VIETNAM'S INDUSTRIAL POLICY REFORM IN THE ERA OF GLOBALIZATION

By

Vo Thanh Hai

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

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ABSTRACT

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Economics provides us with theories for analyzing the industrialization of developing countries, and we refer to them wherever useful. But theory is often highly abstract and may not give us the right answers to our urgent and pragmatic problems. Thus, combining theory and practice of Vietnam's industry development policies is necessary. What was impact of Vietnam's industry policies? How it effected? Thesis will find out and focuses on the major factors making Vietnam's industry structure and policy being changed overtime, especially from *Doi moi* to present.

Furthermore, Vietnam is on WTO accession process, so what are challenges and opportunities for Vietnam's industry and what problems Vietnam should be solved in order to become a member of WTO in 2005. These questions will also be analysed and answered. Some policy and solution implications for Vietnam's industry development at present and in the future will be drawed from above analysis.

Dedicated to my parents

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INTRODUCTION

Under the deepening globalization, Vietnam is striving for the national goal of industrialization and modernization, a goal widely shared by other developing and transition countries. After seventeen years since the inception of the *Doi moi* reform, and after roughly a decade of serious international integration, Vietnam is still not prepared to take full advantage of trade and investment liberalization for economic development. The fact that international integration comes with both challenges and opportunities is generally well understood, but concrete action to raise international competitiveness is slow to emerge. Various measures such as industrial promotion, enterprise reform, foreign direct investment (FDI) absorption, and trade and investment policy are not integrated. The lack of transparency and certainty in policy environment remains the most serious obstacle for both domestic and foreign firms.

Providing clear industrial vision and stable policy environment requires the collection and analysis of detailed and up-to-date information on key domestic industries as well as global market trends, and a realistic policy making based on such information. What Vietnam needs today is not general debate over “free trade versus protectionism” or “merits and demerits of regional integration” but rather, policy response with concrete numbers and timetables to the imminent industrial problems that the country faces, and the ability to design such response.

Economics provides us with theories for analyzing the industrialization of developing countries, and we refer to them wherever useful. But theory is often highly abstract and may not give us the right answers to our urgent and pragmatic problems. Thus, combining theory and practices of Vietnam’s industry development is necessary. What were impacts of Vietnam’s industry policies? How it effected? Thesis will find out and focuses on analysis the major factors making Vietnam’s industry structure and policy being changed overtime, especially from *Doi moi* to present.

Furthermore, Vietnam is on WTO accession process, so what are challenges and opportunities for Vietnam's industry and what problems Vietnam should be solved in order to become a member of WTO in 2005. These questions will also be analysed and answered. Some policy and solution implications for Vietnam's industry development at present and in the future will be drawed from above analysis.

The Methods and Structure of The Thesis

This research depends largely on literature research and case studies. Data will be mainly collected from Ministry of Industry (MoI), Ministry of Planning and Investment (MPI), and various Vietnam’s industry research reports, several companies, and other available information. Additional data and information will also be used from Internet sites and recently published by Vietnam’s government and international organization’s reports.

Thesis will be divided into four chapters. Following the introduction is **chapter I**, which provides an overview of the concept of industrial policy and Vietnam’s industrial policy. **Chapter II** will examine practices of Vietnam Industrial Policy from "Doi Moi" (1986) to present and prospect for the next decade. **Chapter III** will be analysis of Vietnam's industrial policy toward WTO accession. **Chapter IV** will be some policy and solution implications for Vietnam's industry during WTO accession process. Finally are conclusions and recommendations.

Chapter I – Industrial Policy: An Overview

I. The concept and context of industrial policy:

1. The Concept of Industrial Policy:

Industrial policy is a controversial concept. The experience of Japan is a typical example of the industrial policy debate. The opponents of industrial policy argue that subsidies and governmental loans to the Japanese industries are relatively small in comparison with those in some other European countries, and industrial policy therefore is not the major reason for Japan success (Trezise, 1983). On the other hands, the proponents of industrial policy point out that the administrative guidance system makes people underestimate the success of the Japanese industrial policy. The proceeding gives some viewpoints on the nature of industrial policy.

Theoretically, industrial policy has many contracting views. It can be either general or selective in nature; vertical or horizontal in emphasis; and positive or negative in impact. A general industrial policy promotes or protects the wider economy whereas a selective industrial policy supports specific sectored winners and losers. A set of vertical policy measures targets particular industries for assistance whilst its horizontal counterpart encourages widespread functional development in areas such as education and training, research subsidies. In term of impacts, a positive industrial policy facilitates structural adjustment and fair market competition, whereas negative industrial policy discourages structural adjustment, and hinders market competition.

> The broad definitions of industrial policy were proposed by Reich and Pinder. Reich (1982), the most prominent proponent of industrial policy in the USA includes the following items in his definition of industrial policy: (i) favoring promising industries; (ii) human resource development policy; (iii) developing infrastructure; and (iv) regional policy. Pinder (1982), a British proponent of industrial policy regards all the following in his

definition of industrial policy: (i) general industrial support policy; (ii) financial incentives for investment; (iii) public investment programmes; (iv) public procurement; (v) antitrust policy; (vi) R&D supports; (vii) infant industry argument; (viii) supports for small firms; (ix) regional development policy; (x) trade protection measures.

The opponents of industrial policy also approach broad meanings of industrial policy. Corden (1980) argues that "the best industrial policy may be to provide an adequate infrastructure, some limits on the power of monopolies and cartels, a education system that helps to generate the human capital for industrial success, indicative guidance about industrial prospects (without compulsion or subsidies), the stability and simplicity in the system of taxation, a free and flexible capital market and a steady movement towards zero sectional protection, whether direct or indirect". In other words, industrial policy consists of all directions, policies, and measures to influence industries (Donges, 1980). These broad understanding of industrial policy as a catch-all term are meaningful only in theoretical analysis. Such definitions of industrial policy lead to overloads when analyzing industrial policy in practice.

