GCs occupy large shares not only of SOEs but also of the Vietnamese economy as a whole. The GCs and their affiliated enterprises occupy 46 percent of total capital and 18 percent of total employees of SOEs. The GCs' total sales, excluding those of four GCs which don't belong to industry and mining sector, is 43 percent of Viet Nam's national industrial output¹. Table 1 also shows the shares of each GCs in the industries

¹ If we add the figures of special corporations, organized according to Decree 90-Ttg., to the figures of GCs, they occupy 54 percent of total capital of domestic enterprises, 68 percent of SOEs' total sales, 78 percent of tax revenue from enterprises. (Information from Prof. Nguyen Dinh Phan, National Economic University)

they belong to. For example, the turnover of Viet Nam National Coal Corporation (VINACOAL) is 104.3 percent of Viet Nam's coal industry output. The turnover of VINACOAL includes its output of industries other than coal industry, and therefore VINACOAL's turnover exceeds that of coal industry as a whole. Because of the lack of breakdown data of VINACOAL's turnover, its real share in Viet Nam's coal industry is unknown, but we can safely guess from available data and description on VINACOAL's business that VINACOAL's share is almost 100 percent. We can see from Table 1 that GCs of electricity, tobacco, steel, oil and gas also occupy monopolistic positions in each industry.

The GCs of textile and garment, paper, chemicals and cement have shares of 30 to 45 percent in their industries, while in the cases of rubber, food (grain) and shipbuilding, the shares of GCs are unknown due to the lack of data.

The GCs and their affiliated companies are also major sources of revenue for the government. The 18 trillion dong tax revenue from the eighteen GCs occupied 28 percent of total budget revenue (64 trillion dong) in 1997. Tax revenue from eighteen GCs was 61 percent of total tax revenue from SOEs and joint ventures.

The characteristics of management

Two points can be pointed out as characteristics of Vietnamese GCs' management.

First, from Table 1 we can see that each GC concentrates on a particular industry, and the degree of diversification is very low. For example, VINACOAL's business scope is mostly within the coal industry, including mining, selection, transportation and marketing of coal. Integration of coal mine machinery factory may be called vertical integration, but it is hardly so in the context of planned economy: it was commonplace for the users of a certain machinery to integrate machinery production in planned economy. A close examination of Table 1 reveals that three other GCs also have machinery factories catering for its own industry.

Information from Table 1 shows that GCs are basically created by horizontal integration within a certain industry, with some machinery factories, trading companies and transportation companies catering for the industry. No GC engage in diversified management. Therefore, the demarcations of businesses between GCs are clear with very little duplications.

This is not the case in China. Most industrial groups diversified their production into several industries. Not only those groups that were created spontaneously by SOEs but the "administrative corporations" also engage in multi-sector business. For example, China Ordnance Industry Corporation, which organizes ordnance factories, diversified its business into automobile and motorcycle production and other industries, and as a result, the share of ordnance production in their total output is less than 20 percent now. China Aviation Industry Corporation also diversified into automobiles and household electrical appliances, and the share of aircraft production is also less than 20 percent of their total output. Since each corporation tries to enter a profitable industry, duplications and competition between "administrative corporations" are commonplace. For example, the State Council made a

clear demarcation between CNPC and SINOPEC and let the former concentrate on mining of oil and gas while the latter concentrate on oil refining and petrochemical industry. But later on CNPC started to invest in refinery and petrochemical industry, which were more lucrative than mining, creating duplication and competition with SINOPEC. In 1998, the State Council made a reshuffle of affiliated companies of CNPC and SINOPEC, creating two major petrochemical companies, both of which integrating mining, refinery and petrochemical industry.

Diversification of industrial groups in China frustrates the demarcation by the government, and eventually creates competition among SOE groups. By contrast, Vietnamese GCs seems to have abided by the demarcation set during the era of enterprise unions by the government. Thus GCs monopolize a certain industry, and there seems to be little competition between GCs.

The second characteristic of GCs' management is that some GCs act as if they were government ministries supervising a certain industry rather than as independent firms with their own strategy. For example, Viet Nam National Cement Corporation (VNCC) regulates not only the prices of its own affiliates but also those of factories that belong to local governments. A proposal from Chin Fon Haiphong Cement Co., an affiliated joint venture of VNCC, to lower the price of their product was turned down by VNCC for fear that the price cutting might affect the sales of local cement makers. If VNCC were a profit maximizing entity, it would just pursue the way to minimize its own costs and would not care about its influence to firms outside the corporation.

Characteristics of "administrative management"

That the Vietnamese GCs' management resembles the operation of government ministries can be understood from their history and their personnel which also came largely from enterprise unions. What are the differences between ordinary corporate management and administrative management: the management of administrative corporations? Two points can be pointed out from observations of Chinese corporations.

First, administrative corporations take their current affiliates for granted and their main concern is to improve the performance of their affiliates, while in the case of corporate management, managers will think where to invest their resources in order to develop their firms, and if some parts of the current business are running in bad shape, they may consider restructuring the companies' businesses. For example, if ordinary corporate managers face such bad situations as Viet Nam Steel Corporation and Viet Nam Oil and Gas Corporation, they may consider a strategic adjustment of the corporation by selling some parts of current assets and investing in other industries. In the case of administrative management, however, affiliated companies are regarded not as assets but as objects of supervision. Thus, managers will never think about scrapping them, and they will seek ways to improve their performance even if there is little hope for improvement. The case of VNCC, which I have mentioned before, shows the characteristic of administrative management in that the corporation protects its

weak affiliates at the expense of its competitive affiliate, instead of scrapping the former and letting the latter become the growth point of the corporation.

Secondly, administrative management often fails to extract synergy between its affiliates and are indifferent to internal duplication which harms the corporation as a whole. One example is Jinjiang Group of Shanghai, China. This is an administrative corporation established under the Tourism Bureau of Shanghai municipal government, which owns a dozen or so hotels only in Shanghai city. The affiliated hotels of the Group are mostly in the same range of price and located adjacent to each other. In market economy, the purpose of making a hotel group is, it seems, to enhance the brand image of the hotel and to attract repeating customers. Therefore, it seems essential for a hotel group to have affiliated hotels in many cities. It is unclear what sort of advantage a hotel group can have by owning many hotels only in one city. There may be some sort of scale economy in procurement, but there is an obvious disadvantage of internal competition.

Not all industries are the same, however. The advantage of scale economy by horizontal integration may exceed disadvantages of integration in some industries. But since administrative corporations are organized by integrating the current enterprises which the corporations have been supervising, it is often an assembly of enterprises with no complementarity. The SOEs to be supervised by a certain governmental organ, such as administrative corporation, are determined by rules or convenience of administration, not by considerations on complementarity and advantages of integration. Therefore, it is often the case that sheer integration of current affiliates will have more disadvantages than advantages. A strategic adjustment of the group structure is needed for the corporation to extract advantages from integration.

In the case of Jinjiang Group, for example, they must consider selling some hotels in Shanghai and buying some in other cities instead. Another example is Capital Steel Corp. of Beijing, China. Recognizing that the steel industry will saturate sooner or later, they integrated machinery companies and invested in semiconductors to acquire a new growth pole. By contrast, Jinbei Automobile Corporation in Shenyang concentrated on automobile industry after they had become an independent company. This corporation was a division of Shenyang municipal government which supervised automobile industry of the city, and in 1984 it became an independent corporation. At the beginning, Jinbei had beverage factories and mining machinery factories which it had been supervising, but since becoming an independent corporation, it started to scrap those factories which had no relationship with automobile industry and concentrated its business on automobiles.

A necessary condition for such strategic adjustments is that the corporation has the right to sell, restructure, and close its affiliated companies: this is, the corporation has full ownership of its affiliates. I will discuss this in the following section.

The Relationship between GCs and Their Affiliated SOEs

Ownership of SOEs

What is the relationship between Vietnamese GCs and their affiliates? I have described the companies which belong to a certain GC as "affiliates" or "affiliated companies" in this paper, which in the western context means those companies which the GC holds one hundred percent or a substantial share of capital. Even though the written materials from Viet Nam may use these terms, the reality of Viet Nam is not like that. Every scholars I interviewed in Viet Nam affirmed that GCs didn't have the right to sell their affiliates. This means that GCs don't have ownership of their affiliates.