Johnson (1984) provides more focused definition of industrial policy by stating that industrial policy is "a summary term for the activities of governments that are intended to develop or retrench various industries in a national economy in order to maintain global competitiveness". More particularly, industrial policy includes policies measure at firm level to promote entrepreneur activities and policies at macro level to create a favorable macroeconomic environment for promoting business and achieving other policy objectives. Landesmann (1992) makes a further contribution to industrial policy background by emphasizing the particularistic, or discriminatory, nature of industrial policy. Landesmann states that industrial policy "is designed to be specific, i.e. directed towards particular industries, firms, regions, groups in the labor markets, etc., rather than general... Implicit in industrial policy formulation and execution are therefore always trade-offs between different groups, regions, industries, etc.”.

2. The Context of Industrial Policy:

A quarter century after the Second World War was the golden age of capitalist countries. These countries experienced a period of rapid growth, with both low inflation and unemployment rates. This impressive economic growth has put the Keynesian economic management into the most popular in great powers of the world.

However, oil shock in the 70’s made an end to that golden age. After two decades, there had been several structural changes in the world economy. The switch of labor from traditional agriculture into industries and services removed labor surplus, bought into a tight labor market with increasing labor cost and trade union power. Investment by MNCs into manufacturing became the major form of international capital movements. In addition to developed countries in the West, Japan has developed into a main economic power. The newly industrialized countries in East Asia have acquired the leading position in some international market such as garment and textile, electronics, ship building, and steel industry. These structural changes had significantly changed the world industry. The rapid economic growth in the 70s has clouded the fact that there was a remarkable difference in economic management system among industrial countries. This difference was factualized in different speed of adjustment towards the structural changes.

In responding to these structural changes, industrial countries had to adjust their economic management system. A brave new world of monetarism and supply-side economics seemed to be on central debate. The declining competitiveness of the UK economy (manifested in its massive trade deficits) and the threatened position of the US economy as the world leading economic power provided more incentives for capitalist government around the world to produce various attempts to examine alternative ways to run the capitalist economy, or alternative patterns of economic management, especially after half of the 1980s.

One of the attempts to search for alternative patterns of economic management is the literature on social corporatism. This literature starts with observations that some, notable Scandinavian advanced capitalist countries have not experienced the low economic growth with massive unemployment that has characterized many industrial countries since the late of 1970s. These countries achieved near-full employment. Combined with low inflation, and constantly rising levels of incomes and consumption for most of the population. Still more impressive was the fact that these countries have successfully restructured their economies in relatively painless manner in responding to the structural changes of the world economy. Especially, this success was achieved under strong trade unions (often accused of creating rigidities in the labor market which obstruct structural changes) and high taxation (often accused of being a disincentive to hard work and entrepreneur activity).

The essential explanation for this impressive performance is found in the tripartite bargaining between the centralized employer's organization, the centralized trade unions, and the state, through which the levels of investment, wage and employment in the economy was coordinated to ensure an effective structural change without causing high inflation and/or massive unemployment. In addition, the egalitarian wage policy, and an active labor market policy (i.e. retraining of and migration assistance to the dislocated workers) are the major means with which these countries have avoided social pressures (specially, by the loosing groups in the society) on restructuring process.

Another major attempt to find alternative patterns of economic management is represented by the so-called industrial policy debates. Industrial policy, despite its importance in many industrial countries (notably France and Japan), and some Asian developing countries (notably Singapore, South Korea, and Taiwan) during the post-war period, was largely ignored until the late 1970s in the English-speaking academic world[1].

The supporters of industrial policy argue that the success of East Asian countries is essentially due to the active role of the state in formulating a vigorous economic system which promotes capital accumulation, innovation, and productivity growth. The states in these countries exercise their interventions by direct state involvement in the fate (especially investment and technical change) of individual industries. Moreover, they argue that the declining competitiveness of the US and UK manufacturing and some other industrial countries is not only the result of macroeconomic mismanagement but of lagging investment, innovation, and productivity growth. Direct intervention through particularistic policy is the typical characteristic of industrial policy. This feature stands in sharp contrast to the indirect and general nature of macroeconomic policy, which was the main pillar of the Keynesian pattern of economic management.

The industrial policy, in contrast with the social corporatism literature where a lot of theoretical advance has recently been made, has suffered from the lack of a comprehensive theoretical ground. This is partly due to the fact that the proponents of industrial policy argument have concerned largely with practical policy issues, but mainly because there was very little in conventional economic theory that could

[1] The Palgrave Dictionary of Economics, one of the most influential dictionaries of economics, does not has industrial policy as an entry.

justify such policy.[2] In the absence of a sound theoretical foundation to explain why industrial policy works, even the most ardent proponents of industrial policy could do no more than describe in details how it works. Fortunately, there have been some recent developments in economic theory that can improve this situation.

II. An Overview of Vietnam's Industrial Policy:

As aforementioned, industrial policy is a controversial concept that is relatively new to economists in developing countries, especially in terms of theoretical debates. In such context, (i) does it exist a kind of industrial policy in Vietnam? (ii) if yes, how can it be described? and (iii) how has that industrial policy affected the Vietnam economic performance, especially in the *Doi moi*. This part only focuses on the second question by identifying a theoretical definition of Vietnam industrial policy. The other two questions will be the subjects of the next part.

In the particular situation of Vietnam, the concept of industrial policy has been rarely observed in mass media and even in academic research by Vietnamese economists. The term industrialization and modernization is another related concept that has been very often used. In principles, the terms industrialization and modernization includes all objectives, directions, and set of policies measures to transform Vietnam from a backward agricultural economy into an industrialized economy. The essential components of the concept of industrialization and modernization are sectored development, industrial development, regional policy, particularly: (i) economic structure: industry - agriculture - services; (ii) urban/rural structure; (iii) business structure between large and small and medium enterprises; (iv) structure of State-owned and non-state-owned enterprises. The set of policy

[2] In some recent resraches on industrial policy experiences of East Asian countries, authors only focusses on the practice of industrial policy in these countries.

measures to achieve these objectives consists of financial incentives, human resource development; R&D supports; encouraging promising industries; and other trade protection measures.

In effect, industrial policy of Vietnam is characterized by a set of directions, policies, and particular measures to develop some industries in order to transform Vietnam into an industrialized economy by 2020.

The objectives of the Vietnam industrial policy vary in line with different periods of time. Presently, the major objectives of the Vietnam industrial policy are as follows:

First, to promote international competitiveness of domestically produced products so that to exploit the comparative advantages of the economy.

Second, to protect the some selected domestic markets and industries before fully integrate into the regional and the world economy.

In addition, it is important to note that the aforementioned descriptions of industrial policy in the first part were inspired by experience of some advanced capitalist countries and other Asian NICs. These definitions may not work in Vietnam, whose economy is in the transition from a central planning economy into a market economy. After about 15 years of the Doi moi, Vietnam has integrated into the regional and the global economy. Understanding of industrial policy must take into account these features.

In the transition into a market economy, state owned enterprises (SOEs) reform has been one of the most significant challenges encountered the government. Most of SOEs are allocated in industries. Therefore, the Vietnam industrial policy aims at developing the national industries means that this is the policy that largely targets at reforming SOEs. The policy measures of SOEs reform including: privatization, equitization, rent, merge, and bailout. These are also policy measures of the Vietnam industrial policy.

In addition, the integration of Vietnam into ASEAN/AFTA, APEC, and the application for WTO membership has been strong evidence for the Vietnam's commitments to liberalize the national economy. Given this integration, exports are encouraged as an engine of economic growth, among the others, and at the same time, the trade policy should be neutral to importation of goods and services. This situation imposes a strict constraint to the government in protecting its domestic markets and industries at least in the medium and long run[3].

[3] In its commitment to CEPT/AFTA, Vietnam has to complete CEPT requirements by 2006. This is presently the most significant constraint on types of policy measures to promote industrial development in Vietnam.

Chapter II - Practices of Vietnam Industrial Development and Industrial Policy from Doi Moi (1986) to Present and Prospect for The Next Decade.

I. The Vietnam Industrial Policy in the 1954-1989 Period

1. An overview of the Vietnam industrial policy in the 1954-1989 Period

1.1. The Vietnam industrial policy in the 1954 –1957:

Three months after the birthday of the Socialist Republic of Vietnam in September 1945, the national independence defense started against the French colonies. The Geneva Treaty in 1954 established peace in the North and the division of the country into the North and the South of Vietnam. Since then, the Vietnam industrial policy was completely different in the North and the South of Vietnam.

The Northern Vietnam was developed into a central planning economy under helps of the other socialist countries leading by the former Soviet Union. On the other hands, the Southern Vietnam was directed under the US influences. A kind of war-serving economy was steadily established since 1960. In other words, in the period, there were two kinds of type of industrial development in the North and the South of Vietnam. The analysis in this section focuses mostly on the industrial development in the North.

The industrial development in the 1954-57 was characterized by ownership transformation by nationalizing properties previously owned by the French colonies and also the Vietnamese private entrepreneurs. The effective nationalization and collectivization in this period resulted in the three major following types of ownership (i) state-owned enterprises; (ii) collectives; and (iii) mixed ownership between the state and the private.

In effect, industrial development in this beginning stage focused on establishing domestic industries dominant by the state ownership. Nationalization and collectivization were the two main type of industrial development. There was almost no new investment in industries.

1.2. The 1958-1960 period:

The three year reconstruction plan led to very first foundations for industries. This plan aimed at (i) transforming the type of ownership of previously-established enterprises into the state control; (ii) receiving assistance from the other socialist countries to build up economic independence; (iii) centralizing control over industrial development.

1.3. The 1960-1965 period:

This period marked the very first significant steps of industrial development. Under assistance from the other socialist countries, some important industries were basically built, especially heavy industries. This was the period of import substitution which aimed at developing heavy industries in order to obtain ambitious economic independence. Industrial development at that time was characterized as (i) prompt development of industries with building and operation of a large number of heavy industrial enterprises like metal manufacturing, mining, energy, and mechanical manufacturing; (ii) industrial development without concentration and diversification of technologies from different sources; (iii) industrial development was however not be able to meet requirements of economic reconstruction under ambitious objectives; (iv) centralization of state control over industries

1.4. The 1965-1975 period:

In response to the national independence defense, the US colonies heavily bombed the North in attempts to make an end to the communist force led by Ho Chi Minh. The newly-established enterprises were target of bombing by B52 and other mass killing weapons. Some enterprises were removed into secure areas in the Northern mountainous provinces, but most of factories were closed. Industries were directed towards defense to provide foods, weapons, and other material for the war. The stamping distribution system was introduced in response to economic difficulties, especially to scarcity of consumer goods.

1.5. The 1976-1986 period:

The completely destroyed industries in the North were a little part of expense that Vietnam had to pay for its independence in 1975. The liberalization of the country from colonies gave an important question of industrial development in both the North and the South of Vietnam. During the war, industries in the North were developed under the central planning model, whereas industries in the South were built under the US assistance, and hence the free market mechanism with priority on services and consumer goods.

Upon this question, there were to viewpoints as (i) continuing to develop industries in the South without no significant changes; or alternatively, (ii) transforming industries in the South in one uniform development strategy set up be industrial development in the North. Given the political will at this time, transformation of the types of ownership was essential component of the revolution. The second alternative was therefore put into the fact with almost no protests.

As a result, industrial development in this period, like in the 1954-1960, was characterized by centralization of industries in all part of the countries so that to make the state ownership the dominant actors in economic reconstruction after the war. This period revealed (i) private small enterprises and households were alive as dynamic economic force, under strong discrimination; (ii) nationalization and collectivization were simply administratively forced, and therefore led to decline in both productivity and efficiency; (iii) economic co-operation with the other SEV countries brought into favorable conditions and a lot of financial and technical assistance for industrial development in the very first time after the national liberalization.

However, at the late of 1970s, the other socialist countries had shown weaknesses due to the central planning mechanisms. Less assistance from the other SEV countries made difficulties for Vietnam. Investment into heavy industries in the 1960s was proved to by a waste of the most scare resource for economic reconstruction after the war. As a matter of fact, the end of wars often gives opportunities for high economic growth. This observation was unfortunately not true in the case of Vietnam.