In socialist planned economy, ownership had a very different meaning with that of market economy. There was no notion of corporate property of SOEs: all assets of SOEs were regarded as state owned. SOEs were regarded as borrowing the assets from the state to operate them, or that SOEs' assets were owned by the state but their use rights or managing rights belonged to the enterprises². But as market economy is introduced and SOEs start to engage in many types of transaction, ambiguous notions of ownership and managing rights cause many troubles. For example, when a SOE borrows money from banks, it needs to provide a security for the loan, but whether the SOE has the right to provide assets which it doesn't own as security is questionable.

In market economy, the firm's assets are corporate property and what shareholders own is the firm's capital or shares which represent capital. Owners of capital involve in management through the ownership of capital. There is a strict difference between corporate assets and capital, and even in the case of SOEs, it is not that enterprises' assets are state owned, but only the enterprises' capital is state owned. In the case of socialist enterprises, by contrast, there is no notion of capital, and all assets of the enterprises are regarded as state owned.

The notion of capital

In order that the so-called "affiliates" might become real affiliates of GCs, the first step is to introduce the notion of capital in Vietnamese SOEs. Without the notion of capital, there will be no capital ownership between SOEs: SOEs can only be an independent enterprise or a part of other enterprises.

The second step is to let the GCs own the capital or shares of its affiliates. There are two ways to do this: one is to let the GCs buy the affiliates from the initial owner, the state, and the other is that the state nominates GCs as the agents which own the capital of their affiliates on behalf of the state. In the case of the latter, since GCs will become representatives of the state to exercise ownership of SOEs, GCs don't have to pay for the transfer of ownership. This

² The "State-run Industrial Enterprise Law" (1988) of China stipulated that "Enterprises' assets belong to the ownership of whole people (=the state). The state delegates the management to the enterprises according to the principle of separation of ownership and managing rights."

is called "delegation" or shouquan, in China. The property rights of SOEs being ambiguous during the era of planned economy, there were no organs which actually had the right to exercise ownership of SOEs. This is understandable because there was no chance to "exercise ownership," that is to sell and buy firms, in planned economy. "Delegation" means that an authorized government organ nominates the agent who can exercise ownership rights of a certain SOE.

I described the system of "delegation" in Figures 1 and 2. Figure 1 (A) shows the traditional regime, that is the current situation of Viet Nam. The relationship between GCs and its affiliates is an administrative subordinate relationship. This can be compared to the relationship between a division and subordinate sections in a government or enterprise organization. The division chief has the power to direct and the obligation to supervise the activities of subordinate sections within his purview. But the division chief is not the owner of subordinate sections; he doesn't have the right to sell them or transfer them to other people. After delegation, GCs will have the rights and obligations as owners of subordinate companies. (Figure 1 (B))

Figure 2 shows the changes in the balance sheets of GCs and their affiliates after delegation. The state capital which the state owns in GCs' affiliates is transferred to GCs and becomes the capital which the state owns in GCs, while GCs become the capital owner of their affiliates. The amount of state assets : state capital of these SOEs remains unchanged (=4000) throughout the delegation.

It was not until 1993 that the notions of assets and capital were clearly defined in China. In 1993, the accounting standard was changed, and "the Corporate Law" was promulgated in the next year, while a thorough re-examination of SOEs' assets and liabilities was conducted during these years. Only after the SOEs' balance sheets were made according to the new standard, which is similar to western rules, "delegations" started to take place.

There are the notions of assets and capital in Viet Nam too, but it seems that the difference is not properly understood by many firms. In a survey on state-owned trade and service companies conducted in 1998 (General Statistical Office 1999), the amount of both assets and capital of each sub-sectors are listed, which suggests that both words are known in Viet Nam, but we also find that the amount of assets and capital are exactly the same in all sub-sectors, districts and other sub-divisions. The reason of this is either Vietnamese state-owned trade and service companies have no liabilities, no loans from banks, and no payables, or the companies didn't make any difference between assets and capital, and regarded that the word "capital" was the same as enterprise assets. Since the former is very unlikely, we can only guess that there is no notion of capital (net assets) in Vietnamese state-owned trade and service companies. This may be the case with other SOEs in Viet Nam.

Judging from the above, it is necessary to introduce the notion of capital in Vietnamese SOEs by introducing new accounting standards suitable to market economy in order to create ownership relationships among GCs and their affiliates.

Control through Ownership

To disseminate the notion of capital among SOEs and to ostensibly create ownership relationships between GCs and their affiliates may not be too difficult, because this is only a matter of writing documents. But to establish a real ownership relation between GCs and their affiliates may be difficult. It may not be easy to let the affiliates accept the fact that their supervising organs suddenly changed into their owners.

Shanghai municipal government of China has turned their industrial bureaus into holding companies which own their subordinate SOEs in 1994 and 1995. The history of these holding companies is similar to that of Vietnamese GCs, for both were government organs formerly. The Textile Industry Bureau of Shanghai city, for example, was reorganized into Shanghai Textile Holding Company, which holds more than three hundred SOEs. But it is unable for the Holding Company to collect the profits of its subsidiaries and invest the money at will. The Holding Company leaves 90 percent of after-tax profits of its subsidiaries to each of them, to which the Company has ownership, and registers the retained profits of subsidiaries as reinvestment from the Holding Company, while collecting the remaining 10 percent for the expenses of the Holding Company. In theory the profits of subsidiaries are at the disposal of the Holding Company, but in reality the Company is obliged to leave as much as 90 percent of profits to subsidiaries. This is because the Holding Company's history is too short to establish control through ownership over its subsidiaries, even though it is the nominal owner.

In Viet Nam, GCs haven't even established nominal ownership of their affiliates. Therefore GCs have no rights to sell or restructure them. At present GCs collect only parts of affiliates' assets and use them for paying the running costs and investing in common projects. What are the role and power GCs have to their affiliates, when don't have control through ownership? An interviewee told the author that GCs have the right to appoint managers of affiliates and supervises the foreign relationships, such as introducing foreign capital, import and export, of affiliates. GCs make investments with retained profits in common projects, and they negotiate investment projects with the government. It seems that the role of GCs is not so different from that of enterprise unions. The power they have over their affiliates doesn't come from their ownership but from their status as intermediary administrative organizations: GCs have the right to ratify the activities of subordinate SOEs.

Conclusion: the Future of Vietnamese GCs

Judging from the above, Vietnamese GCs seem to be very different from industrial groups in market economy. The relationship between GCs and affiliates is not the same as holding companies and their subsidiaries, and GCs' role is more like administrative organizations than holding companies.

But experiences of China suggest that it is not impossible to turn administrative organizations into competitive industrial groups. There are several examples of (at least once) competitive

industrial groups, which were divisions of local governments formerly, such as the above-mentioned Jinbei Automobile Corporation, and household electrical appliance companies, Kelong and TCL.

Vietnamese GCs have to solve many problems to become competitive industrial groups. First, they have to establish ownership rights to their affiliates. This includes not only the introduction of the notion of capital, but also the redistribution of power inside the Corporations. Secondly, a strategic adjustment of business is needed. A necessary condition for this to take place is the existence of rules on the buying and selling of SOEs. Thirdly, the GC manager's way of thinking which dates from the days of enterprise unions must be changed. A new method of choosing managers must be designed in order to renovate the management.

One reason that the GCs retain their administrative characteristics is because they still have the function as administrative organizations. They have the right to ratify foreign trade, introduction of foreign capital and government investments of their subordinates. They will retain this function as long as the rights of subordinate SOEs are limited. Therefore, when SOEs start to have more autonomy, the need to supervise them diminishes, and GCs may seek new roles other than administrative organs.

But when GCs become independent profit-seeking enterprises, we must pay attention to the problem of monopoly. As we have seen in Table 1, some GCs have very high shares in their industries. Whether the advantages of economies of scale and scope stemming from horizontal integration exceed or not, the disadvantages of monopolistic behavior need to be carefully examined taking each industries' properties and the situation of Viet Nam into consideration.

In this paper, I have tried to explore the current situation of Vietnamese GCs based on very limited information. I must admit that there still remain a lot of problems to be clarified.