Economic difficulties in the 1980s put Vietnam into the question of reform or collapse. The 6th Party's National Congress in 1986 made a very cornerstone in the history of Vietnam as a country. This was the end of the central planning model as the dominant system regulating economic life and other activities. The transition into a market mechanism with the socialist orientation was recognized as the ultimate strategy of the new Vietnam in the *Doi moi* process. Official recognition of a multi-sectored economy under market mechanism gave a new birthday to the Vietnam industries.

1.6. The 1986-1989: The period of renovation in the industrial policy:

It can be said that 1986 – 1989 were a hectic period of renovation of the economic policy in general and industrial in particular.

The general change in the policy of industrial development resided in the replacement of the former industrial policy of giving priority to heavy industries.

The industrial policy linked industrial development with the organization of production structure and large scale readjustment of investment structure with a view to implementing the three major economic programs: food, consumer goods and export goods.

The central direction of industrial policy in the first years of renovation is to serve agricultural production and the building of a new countryside.

The industrial policy is linked with the policy of socio-economic development in the mountainous regions; the development and combination of different economic sectors in industrial production activities; the renovation of industrial management at macro and micro levels.

2. The general comments on industrial development in the 1954-1989 Period.

Industrial development of Vietnam in this period was characterized by the following points:

First, industrial development aimed at import substitution in attempts to build up economic independence. This was unfortunate that industrial enterprises that were diversified, underdeveloped, and miss-invested were not able to provide this economic independence. Industrial development at that time was largely promoted by foreign assistance by the other socialist countries.

Second, the close door policy to the non-socialist world prevented technological diffusion and international capital movements.

Third, the centralization of the state control over industries as well as the other economic activities resulted in a strongly biased and discriminatory economic system in favors of the state-owned enterprises. The autonomy of enterprises was so limited that many SOEs are presently slowly moving.

Fourth, as industrial development was isolated from consumption, industrial development was essentially passive and far from the demand of the society as a whole.

II. The Industrial Development and Industrial Policy in The 1990-2000 Period

1. The situation of industrial structure:

a, The sectored structure of industrial development

There were some industries that received encouraging measures from the government including oil exploitation, energy, coal mining, steel, and chemicals. These industries were reorganized by the general corporation 91 model, protected by trade barriers, and were subject to credit allocation. Foreign direct investment is also attracted into these industries by encouraging incentives. In addition, certain light industries that are export-led were promoted such as footwear, textile and garment, agricultural and aqua cultural processing. These export industries have impressively grown up to be major export items of Vietnam in this period. At the same time, there were newly-established industries like electronics, automobile, motorbike, electrical components were developed. These industries seemed to be most attractive to FDI.

This industrial development has brought into a new sectional structure in industries. This significant change is represented in table1.

Table 1: Sectional distribution of GDO contribution (percentage)

Industries	**1990**	**1995**	**2000 (estimated)**
Energy	11.0	18.8	19
Electric	7.5	6.3	6.3
Food Manufacturing	32.6	31	31.2
Construction materials	7.1	10.2	10.3
Other industries	41.8	33.7	33.2

Source: MPI at Conference on the development strategy of Vietnam in the 21st century

The decline of mining in GDP contribution was largely due to rapid increase of the other manufacturing. Among the other mining, oil exploitation has been of the most importance in terms of GDP contribution. The promising prospect of oil exploitation and refinery would favor some related industries such as fertilizers, chemicals, electricity and gas.

Manufacturing, the most important position in industrial development include:

Agricultural, aqua cultural, and forestry processing industries had the highest GDP contribution. In addition, rice, coffee, tea were also important export items of this group. Given significant GDP percentage, these industries produced however crude or semi-processed export items. A remarkable percentage of output was exported into intermediate markets for further processing. Only about 30% of agricultural exports were processed.

The labor-intensive industries like footwear, garment and textile, food and foodstuff processing accounted for about 40% of industrial output. These industries have been attractive to foreign investors as well as the domestic private sector. These industries have been widely commanded for their job creation and their largest export value.

Skilled labors were attracted into the newly established industries like electronics, automobile... These industries have been however isolated with the other related industries such as component production, and not able to integrate into the regional processing network.

Energy and water supplies were the priority of the government investment in recent years. Although these industries accounted for only 6% of industrial GDP contribution, the expansion of energy and water supplies network has played a significant role in encouraging industrial development throughout the country.

b, The regional structure of industrial development

Table 2: Regional industrial structure (%)

Regions	1990	1995	2000(est.)
Region1: 13 provinces in Central North	5,0	4,34	3,83
Region 2: 15 provinces in Red River Delta and Central North.	20,79	22,26	23,25
Region 3: 10 provinces along the coast in the Central Vietnam.	7,32	5,96	5,91
Region 4: 3 provinces in the Central Highland.	0,51	0,63	0,58
Region 5: 8 provinces in Eastern South	43,31	49,82	50,65
Region 6: 12 provinces in Cuu long River Delta.	15,58	5,15	5,49
Other regions	7,4	5,15	5,49

Source: the MPI

There has been a significant imbalance in terms of regional development, especially among the four regions: the Northern mountainous, the 10 coastal provinces in the Central, the Highlands, and the Mekong River Delta provinces. Encouraging economic activities in these regions is the major content of poverty eradication. A range of financial incentives and assistance has been given to these areas. The underdeveloped infrastructure system, low literacy however is preventing these regions from economic growth. In contrast with poor industrial performance in these regions, region 2 and 5 that accounted for about 70% of industrial output have most significant contributed into industrial development. This rapid industrial growth led to further imbalance in regional development.

c, The ownership structure

As aforementioned, changes in type of ownership were the most typical features of industrial development before 1989. This was also true in the 1990-2000 period. The SOEs reforms were probably the most important policy measures towards industrial development in this period. The establishment of the general corporations according to Decision 90 and 91 of the PM on 07 March 1994 restructured SOEs operating in industries from a number of 2.782 SOEs in 1991 down to 2.010 in 1996. The number of collectives was also sharply reduced from 32.034 in 1988 to 5.723 in 1992 and 1.729 in 1995.