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Table 1 Viet Nam's General Corporations (Decree 91-Ttg.) data of 1997

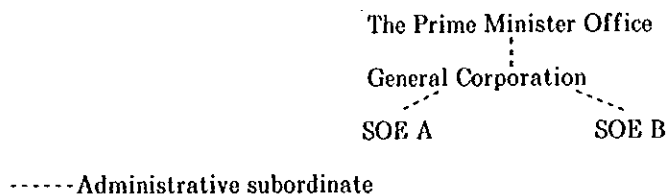
Name	Abbreviation	No. of Affiliated enterprises	Affiliated companies	Capital (VND bill)	Number of employees	Business Turnover (VND bill)	Pre-tax profit (VND bill)	Remittance to budget (VND bill)	Market share in the industry (%) ^{*1}
Electricity of Viet Nam	DVN	32	Power plants 17 coal mines, 3 coal processing and trading companies, travel agent, coal trading and forwarding company, beer and beverage company, mining chemicals company, mining engineering institute, 2 coal selecting companies, 4 coal mine machinery factories, schools etc.	19,994	69,631	11,825	1,215	2,348	108.5
VN National Coal Corporation	VNACOAL	35	coal mine machinery factories, schools etc.	920	70,977	4,255	137	173	104.3
VN National Textile and Garment Corporation	VNATEX	51	20 textile mills, 4 wool mills, 18 garment factories, 4 textile machinery factories, 2 applied institutes, financial company etc.	1,067	89,493	5,251	63	160	29.7
VN Paper Corporation	VNAPIMEX	28	9 paper mills, chemicals and materials factory for paper industry, trading companies, 2 match factories etc.	2,224	77,695	1,464	236	311	42.5
VN National Tobacco Corporation	VNATABA	12	5 cigarette factories, 2 tobacco factories, package printing and materials factory, trading company, tobacco machinery factory, materials and service company	600	9,157	4,997	120	1,271	104.9
VN Steel Corporation	VSC	14	Thái Nguyên Iron and Steel Co., Southern Iron Co., Đà Nẵng Iron Co., Metalurgy Co. of Bắc Thái, Hanoi, Quang Ninh, Hải Phòng, Hồ Chí Minh, VSC-POSCO Iron Co., Kyaukse-VINA Iron Co. etc.	1,139	25,430	5,499	0	105	105.9
Viet Nam National Chemical Corporation	VNACHEM	42	Agulite Co., Pinit Co., Fertilizers Co., Pesticides Co., Chemicals Co., Rubber Co., Battery Co., Soap Co., Detergent Co., Synthetic Paint Co., Industrial Gases Co., Institute of Industrial Chemistry, Workers' Schools, 19 joint ventures etc.	1,385	31,480	4,545	160	183	52.3
VN National Gem and Gold Corp.	VNGECO	11	Gem and Gold research and control center, Mining survey and exploration co., Gem and Gold co.	30	946	37	1	2	
VN General Rubber Corporation	GERUGO	20	21 Rubber companies, Investment consulting and construction co., Rubber production and export co. etc.	968	11,902	1,614	58	78	34.6
VN National Coffee Corporation	VNACAFE	70	37 coffee farms, etc.	344	22,000	1,370	46	57	
VN Southern Food Corp.	VNAFOD II	31	23 food companies, 3 food processing and management companies, etc.	688	8,856	10,727	164	338	
VN Northern Food Corp.	VNAFOD I	35	30 food companies, food processing and management companies, etc.	188	7,934	1,545	27	37	
VN Post and Telecom Corp.	VNPT	91	Telephone equipment co., Post and telecom equipment co., Long distant telephone co., International telephone co., Computing and data communication co., Post co., Post and telecom construction co., Schools, 8 joint ventures	2,900	84,661	8,272	2,199	1,679	
VN National Shipping Lines	VNALINES	24	7 shipping companies, Haiphong Port, Saigon port, Quangninh port, 15 service companies (trade, labor cooperation, trade centers), 8 joint ventures	615	19,376	1,990	160	177	
VN Shipbuilding Industry Corp.	VINASHIN	24	12 dockyards, 4 ship repairing works, electronic equipment co., shipping co., etc.	184	8,398	465	6	12	
VN Airlines Corp.		19	Viet Nam Airlines, Air services co., Airport ground services, Aircraft maintenance center, Air petrol, etc.	213	10,791	6,330	42	527	
VN Oil and Gas Corp.	PETROVIETNAM	8	Processing and distribution co., Gas co., Engineering and construction co., Drilling mud co., Trading co., Tourist and service co., Insurance co., etc.	9,636	10,750	17,805	0	9,773	105.4
VN National Cement Corp.	VNCCC	12	Hoàng Thạch Cement co., Haiphong Cement co., Bim son Cement co., Haien Cement co., Haien 2 Cement co., Dong nai roof construction material co., Dangang building materials co., Cement gypsum co., Materials transport co., Technical materials co., Chun Fon Haiphong Cement co., etc.	2,327	16,356	6,492	464	906	44.5
Total of 18 GCs		559		45,421	575,813	94,483	5,118	18,137	
Total of SOEs		6590		98,000	3,266,900				
Total of Viet Nam's industry and mining		1843				180,429			

*1. Business turnovers of GCs include those of other industries, thus they may exceed 100 percent.

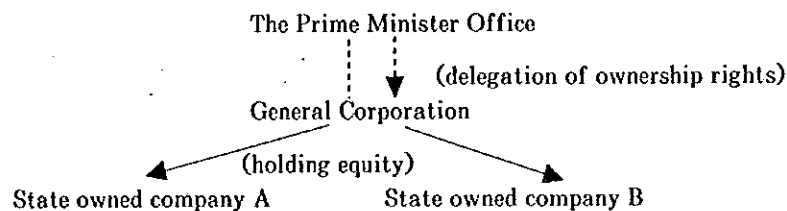
(Source) Nguyen Manh Hung, *Các cơ quan chính phủ doanh nghiệp lớn của nhà nước và địa phương năm 1998*, Hanoi, Nha xuất bản thống kê, 1998.
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Fig. 1 The Relationship between GCs and their Affiliates

(A) The traditional regime



(B) After "delegation" to General Corporation



(Source) By the author.

Fig. 2 Balance sheets of firms before and after delegation

(A) Before delegation

SOE A		General Corporation		SOE B	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
4000	3000	8000	6000	4000	3000
	State Capital		State Capital		State Capital
	1000		2000		1000

(B) After delegation

State-owned company A		General Corporation		State-owned company B	
Assets	Liabilities	Asset	Liabilitie	Asset	Liabilities
4000	3000	8000	6000	4000	3000
	State Capital	A's equity	State Capital		State Capital
	Delegated to GC	1000	4000		delegated to GC
	1000	B's equity			1000
		1000			

(Source) By the author

International Merchandise Trade Statistics in Viet Nam

Tran Thi Hang
General Statistics Office

I. GSO Organization and Staffing

GSO was established by the Government of Viet Nam in 1956. There is a headquarters in Hanoi, which is responsible for providing socio-economic statistics for users (national and international) according to regulations of Government, and for managing and guiding the work of 61 Provincial Statistics Offices (PSO). In Hanoi, Trade and Prices Statistics Department of GSO has a staff of twenty-four, with 5 engaged in foreign trade statistics.

II. International Merchandise Trade Statistics (IMTS) of Viet Nam

1. Before 1996

The International Merchandise Trade Statistics (IMTS) of Viet Nam have been compiled and disseminated by the General Statistics Office (GSO) since 1956 based on primary data of companies.

Since 1986, the economy of Viet Nam has been on the way to move to market-oriented mechanism, foreign trade activities have developed rapidly, the number of companies and corporations participating in foreign trade sector changed over that period. While a number of them have increased rapidly, several others have gone bankruptcy. Hence, IMTS collecting through companies and corporations directly engaged in foreign trade have faced many difficulties in terms of time and scope of data collection (mainly insufficient due to lack of information on newly-established companies and enterprises).

As far as methodology is concerned, the collection of data directly through foreign trade companies does not suit the international methodology of foreign trade statistics.

Since 1990, General Statistics Office (GSO) in cooperation with General Department of Customs (GDC) has developed the initial report system (custom declaration, commodities list) and Customs statistics report system. In 1991, GSO issued regulation on Customs statistics report system. However, due to several difficulties facing on organization of statistical works at grass root level (such as customs checkpoints or provincial Customs offices), the Customs statistics report system has not run smoothly.