This period also experienced rapid development of the non-state sector, including the Vietnamese private, foreign-invested, and other mixed owned enterprises. The number of private enterprises increased from 770 in 1990 to 959 in 1991 and to 5.152 in 1995. Up to 1996, there were a number of about 8.000 private enterprises, and over 200 joint stock companies.

This ownership changes resulted in remarkable adjustment of industrial output contribution, characterized by constant decline of the percentage of the SOE industrial output in the total industrial output. Whereas the growth rate of industrial output of the non-state sectors increased from - 4,33%, - 0,7% in 1989, 1990, respectively to 7,48% in 1991 and 16,88% in 1995. The annual growth rate of collectives - 28,79%, while that of the private enterprises and household industrial production grew at 47,8%, and 12,13%, respectively.

In the 1990-2000 period, the foreign-invested enterprises grew at 22,28% annually. The industrial output of this area increased from about 10% in 1990 up to 31,82% in 1998. The estimated percentage was 35,85% in 2000, making a reduction of domestic industrial output from 90% in 1990 downwards to about 64% in 2000.

Table 3: Economic sectional industrial structure (percentage)

Economic sector	1990	1995	1998	2000
Stated company	58,8	50,29	46,18	43,72
Non-stated company	31,13	24,62	22,00	20,42
Foreign investment	9,99	25,09	31,82	35,85

Source: the MPI

2. The structural change towards export manufacturing in industrial development:

Before 1992, the main export items were crude oil, garment and textile that valued at about $ 750 million. In 1998, the export value was fourth fold up to $ 4,500 million. The foreign-invested enterprises contributed about 21% of the total exports in 1998.

Table 4: Main export items in the 1992-2000 Period (million USD)

	1992	1993	1994	1995	1996	1997	1998	1999	2000

	806	844	867	1033	1346	1432	1250	1675	2000
Garment	221	335	554	847	1150	1349	1350	1500	1800
Footwear	16,8	68	115	280	530	965	960	1100	1500
Electrics	0	0	0	20	100	450	480	650	750
Coal	62	52	75	89	114	110	100	100	100

Source: the GSO and the Ministry of Trade

Export processing zones, and industrial zones or parks were introduced to attract resources, especially from MNCs to promote export manufacturing. Up to 1998 there was a number of 67 export processing zones (EPZs) and industrial zones (IZs) have been approved by the government. In this number, 38 EPZs and IZs are located in the South, 13 in the North, 7 in the Central of Vietnam. However, only 16 EPZs and IZs were invested to develop new infrastructure system, notable traffic, water and energy supplies, telecommunication, and 35 in the total of 67 EPZs and IZs have received foreign-invested projects. It is also important to note that only 21,7% of the total surface in these EPZs and IZs are now being rented. Although these figures do not show an impressive contribution of EPZs and IZs as means of attracting foreign capital, these areas are presently in use of over 100 thousand of workers, and accounts for about 11% of the total export revenue.

III. The Vietnam’s Industrial Development Strategy and Policy in The Next Decade.

1. The Context of Vietnam Industrial Policy

Industrialization differs from country to country. The United Kingdom encountered difficulties of the first-mover. The former Soviet Union industrialized under hostile arm conflicts. The recent NIEs have implemented export-led growth strategy under certain condition of the Cold War.

As the law of history, such conditions never coincide. In such context, building a Vietnam industrial policy requires careful considerations of the current conditions specific to the economy under the transition. Most significantly, there are three following issues.

First, the industrialization of Vietnam has been taken place in a very fast changing technological revolution leading to the knowledge-based world economy in the next century. This gives opportunities for Vietnam to adapt for an impressive taking-off. It however raises challenges, especially the danger of lagging behind the others, if such technological progress has not been exploited.

Second, global integration of regions and the world economy has brought opportunities for nations to take advantages of capital mobility, foreign trade, and technology transfer. Countries have participated more actively in international competition to attract resources for economic growth. Opportunities do not outweigh challenges. Growth and prosperity of Vietnam depends on its global integration.

Third, Vietnam has industrialized at the time when its economy is basically characterized by agricultural production. The Party General Secretary in his speech at the working meeting with the National Economics University on 6th September 2000 emphasized this issue as a central message in building an industrial policy for Vietnam.

Since the 3rd Party's National Congress, Vietnam has considered industrialization and modernization as the central task of the transition. At the first stages, heavy industries were set up into the priority. This misdirection was corrected at the 6th Party's National Congress by redirecting investment priority into the three economic programs: (i) agriculture production; (ii) consumer goods production; (iii) and export promotion. The 8th Party's National Congress emphasizes industrialization and modernization of agriculture and rural areas.

In the more than 40 year industrialization and modernization, some important industries have been built. Various reforms in the *Doi moi* have consolidated the industrial competitiveness. In such context, Vietnam has speed up its industrialization and modernization with a relatively vigorous base. This is also a difference of the Vietnam's present industrialization and modernization compared with industrialization processes in the other countries in the 19th and 20th centuries.

However, it is the fact that the process of industrialization and modernization in Vietnam has been in relatively poor performance. Starting with an agricultural-based economy, about 76% of the population is presently living in rural areas and presently making agricultural production at substitute level. This means that Vietnam is basically an agricultural economy. In terms of development, Vietnam is still one of the poorest developing countries.

2. The Model of Vietnam Industrial Policy: to develop Vietnam into an industrialized economy by 2020.

2.1. The major objective of the Vietnam industrial policy is to transform the country into an industrialized economy by 2020.

The objective of transforming Vietnam into an industrialized economy by the year 2020 was set up at the 8th Party's National Congress. The coming 9th Party's National Congress will firmly confirm this objective. The rise in industrial output and employment in the national economy is an essential condition in order to achieve this ambitious objective. According to most general standards, a country is said to be an industrial economy if industrial production accounts for more than 60% of the total value added. This percentage of the middle-income is from 40 to 60%, whereas, that of the newly-industrialized and agricultural economies are from 20 to 40% and less than 20%, respectively. In addition to industrial production contribution, other indexes measuring social development such as HDI, GDI are also taken in into account.

Presently, the industrial production in Vietnam has contributed a relatively small percentage of the total value added. Industrial output and employment in the national economy are relatively low in comparison with the other South East Asian countries. The sectored output contribution among industries - agriculture - services was 34.49% - 25.43% - 40.08% in 1999. The sectored employment was 12.5% - 67% - 20.5% in the same year. Being an industrialized country by 2020 requires a significant rise of the industrial GDP contribution up to at least 45%.

2.2. The major principles of the model of Vietnam industrial policy in the next 20 year.

Increasing industrial output and employment to achieve the objective seems to be very challenging for Vietnam, especially as the economy has encountered with unfavorable conditions in its main export markets after the financial crisis in 1997. The Vietnam industrial policy must therefore be able to mobilize resources for further transition into a market economy in all regions in the country, especially changing the autarky countryside into commodity production; enhancing brain content in products, both traditional and new in all sectors; picking some winners to build sun-rise industries to make breakthroughs in national economic growth.

2.2.1. Enhancing brain content in products, both traditional and new in all sectors; picking some winners to build sun-rise industries to make breakthroughs in national economic growth

Industrial countries developed their light industries at the first steps of their capital accumulation about three centuries ago. The case of former Soviet Union made some differences. In the situation of hostile arm conflicts, heavy industries were necessary for Soviet Union to protect its independence. In addition, the former Soviet unions is a large country with abundance of basic natural recourse necessitates for its industrialization toward heavy industries. A half century later, NIEs have industrialized their economies firstly by attracting foreign investment and export production. In effect, under certain circumstances, each country has its own industrialization priority.

In order to be an industrialize economy in 2020, Vietnam must increases the current per capita income up to 25-26 times. This objective seems to be an illusion if Vietnam fails to get away from its industrialization policy in the recent 40 years. Under such context, becoming an industrialized economy requires a real revolution in production. This revolution will success if Vietnam can enhance brain content in all products. This in turn requires adoption and adaptation of technological progress in all sectors, and at the same time activities to pick some winners to build some sun-rise industries.

2.2.2.Mobilizing resources for further transition into a market economy in all regions in the country, especially changing the autarky countryside into commodity production.

Economic development is a dynamic process, which can be shortened but overstepped. The transition into a market economy takes steps from a natural production into commodity production towards market economy. Building market capitalism took some hundred years in the Western industrial countries. Vietnam aims at becoming an industrial economy in 2020 is a mind of shortening its industrialization.

After more or less 15-year transformation, Vietnam is basically a backward agriculture-based economy with incomplete markets. Poverty has been observed in most of rural and mountainous areas. The first step of Vietnam industrial policy is therefore to further transform into a market economy though out regions, and to encourage commodity production instead of small natural agricultural husbandry.

Recent experience of countries like India, Thailand, and the Philippines has shown that industrialization without adequate attention to rural development cannot be sustainable. While industries are growing fast in cities, the rural areas are still lagging behind with poverty, and backwardness. In contrast, the experience of Taiwan gives strong evidence that industrialization should be conducted in both urban and rural areas.

In Vietnam, sectional GDP contribution has been changed recently. The proportion of industry-agriculture-services changed from 27.35% - 40.17% - 32.48% in 1985 to 39.49% - 25.43% - 40.08% in 1999. This positive change is however a simple change in value. There is no significant change in sectored labor distribution. Up to date, about 76% of population is living in rural areas. It is clearly an extremely difficulty for Vietnam in its industrialization process.

The transformation of rural areas from subsistence level into commodity production will be a very difficult task. Industrialization of rural areas took hundred years in the other first movers. In order for Vietnam to complete this industrialization so that to become an industrialized economy in 2020, there are six most significant issues:

First, industrialization of rural areas requires adoption of biological technologies. New progresses in biotech should be applied into the particular context of Vietnam so that to make a significant rise in agricultural productivity;

Second, converting small-farm subsistence production into commodity production is another task of rural transformation.

Third, traditional cultivation structures needs to be updated towards high-yielding seeds and plants. Paddy rice cultivation is currently the major mode of agricultural production. Although the impressive economic growth in the early 1990s was largely due to exports of rice and crude oil, rice exports cannot (and/or should not) be a locomotive for export promotion. Converting cultivation structures is the basic measures to higher agricultural productivity.

Fourth, the government should directly intervene in industrializing rural areas by mainly infrastructure development, especially the irrigation system, labor-training programs;

Firth, processing crude agricultural products is essential to put more value added on the final agricultural commodities. The first industrial revolution in the UK characterized by building enterprises in the rural areas and taking lands from the poor farmers. This direct invasion of industrial production over the rural areas moved rural labors into industries, speeding up the process of urbanization. This story shows how industries can change traditional agricultural production. Developing factories to process crude agricultural products is therefore required to encourage productivity growth.

Sixth, the expansion of output markets for agricultural products, both domestic and foreign, the provide incentives for the expansion of agricultural production. It is unfortunately the fact that the prices of some fruits and other products that are of high yields recently have been fluctuating due to uncertain output markets. The task of marketing agricultural products into foreign markets is very weak while there are apparently constraints to domestic consumption due to the limited domestic markets.

3. The Direction of the Vietnam's Industrial Structure

3.1 The sectored industrial structure

The proposed structure of industries has the following characteristics. First, regarding mining and exploitation, oil extraction and refinery should be set up to the priority. Second, manufacturing must be considered as the most important activities in industrial production, especially manufacturing exports. Developing manufacturing requires (i) investment into factor-endowment industries, that are presently labor-intensive; (ii) R&D supports for manufacturing, especially of agricultural, aqua cultural, and forestry products; (iii) investment into the regional processing, assembling network. Third, energy and water supplies are industries that provide important inputs to most industries. A set of policy measures should be introduced to attract investment capital from available sources. Finally, as importation of intermediate goods for domestic production has been the major import item, developing industries that provide inputs to manufacturing is believed to be a good way to avoid the balance-of-payments problem.

3.2 The regional development

If it is to increase industrial production in the national economy as a whole, it is necessary to increase industrial production in the Northern mountainous provinces, 10 coastal provinces of the Central, the Highland provinces, and the Mekong River Delta provinces, among with other industrial center of the countries like Hanoi, and Ho Chi Minh city.