Since 1994, in order to meet the requirement of modernizing customs works, GDC has moved toward rapidly. The statistical informative system has been improved rapidly from central level to provincial and border level. This creates favorable conditions for Customs Office to implement export-importation statistics system that is based on customs declaration.

2. From 1996

The February 1996. The Government of Viet Nam has officially assigned GDC to collect and supply information and primary data on foreign trade statistics by means of customs declarations to GSO, Ministry of Trade (MOT) and Ministry of Planning and Investment (MPI) on report forms so that they can be submitted Government and other concerned agencies. However, at initial stages of implementation of statistics works, the quality of foreign trade statistics of 1996 were not so good. In order to disseminate official IMTS of 1996, GSO had to combined GDC resource and Company's reports.

III. Data Resources, Scope and Coverage of IMTS

1. Overall

As mentioned above, since 1996, General Department of Customs in Hanoi has the responsibility, which was given by Government, for collecting primary data for exports and imports through customs declarations. In the meantime, standard methodology of IMTS has been followed and implemented step-by-step in close accordance with recommendations by the Statistical Commission within the United Nations. In fact, a Guide to data source and coverage of the IMTS was promulgated in conjunction with Decision No. 244/1998/QĐ-TCTK dated 5/5/1998 by the Director General of the General Statistics Office. This becomes one of the main legal documents applicable in both customs-based data source system and non-customs data source system with respect to IMTS.

2. Coverage of IMTS

By 1996

Viet Nam used *the special trade system (strict definition)* for compiling IMTS. In such a case, imports include all goods entering Viet Nam for home consumption or home use and may be cleared direct from overseas or from bonded warehouses through customs. The exports consist of goods leaving Viet Nam.

Both imports data and exports data, which were disseminated officially, were not consist of data of transactions between Vietnamese export processing zones and foreign countries, and data of border trade.

From 1997

In theory, all goods which add or subtract from the stock of material resources by entering or leaving the economy territory are recorded.

The special trade system of recording, under the relaxed definition, is adopted in the compilation of Vietnamese international merchandise trade statistics.

- Exports: Consist of domestic goods-originally produced in Viet Nam, re-exports of foreign goods in the same state as previously imported, exported from the circulation area or Export Processing Zones, directly to the rest of the world or deposited into bonded warehouses for subsequent export.
- Imports: Consist of foreign goods, re-imports of domestic goods in the same state as previously exported, imported into the free circulation area, export processing zones, or premises for inward processing directly from the rest of the world or bonded warehouses.

Goods to be included in the IMTS of Viet Nam

- (1) Goods are brought into or taken out of the country under a contract signed between state-owned, non-state owned or joint venture enterprises and foreign partners. Goods traded on government account under barter, grant or loan agreement (excluding transactions mentioned below)
- (2) Goods leaving or entering under the government foreign-aid programs or sponsored by organizations of non-government
- (3) Goods re-exported or re-imported as mentioned above
- (4) Non-monetary gold
- (5) Unused banknote or check forms or coin not in circulation and collector's coin set
- (6) Goods on lease for one year or more, goods on financial lease of one year or more (ships, aircraft....)
- (7) Value of part and accessories replaced in goods when repairing or improvement
- (8) Temporary trade for the goods brought into or taken out of the Viet Nam with an expectation of subsequent re-exports or re-imports within a limited time for trade fairs or exhibitions commercial samples...but they are sold.
- (9) Goods in border trade without any permits or other official authorization.
- (10) Dutiable portion of migrant's goods which are defined by Customs regulation
- (11) Goods traded by post
- (12) Electricity, gas and water sold to or purchased from neighboring countries
- (13) Transaction in which one or both national boundaries not crossed:
 - a. Fuels, stores, bunkers sold to and purchased from foreign vessels or aircrafts
 - b. Marine products, mineral mined in waters, sold to foreign vessels (export) or purchased from foreign vessels by national vessels (import)
 - c. Trade in drilling rigs operating in international water
 - d. Ships and aircraft purchased or sold in international traffic

Goods to be excluded from IMTS of Viet Nam

- (1) Goods sold or purchased in the Duty Free Shops
- (2) Goods traded in Viet Nam and paid in foreign currencies (called "local exports" previously);

- (3) Goods purchased under a sale contract in a country and sold to the third country without crossing the Vietnamese borders or brought into bonded warehouses for subsequently taken out of Viet Nam; Goods in transit;
- (4) Goods temporarily admitted or dispatched, (Some of these are goods for trade fairs and exhibitions, commercial samples, animals and equipment for circus, art exhibitions or racing and then returned;
- (5) Goods consigned to the armed forces and diplomatic representatives or embassies abroad by the government or brought into foreign diplomatic representatives or embassies located in Viet Nam by their governments;
- (6) Monetary gold: gold under transactions between national or international monetary authorities or authorised banks for foreign exchange reserves (HS:710820); Issued banknote, check forms (HS:490700) and issued coins in circulation;

In practice, due to some difficulty conditions, there are some cases which are not included yet in 1997 statistics as following:

- (1) Export and import of electricity, water, gas with neighboring countries. These transactions are not covered by customs declarations now;
- (2) Marine products catch, mined minerals from seabed in international waters, sold to foreign vessels (exports) or purchased from foreign vessels by national vessels (imports) while on the high seas; These products are not declared in customs declarations when traded.

IV. Methods of Compilation

1. Time of recording

Goods are included at the time when the customs declarations are finalised by Customs authorities.

2. Reference period

The calendar month/quarter/year is used in compiling and disseminating the international merchandise trade statistics.

3. Bases of valuation

Exports are valued on a FOB-type (free on board) basis. It includes the transaction value of the goods and value of services performed to deliver goods to the Viet Nam border.

Imports are valued on a CIF-type (cost, insurance, freight) basis. It includes the transaction value of the goods and the value of services performed to deliver goods to the Viet Nam border.

Most data are reported in US dollars (USD), but information on border trade is reported in Vietnamese Dong (VND).

4. Partner country & country classification

In the case of exports, the partner country is the country of destination (known at the time of export).

In the case of imports, the partner country is the country from which the goods were originally despatched.

Imports and exports are also regrouped into economic, trade groupings of countries and areas such as ASEAN, APEC, EU, OPEC...

5. Classifications

1) *Viet Nam Exports and Imports Classification List*: which is mainly based on nature of goods. The following two nomenclatures classify goods according to composition of State plan:

- The Classification of Imports: which groups goods based on their end-use into two main divisions, each of which is further divided into subgroups as follows:

- (1) Machinery, equipment and materials for production

- 1.1. Machinery, equipment, tools, accessories and parts

- 1.2. Fuels and materials

- (2) Goods for consumption

- 2.1. Food

- 2.2. Foodstuffs

- 2.3. Medicines and pharmaceuticals

- 2.4. Other consumption goods

- The Classification of Exports: which classifies goods according to their principal industry of origin with 5 economic activities:

- (1) Heavy industry products and minerals

- (2) Light industry products

- (3) Agricultural products

- (4) Forestry products

- (5) Marine and seafood products

These classifications are mainly used for the purpose of plan making.

2) *HS classification*: The Viet Nam Harmonised System or Viet Nam Exports and Imports Classification List, applied in customs declarations, has been adopted by the General Statistics Office since December 1995, for both customs and statistical purposes. This nomenclature uses an 8-digit classification system with the first 6-digit adopting the HS

of the World Customs Organization and the seventh and eighth digits representing a further broken-down to meet the needs of Viet Nam. In addition, for different purposes, the international merchandise trade statistics are also classified by the following nomenclatures. The data of 1997 were provided from GDC to GSO classified by HS code with 6-digit.

- 3) *Phân ngành kinh tế quốc dân Việt Nam*: Promulgated in October 1993 by the Government, The Viet Nam Standard Industrial Classification of Economic Activities (VSIC-93) is a classification system based on the United Nations' ISIC Rev.3 or International Standard Industrial Classification of Economic Activities, Revision 3.
- 4) *The United Nations' SITC or Standard International Trade Classification Revision 3*: which classifies goods mainly according to their stage of production. The data obtained from companies and Customs records are clerically converted to codes of SITC(1-digit or 3-digits).