Investment requirements are financed by both the budget and savings in the public. The government investment should be focused on infrastructure development, especially providing energy and water supplies. Whereas private investments should be directed towards labor-intensive processing local output of non-industrial products.

3.3 The scale structure

It is the fact that about 90% of enterprises are currently small and medium size enterprises (SMEs). This figure suggests that Vietnam should give favorable measures to SMEs in all industries. Given the downsizing tendency in other industrialized countries, most notably in South Korea, SME development supports seems to be a right direction. These supports include (i) founding organizations to promote SME development; (ii) technical and financial assistance for SMEs, especially for the newly-established SMEs; (iii) providing constancy services for establishment of SMEs.

3.4 The sectored structure

The impressive performance in the 1990s was largely due to the transition into a multi-sectored economy, with official recognition of the existence and long-run development of the private sector, among with the others. The prospect in the next decade depends partly on whether it is possible to make level playfield for sectors to fairly compete with each others. SOEs investment should be focused on industries that are of strategic importance of significant contribution into the national economy, notably hi-tech industries and R&D. Whereas, the private sector, both domestic and foreign, should exploit attractive profitability in all business activities, even in hi-tech industries, if it is possible.

4. The directions of market and industrial product developments

4.1 The sequencing of industrial product lines

Based on the current situation of the Vietnam industry, the sequencing of industrial product lines is proposed as follows. First, investment priority should be directed towards the labor-intensive industries such as processing of agricultural, aqua cultural, and forestry products. At the same time, other light industries to serve daily consumption of the people like pharmaceuticals, consumer goods are also put into the first step of the industrial product development. Second, transforming downstream industries into upstream industries with large financial investment is then needed to essentially industrialize the industrial production. Finally, upgrading updating technologies are required to enhance brain and technological contents of all products.

4.2 The market development

In terms of foreign markets, bilateral and multilateral trade relations with the USA, Japan, Eastern Europe, China, ASEAN, East Asia, and Western Europe help expand output markets for industrial products. A wise and flexible negotiation strategy in WTO membership accession is required to obtain markets accesses to these markets.

In addition, the domestic market for industrial products should be also developed in line with the two directions. It is firstly necessary to provide products for the blank markets, where there are non-satisfied needs backed by purchasing power. Secondly, providing consumer goods for people living in the mountainous and rural areas, islands helps expand the domestic markets and also improve living standards in such areas of the country.

4.3 Improvements of international competitiveness

The international competitiveness of the Vietnam industrial production is currently low, compared with those of the other neighboring countries say nothing of the advanced capitalist countries. Besides garment and textiles, other non-iron materials that are some exceptions almost other industrial products are presently of low competitiveness. This challenge becomes more significant when Vietnam fully integrates in to ASEAN/AFTA and get the WTO membership. Trade liberalization requires the authorities to remove tariffs and other NTBs on international commodity flows. Under such situation, increasing the international competitiveness of the

Vietnam industrial products has been the central question, determining the future prospect of the national economy.

At the macro level, free access to foreign market encouraged by the government plays an important role in putting domestic enterprises at competition with foreign counterparts. Getting free access to international market also mean having update market information on product lines, new favorites towards design, appearance, and quality of industrial products. Free access to foreign markets also means the freeing foreign trade business right for all enterprises regardless types of ownership.

At the micro level, enterprises themselves are required to reform their organizational structures, improve management skills, upgrading technologies to increase the quality of products so that they would soon be able to compete with their neighboring counterparts in international markets.

5. The role of the government in industrial development

Economic liberalization does not necessarily conflict to enhancing the State intervention into a market economy. Recent economic development of different zones in the 20th century has proved that state intervention is probably a pillar of economic growth. The case of South Korea, Singapore, and other NIEs has revealed that strong and effective states are essential for long-term economic development. The development prospect of Vietnam depends on the policy orientation of the State under the leadership of the Party. What matters is how the State should interfere into the economy? The answer to this question is to build capacity for strategy formulation, adjust the economic role of the State sector towards market mechanisms.

Formulation of a right development strategy is critical to long-term development. In the 15th -17th the Netherlands took advantages of its long coastal border with particularly favorable geographical location, mercantile ship fleets were encouraged to fast grew. This brought prosperity to the whole nation. The United Kingdom then put technological progress into its early industrialization to complete the earliest market capital accumulation. India and the Philippines in the 60s and 70s failed to take off due to their inappropriate development strategies.

In order to become an industrialized economy in 2020, it is critical for Vietnam to have an appropriate industrialization strategy. As aforementioned, Vietnam is currently a agriculture-based economy with backward technology and about 76% of the population living in the rural areas. If it is to industrialize the economy into an industrialized country in the next 20 years under the context of globalization and the tendency toward a knowledge-based world economy, Vietnam should further transform the whole economy into a market economy in general, and especially rural areas in particular. Enhancing brain content of all products, selecting some sunrise industries to make great leap in economic growth is required in this 20-year industrialization. Policies measures are building so that to strengthen the quality of human resource, further invest into research and technological adaptation to develop capital-intensive and knowledge-intensive industries. Resources necessary for such revolution should be mobilized both from domestic and foreign sources, in which domestic sources should be the long-term and major source of capital. This industrialization also requires further integration into the world economy and an adjustment of the economic roe of the State sector.

After more than 15 year *Doi moi*, the State intervention can still be characterized as a combination of a command economy and a newly established mechanism. This combination makes the mechanisms for resources allocation non-transparent, and sometime conflicting.

A better legal environment is essential to create favorable climate for individuals to invest their energy and savings into productive activities. The most significant problem regarding the current legal environment is low enforcement of legal regulations. Inducing enforcement of the legal rules is necessary to manage economic activities under market mechanism.

In addition, the State should take the role as an information provider to the wide public. Providing information to the public should also be reinforced by providing assess to modern technologies and selling markets.

With regarding to industrialize rural areas, factor mobility should be liberalized. The State should also take the role of building infrastructure facilities such as rural traffic, irrigation system.