Main Trade Features of 1995-1998

- Although growth in exports and imports has been at double-digit average annual rates of 23.5 per cent and 18.5 per cent respectively over the past four years, annual growth has been slow. Viet Nam's merchandise trade increased by 37.7 per cent in 1995, 35.3 per cent in 1996, 12.9 per cent in 1997 and only 0.4 per cent in 1998 according to preliminary estimates. Imports decreased more strongly than exports in four consecutive years resulting in a large reduction in merchandise trade deficit of 2.706 \$ million in 1995 and down to 2.133 \$ million in 1998 (tables 1 & 2).
- Number of trading partners has jumped from 99 countries or territories in 1995 up to 172 in 1997. Among six continents, Asia and Africa were the two having largest number of trading partners taking 27.9 per cent and 25.6 per cent of total respectively, followed by Europe, America and Oceania, according to figures of 1997 (Table 7).
- Asia was the largest trading continent comprising only around one-third of total number of partners while contributing about three-quarter of total trade. By contrast, the most disperse trading continent was Africa, where number of trading partners has accounted for between one-fifth and one-fourth in the period of 1995-97, while this continent has never made its contributions exceeding one-twentieth of total trade every year since 1995 (Table 8).
- As an inter-regional organisation, Asia Pacific Economic Co-operation (APEC) remained Viet Nam's largest trading group responsible for three-quarter of total trade. Among regional groups, ASEAN was the largest trading group taking around one quarter. EU, as an increasingly favorite group, represented one-seventh (14.5%), according to figures of 1997 (Table 8).
- For two consecutive years (1996-1997), Singapore has been the largest trading partner (in 1995 ranked second behind Japan) with two-way trade ranging from 15 per cent to 18 per cent of total trade followed by Japan. The two combined has accounted for one-third of total trade for three consecutive years of 1995-1997 (Table 8).
- According to Viet Nam Standard Industrial classification (VSIC-1993), five industries having the biggest trade deficit percentage share of total deficit were manufacture of chemicals and chemical products (coded 24 in VSIC) taking 77 per cent, followed by manufacture of machinery and equipment (29) comprising 58 per cent. Manufacture of coke, refined petroleum products and nuclear fuel (23) were responsible for 42.6 per cent of total deficit. Ranking as the 4th and 5th were manufacture of rubber plastic product (25) accounting for 27.3 per cent and goods resulting from manufacture of basic metals

(27) contributing 25.3 per cent of the total, according to figures of 1997. A high rate of trade deficit means the products of the above industries of origin were mainly produced in foreign economies (table 5).

- Also in respect of VSIC-1993, five industries having the biggest trade surplus percentage share of total deficit were extraction of crude petroleum and natural gas (11) responsible for 57.7 per cent of total deficit, followed by manufacture of food products and beverages (15) accounting for 55.9 per cent. In the 3rd and 4th positions there were manufacture of wearing apparel and fur articles (18) taking 44.4 per cent and agriculture and related service activities comprising 35.7 per cent. Products of tanning and dressing of leather, manufacture of luggage, handbags, saddlers, harness and footwear ranked 5th accounting for 33.6 per cent, based on data of 1997. A high trade surplus implies that those industries were in strong positions among export-oriented industries and also these only exploited natural resources or carried out simple processing (table 5).

Exports

- A downward trend in export growth was largely attributed to economic slowdown in Asia resulting in narrowed demand in some major exports such as footwear, fishery products and apparel & clothing accessories. Another main reason could be a decline of 3.4 per cent in export prices in 1998 compared with 1997, particularly annually averaged price of crude oil dropped from \$ 148 US dollars in 1997 to only \$ 102 in 1998. In particular, only price of crude oil caused a fall of 6 per cent in export growth. However, exports increased in real terms by 5.5 per cent and this in part kept positive growth of 1.92 per cent in 1998.
- Asia has also been the largest trading continent for the period of 1995-1997, contributing 72 per cent of the market Viet Nam's exports in 1997. However, this figure of 1997 slowed down to 65.5 per cent, mainly attributable to Asian Financial Crisis. Exports to Europe as percentage share of total exports increased significantly from 11.5 per cent in 1995 up to 18 per cent in 1996 and remained at this level in 1997, mainly exported to EU market. In addition, percentage distribution of Exports to Oceania was up from only 1 per cent in 1995-1996 to 5 per cent in 1997. This may imply that export market was still discrete but there was a significant change in trade direction to expand market (Table 8).
- Exports were mainly primary goods, in spite of the fact that its percentage share of total has trended down from three-quarter in 1995 to approximately one-half in 1997. The primary goods exported to APEC, as a largest group, accounted for a fairly higher level of 57.4 per cent of total exports to this market. Among primary goods, division of 0 or food and live animals accounted for a largest share of 37.5 per cent in 1995 but this figure has slowed down consecutively in the following two years to 29.3 per cent in 1997. Among

manufactured goods, percentage distribution of most SITC one-digit groups changed significantly, in particular increasing from 24.1 per cent in 1995 up to 32.4 per cent in 1997 in case of miscellaneous manufactured articles (Table 5).

- With respect to VSIC one-digit commodity, products resulting from manufacture of food products and beverages made the largest contribution of 19.7 per cent into total exports, that of extraction of crude petroleum ranked second responsible for 16.9 per cent. Products of manufacture of wearing apparel and fur articles accounted for 15.5 per cent. Ranking as the fourth and fifth were goods produced by tanning and dressing of leather, manufacture of luggage, handbags, saddlers, harness and footwear with 12.5 per cent and products of agriculture ranked fifth with 12.2 per cent (Table 6).
- In respect of industrial origin of exports (based on an old-type industrial classification of exports), there was an upward trend in percentage share of products produced by handicrafts and light industry, while other industries have maintained almost unchanged shares during 1995-1997 (Table 3).

Imports

- Asia has also been the continent making the largest contribution of three-quarter (77-78 per cent) of total imports every year since 1995. More Especially, Singapore and Japan ranked first and second respectively (Table 8).
- According to SITC, manufactured goods were dominant in relation to primary goods. There was an increase in its percentage share from 76.5 per cent in 1995 to 81 per cent in 1997. Among items of manufactured goods, percentage distribution of manufactured goods classified chiefly by materials was 23.1 per cent in 1997 up from 18.5 per cent in 1995 (Table 4).
- It seems that there has been a downward trend in the percentage share of consumer goods during 1995-1997. From 15.2 per cent recorded in 1995, its percentage distribution slowed down to 10.1 per cent in 1997. On the contrary, capital goods also made an increasing contribution of 25.7 per cent in 1995 up to 30.3 per cent in 1997 (Table 3).

Table 1. Total merchandise trade, balance of merchandise trade

Unit: Mil. USD

	1995	1996	1997	1998 (*)
<i>Total trade</i>	13604	18400	20777	20855
<i>Exports</i>	5449	7256	9185	9361
<i>Imports</i>	8155	11144	11592	11494
<i>Balance of trade</i>	-2706	-3888	-2407	-2133

Table 2. Index numbers (previous year=100 or base year : 1991=100)

Unit: (%)

	1995	1996		1997		1998 (*)		<i>Annual average</i>
	<i>Prev.</i>	<i>Prev.</i>	<i>Base</i>	<i>Prev.</i>	<i>Base</i>	<i>Prev.</i>	<i>Base</i>	
<i>Total trade</i>	137.7	135.3	186.2	112.9	210.3	100.4	211.1	120.5
<i>Exports</i>	134.4	133.2	179.0	126.0	226.6	101.9	230.9	123.3
<i>Imports</i>	140.0	136.6	191.2	104.0	198.9	99.2	197.3	118.5

(*) Figures for 1998 are preliminary

Chart 1: Exports, Imports & Balance of trade

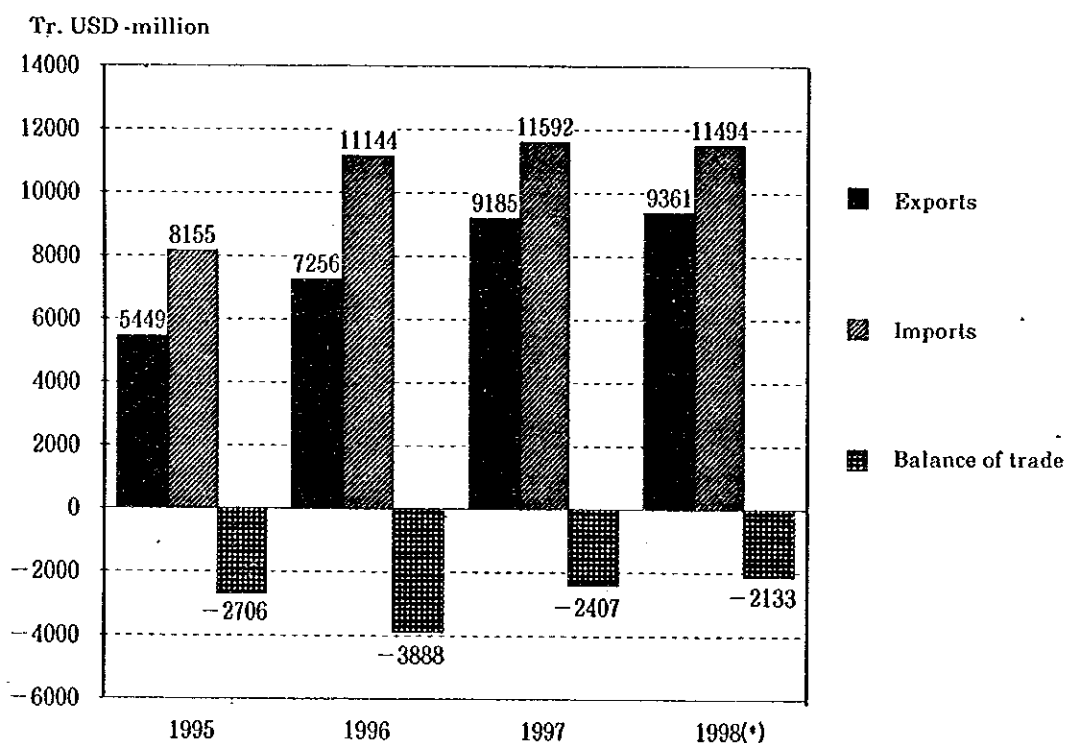


Table 3. EXPORTS AND IMPORTS BY COMMODITY COMPOSITION OF STATE PLAN

Unit : 1,000USD

Commodity group	1995		1996		1997	
	Value	Share(%)	Value	Share(%)	Value	Share(%)
EXPORTS	5448951	100.0	7255871	100.0	9184995	100.0
1. <i>Mineral and heavy industrial products</i>	1377703	25.3	2084967	28.7	2574003	28.0
2. <i>Handicrafts & Light industrial products</i>	1549832	28.4	2100980	29.0	3372411	36.7
3. <i>Agriculture products</i>	1745775	32.0	2159599	29.8	2231387	24.3
4. <i>Forestry products</i>	153908	2.8	212244	2.9	225192	2.5
5. <i>Fishery products</i>	621400	11.4	696453	9.6	781984	8.5
6. <i>Other products n.e.s</i>	333	0.01	1628	0.02		
IMPORTS	8155416	100.0	11143631	100.0	11592338	100.0
I - Capital and intermediate goods (2)	6917599	84.8	9759854	87.6	10421261	89.9
1. <i>Capital goods (1)</i>	2096944	25.7	3074997	27.6	3511514	30.3
2. <i>Intermediate goods (2)</i>	4820655	59.1	6684857	60.0	6909747	59.6
II - Consumer goods (2)	1237817	15.2	1383777	12.4	1171077	10.1
1. <i>Food (2)</i>			879	0.01	5501	0.05
2. <i>Foodstuffs</i>	289076	3.50	319241	2.9	245270	2.1
3. <i>Pharmaceutical and medicinal products</i>	69422	0.9	216520	1.9	357549	3.1
4. <i>Other</i>	879319	10.8	847137	7.6	562757	4.9

Note : (1) Excluding motor cars with 12 seats or less and unassembled motorcycles of consumption goods

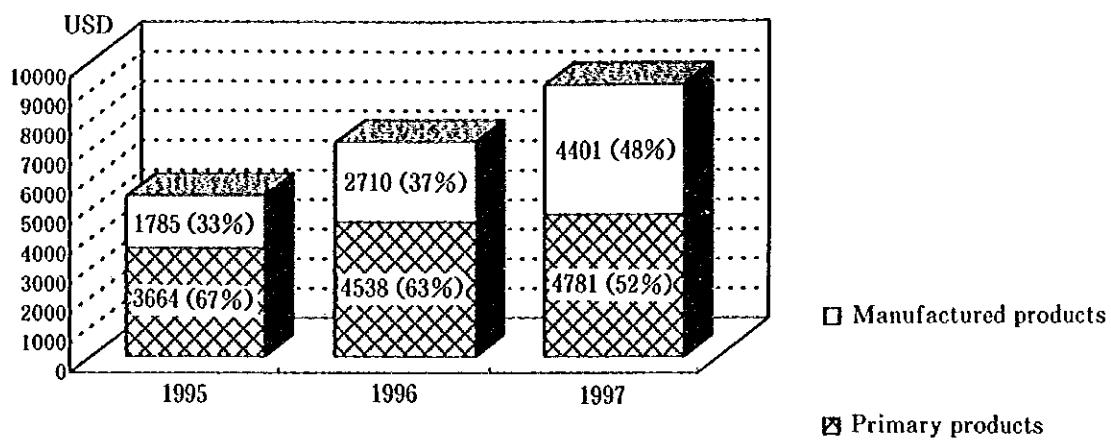
(2) Revised data for 1995, 1996 : wheat flour and wheat are moved from food of consumption goods to intermediate goods

Table 4. EXPORTS & IMPORTS BY SITC 1-DIGIT COMMODITY, REV. 3

Unit : 1,000USD

SECTION	1995		1996		1997	
	Value	Share(%)	Value	Share(%)	Value	Share(%)
EXPORTS	5448951	100.0	7255871	100.0	9184995	100.0
A - Primary products (Sections 0 - 4)	3664115	67.2	4537679	62.5	4780928	52.1
0. Food and live animal	2064243	37.9	2424146	33.4	2691920	29.3
1. Beverages and tobacco	4972	0.1	7038	0.1	33804	0.4
2. Crude materials, inedible, except fuels	370520	6.8	499578	6.9	376668	4.1
3. Mineral fuels, lubricants and related materials	1210605	22.2	1572040	21.7	1653537	18.0
4. Animal and vegetable oils, fats and waxes	13775	0.3	34877	0.5	24999	0.3
B - Manufactured products (Sections 5-8)	1784836	32.8	2710453	37.4	4401304	47.9
5. Chemical and related products, n.e.s	30874	0.6	65856	0.9	106563	1.2
6. Manufactured goods classified chiefly by materials	349819	6.4	382572	5.3	562950	6.1
7. Machinery and transport equipment	89399	1.6	414634	5.7	752710	8.2
8. Miscellaneous manufactured articles	1314744	24.1	1847391	25.5	2979081	32.4
9. Commodities not classified elsewhere in SITC	0	0.0	7739	0.1	2763	0.0
IMPORTS	8155416	100.0	11143631	100.0	11592338	100.0
A - Primary products (Sections 0-4)	1914471	23.5	2145613	19.3	2136451	18.4
0. Food and live animal	379914	4.7	408520	3.7	430307	3.7
1. Beverages and tobacco	80949	1.0	43118	0.4	83159	0.7
2. Crude materials inedible except fuels	456926	5.6	407334	3.7	369688	3.2
3. Mineral fuels lubricants and related materials	901646	11.1	1238036	11.1	1194450	10.3
4. Animal and vegetable oils, fats and waxes	95036	1.2	48605	0.4	58847	0.5
B - Manufactured products (Sections 5-8)	6240945	76.5	8973125	80.5	9428591	81.3
5. Chemical and related products n.e.s	1285157	15.8	1814587	16.3	1948473	16.8
6. Manufactured goods classified chiefly by materials	1511841	18.5	2389163	21.4	2676195	23.1
7. Machinery and transport equipment	2343302	28.7	3400258	30.5	3432622	29.6
8. Miscellaneous manufactured articles	1100645	13.5	1369117	12.3	1371301	11.8
9. Commodities not classified elsewhere in SITC		0.0	24893	0.2	27296	0.2

1995-1997 - Exports by SITC



1995-1997 - Imports by SITC

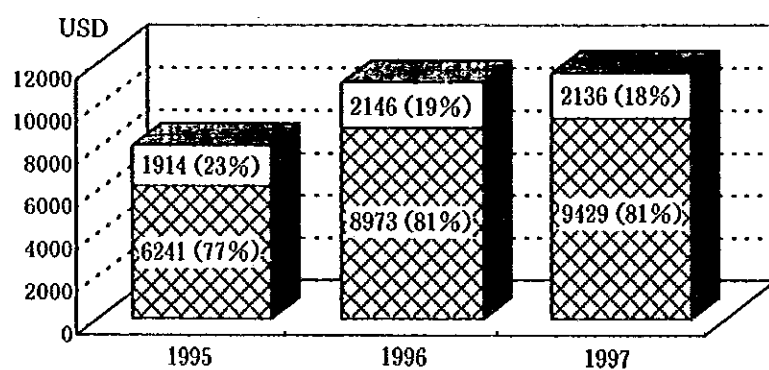


Table 5. EXPORTS & IMPORTS OF 1997 BY VIETNAM STANDARD
INDUSTRIAL CLASSIFICATION (VSIC), VERSION 1993

Unit : 1000USD

I Section code	II Division code	Industrial origin	Exports	Imports
		<i>TOTAL</i>	9184995	11592338
A		<i>Agriculture and Forestry</i>	1127082	275716
	01	<i>Agriculture and related service activities</i>	1119488	258998
	02	<i>Forestry and related service activities</i>	7594	16718
B	05	<i>Fishing operation of fish hatcheries and fish farms; service activities incidental to fishing</i>	128084	2046
C		<i>Mining and Quarrying</i>	1554394	102407
	10	<i>Mining of coal and lignite ; extraction of peat</i>	110784	26
	11	<i>Extraction of crude petroleum and natural gas ; service activities incidental to oil and gas extraction excluding surveying</i>	1423390	34732
	12	<i>Mining of uranium and thorium ores</i>	101	
	13	<i>Mining of metal ores</i>	15187	101
	14	<i>Other mining and quarrying</i>	4932	67548
D		<i>Manufacturing</i>	6262428	10816195
	15	<i>Manufacture of food products and beverages</i>	1808907	462663
	16	<i>Manufacture of tobacco products</i>	4282	2560
	17	<i>Manufacture of textiles</i>	306909	762718
	18	<i>Manufacture of wearing apparel and fur articles</i>	1337658	267981
	19	<i>Tanning and dressing of leather ; manufacture of luggage, handbags, saddlery, harness and footwear</i>	1143671	334035
	20	<i>Manufacture of wood and of products of wood and cork, except furniture ; manufacture of articles of straw and plaiting materials</i>	178566	36564
D	21	<i>Manufacture of pulp, paper and paper products</i>	36787	184191
	22	<i>Publishing, printing and reproduction of recorded media</i>	14239	11798
	23	<i>Manufacture of coke, refined petroleum products and nuclear fuel</i>	118993	1145290
	24	<i>Manufacture of chemicals and chemical products</i>	94934	1947719
	25	<i>Manufacture of rubber and plastics products</i>	86930	744611
	26	<i>Manufacture of other non-metallic mineral products</i>	86671	253401
	27	<i>Manufacture of basic metals</i>	97004	706822
	28	<i>Manufacture of fabricated metal products, except machinery and equipment</i>	40629	281487
	29	<i>Manufacture of machinery and equipment n.e.c.</i>	84546	1477856
	30	<i>Manufacture of office, accounting and computing machinery</i>	3473	170343
	31	<i>Manufacture of electrical machinery and apparatus n.e.c.</i>	104596	417590
	32	<i>Manufacture of radio, television and communication equipment and apparatus</i>	467443	689074
	33	<i>Manufacture of medical, precision and optical instruments, watches and clocks</i>	17535	199411
	34	<i>Manufacture of motor vehicles, trailers and semi- trailers</i>	12191	258106

I Section code	II Division code	Industrial origin	Exports	Imports
L P T	35	<i>Manufacture of other transport equipment</i>	25660	367977
	36	<i>Manufacture of furniture ; manufacturing n.e.c.</i>	190806	93998
	74	<i>Real estate, Renting and Business activities</i>	99	1004
	90(14)	<i>Sports facility & cultural operation</i>	323	488
	93	<i>Other community, Social and Personal service activities</i>	60	0
		<i>NES</i>	112524	394482

Note : code "9014" in VSIC is corresponding to code "9214" in ISIC Rev. 3

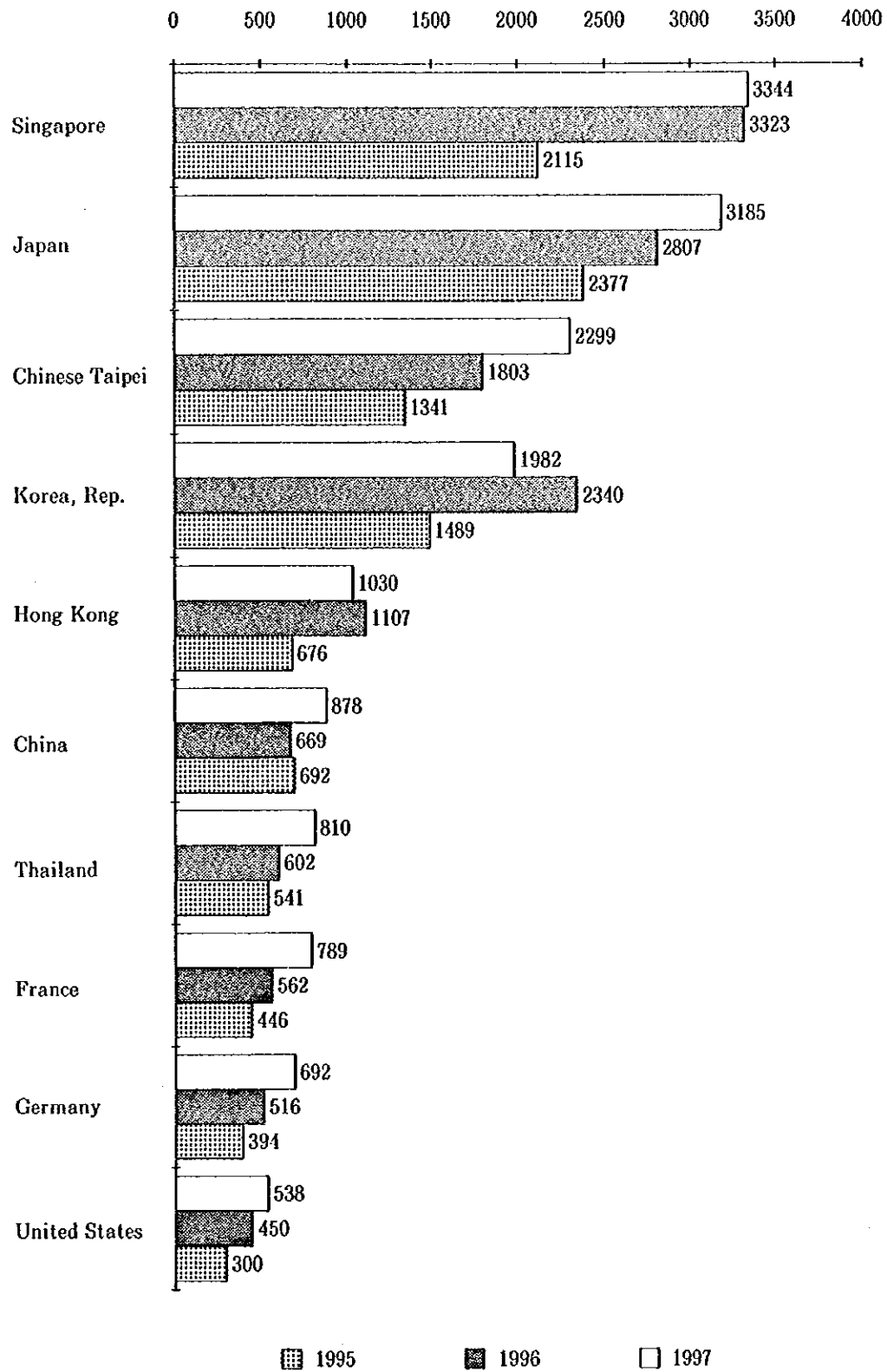
Table 7. NUMBER OF TRADING PARTNERS & MARKET PERCENTAGE SHARE BY GEOGRAPHICAL REGION

Geographical region	1995		1996		1997	
	Number	Market share(%)	Number	Market share(%)	Number	Market share(%)
Total	99	100.0	142	100.0	172	100.0
I. Asia	36	75.6	45	75.4	48	72.7
1. South-Eastern Asia	9	25.7	9	25.9	9	25.4
2. Eastern Asia	8	48.5	8	47.5	8	45.2
3. South-Central Asia	7	0.7	12	1.0	14	0.8
4. Western Asia	12	0.6	16	0.9	17	1.4
II. Europe	35	15.2	35	14.7	38	18.9
1. Eastern Europe	11	3.1	10	2.2	10	2.4
2. Northern Europe	10	1.7	9	2.1	10	2.9
3. Southern Europe	6	0.9	10	1.1	11	1.6
4. Western Europe	8	8.6	6	9.3	7	12.1
III. America	11	3.0	26	3.3	31	3.5
1. North America	2	2.5	2	2.8	2	3.1
2. Latin America and Caribbean	9	0.5	24	0.5	29	0.4
IV. Africa	13	0.3	33	0.2	44	0.4
V. Oceania	4	1.2	3	1.2	11	2.3

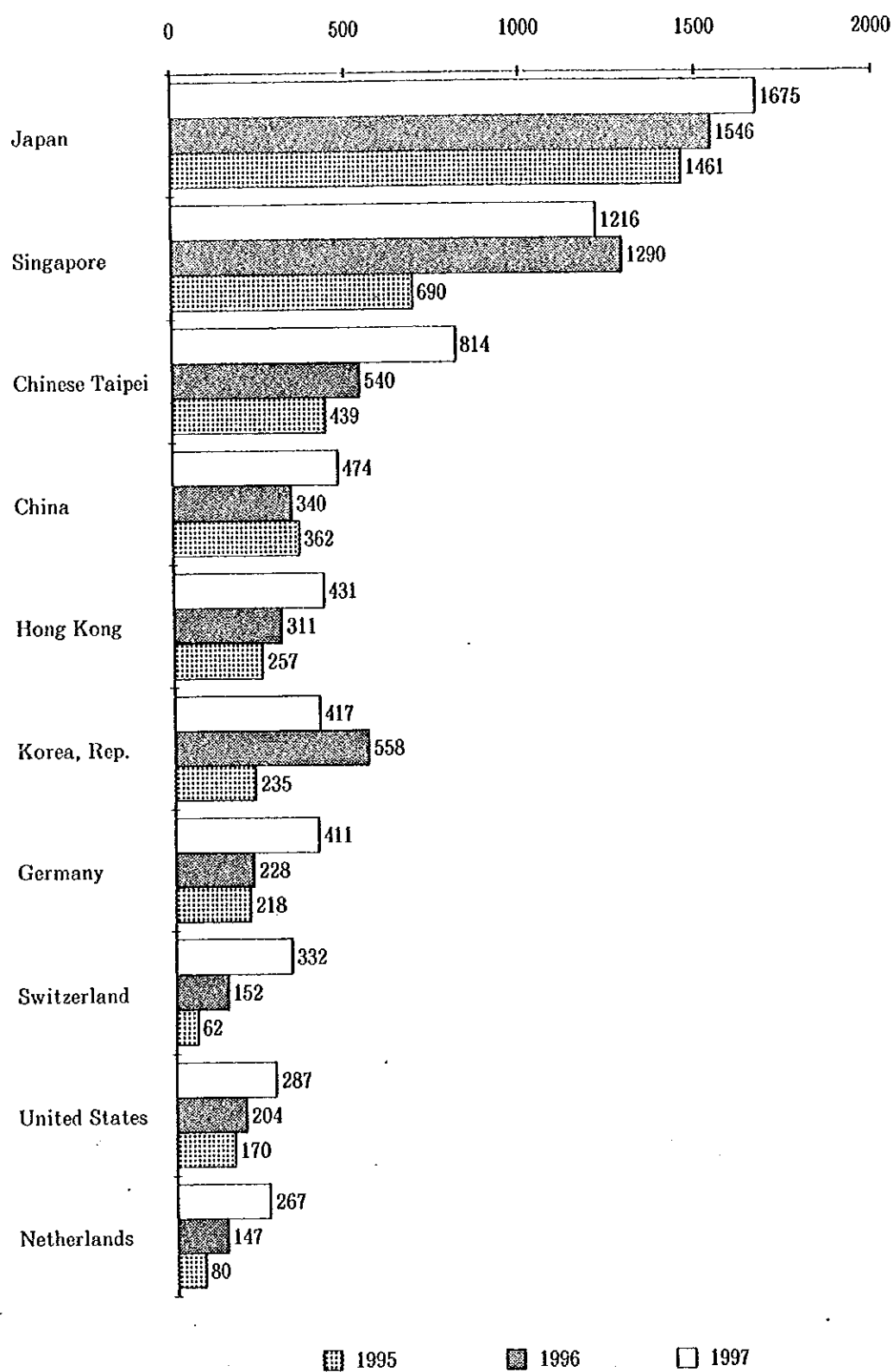
Table 8. EXPORTS AND IMPORTS BY GEOGRAPHICAL REGION AND COUNTRY GROUPS

	1995			1996			1997		
	<i>Exports</i>	<i>Imports</i>	<i>Net Exports</i>	<i>Exports</i>	<i>Imports</i>	<i>Net Exports</i>	<i>Exports</i>	<i>Imports</i>	<i>Net Exports</i>
Total	5449	8155	-2706	72559	111436	-38878	9185	11592	-2407
FDI Enterprises	440	1468	-1028	7860	20427	-12567	1790	3196	-1406
A. By Geographical Region									
I. Asia	3947	6339	-2392	52560	86126	-33566	6019	9086	-3069
1. South-Eastern Asia	1112	2378	-1265	17775	29921	-12146	2022	3245	-1223
2. Eastern Asia	2756	3839	-1083	33015	5362	-21346	3819	5566	-1747
3. South- Central Asia	13	77	-64	927	981	-54	47	112	-66
4. Western Asia	52	34	18	843	862	-40	131	162	-33
5. Other, n.e.s.	13	12	1						
II. Europe	985	1083	-98	11741	15402	-3680	2210	1727	481
1. Eastern Europe	155	270	-115	1648	2426	-777	251	241	10
2. Northern Europe	99	130	-31	18880	2060	-201	378	230	146
3. Southern Europe	67	57	10	822	1206	-384	196	133	64
4. Western Europe	573	601	-28	7392	9709	-2318	1385	1123	262
5. Other, n.e.s.	91	24	67						
III. America	238	170	69	2995	3044	-49	427	306	121
1. North America	189	156	34	2388	2808	-441	353	288	62
2. Latin America and Caribbean	49	14	34	627	236	392	76	17	58
IV. Africa	38	8	30	267	129	138	49	24	26
1. Northern Africa	30	3	28	159	60	98	19	1	18
2. Other countries of Africa	8	5	3	108	69	39	30	22	8
V. Oceania	57	104	-47	729	1555	-827	255	218	36
1. Australia and New Zealand	57	104	-47	729	1535	-808	251	215	36
2. Other Oceanian countries				1	21	-19	4	3	1
VI. International Organizations	1	25	-24						
VII. N.E.S.	187	428	-240	4267	5181	-913	230	233	-3
B. By Economic Groups									
1. ASEAN	1018	2270	-1252	16785	29055	-12270	1914	3220	-1307
Share (%)	18.7	27.8		23.1	26.1		21	28	
2. APEC	4079	6494	-2415	53612	89591	-35979	6259	9392	-3133
Share (%)	74.9	79.6		73.9	80.4		68	81	
3. EU	728	710	18	8532	11532	-3000	1622	1335	287
Share (%)	13.4	8.7		11.8	10.3		18	12	
4. OPEC	132	214	-82	2124	2072	52	199	318	-118
Share (%)	2.4	2.6		2.9	1.9		2.2	2.7	

Viet Nam's ten largest export destinations (1995-1997)



Viet Nam's ten leading import sources (1995-1997)



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