The role of the State will be executed though macroeconomic policies, especially monetary and financial policy measures. Both theoretically and practically, there are no doubts on whether the State should interfere into the economy. Debate on state intervention focuses on how and when the state should takes its power. Most commonly, the state is responsible for macroeconomic management and providing public goods.

In the specific context of Vietnam, probably the most significant weakness of macroeconomic management is the problem of public expenditure, and income policy. Financial reform has been step-by-step implemented since 1989 with interest liberalization and restructure of banking sector. As further steps, state budget allocation should be reformed so that budget distribution for education, research, and public administration should keep increasing. The productive sectors are open to the wide public, both domestic and foreign.

The State macroeconomic management is not executed by its own mind but by market mechanism. The Government is not the grandfather of enterprises; it is the brother of business sectors. The State therefore creates favorable conditions for business community to grew. In doing so, the State-owned sector needs further reforms. The recent establishment of stock exchanges may be a new motive for speeding up the process of SOEs equalization. In reforming SOEs, it is important to note that the Party has confirmed and emphasized the essential role on the SOEs in the national economy.

In addition, further steps in completing the legal framework are desirable. The business community needs to be informed the State priority and polices in developing economic zones, industries, and other policies which affect directly and indirectly to their activities.

Strengthening administration reform may be the first and most effective policy to avoid non-market pricing decision of the State. Corruption and red tape need to be limited and eradicated within the administrative system. Public servants should to be paid reasonably. Further training and re-training of public officials are also required.

IV. Overall Evaluation of Vietnam’s Industrial Development and Policy

1. A general assessment of the Vietnam industries

a. Backward technologies that are under-ultilized, generating low productivity

The average level of technological development is about 20 or 30 year out of date. Approximately 70% of technologies are backward or average. In comparison with the other developing countries, the technological development is a little lower than the average level. According to some specialists, the speed of technological upgrading by domestic enterprises is about 7-8% annually. On the other hands, FDI has not yet significantly contributed to the process of technological transfer. Domestic R&D expense for basic and applied studies are extremely low compared with the other advanced industrial countries. There has been apparently lack of skilled workers and professional managers.

In addition to technological backwardness, the state of under-ultilization of capacity due to the lack of material inputs or output markets was another problem in industrial development. Although a various range of measure aimed at SOEs reforms have been introduced, the state-owned sector was still of low efficiency. About 30% of SOEs are loosing. Mining and other labor-intensive industries have played a dominant role in economic growth.

As a result, the ratio of value added by industrial production was relatively low (estimated about 20%). Energy consumption in industrial production is 1.2 or 1.5 times higher than that of the other neighboring countries. In comparison with the Philippines, whose productivity is the lowest in ASEAN-6, its productivity is still 3 or 4 times higher than that of Vietnam. Low productivity, backward technologies obviously brought into low quality of industrial products, and therefore low international competitiveness.

b. Compared with the other neighbors the competitiveness of industrial products are low, even in the domestic markets

In terms of competitiveness, industrial products were classified into three categories. The first group includes industries that are of relatively strong competitiveness. These industries were footwear, non-iron materials, and other non-standard equipment's. These industries are however essentially labor-intensive. Taking advantages of the Vietnam comparative advantages, production capacity of these industries have been rapidly increased due to FDI flows and other investment sources by the domestic private investors. The second group is of average competitiveness. This group consists of most presently important industries of Vietnam such as garment and textile, electronics, paper and ceramic products, hardware and software production, beverage, milk and vegetable oil production, ores mining. The protection pressure often comes from this group. Finally is the group of low competitiveness which consists of mainly steel industries.

Due to this relatively low competitiveness of industrial products, domestic producers have encountered the danger of loosing markets even in their own country. The period from 1990 to 1995 was backed by a switch of private savings into consumption. The second half of the 1990s was however not backed by such switch. Although trade protective measures have been only steadily removed as Vietnam further integrate into the regional and the global economy, imported products have been good alternatives for both intermediate and final consumption of industrial products due to low quality, and poor marketing efforts by domestic producers. In addition, smuggled goods, especially from China, Laos, and Cambodia due to poor market management and customs have brought into extremely difficulties for domestic producers of the same products. Mass importation of Chinese motorbikes, both legal and illegal in the late of 2000 was a very good example of smuggling.

c. Heavy dependence on importation of inputs while domestically-produced materials are not fully exploited.

Rapid growth of the foreign-invested enterprises and some new hi-tech industries led to heavy dependence on the importation of intermediate material for production in the domestic market. In most foreign-invested enterprises, this importation is often over-invoiced in attempts to tax reduction or even evasion. This dependence on imports of intermediate goods was largely due to the underdeveloped materials industries. This again shows the isolation of industries producing final products from the industries that provides intermediate inputs.

While industries are heavily depends on foreign intermediates, natural resources have been inefficiently exploited. The exports of raw material or semi-processed materials resulted in both low value added and exhaustion of natural resource reserves.

2. Assessment of the Vietnam industrial policy

a. The industrial structure policy

The sectional structure

The survey conducted by authors of this research aimed at questioning senior officials at policy making authorities. 97,2% of surveyed specialists supposed that the current industrial sectored structure was in imbalance. On one hand, there was a diversified industrial structure with almost industries that one can be observed in any other countries. There is however none industries that are of strong competitiveness, even in the domestic and neighboring markets, say nothing of other international markets. On the other hands, the past emphasis on heavy industry has shown inefficient, and a waste of resources. This was absolutely a misleading strategy that has significantly influenced the ability of industries to restructure.

The scale structure

Small and medium scales are mostly observed in industrial development of Vietnam. There are some enterprises of large scale. However, this limited number has been struggling in restructuring towards improvements of efficiency. More than 90% of industrial enterprises are of small and medium sizes. The transform of ownership has resulted in very rapid establishment of a large number of private enterprises, both domestic and foreign. As a matter of fact, most of domestic private enterprises are of small scale. In addition to this number, there are millions of households that have involved in industrial production by providing components, spare parts, or other non-standard products. This kind of industrial activities is especially popular in the rural areas, where other large enterprises located in the hubs cannot reach, at least in terms of profitability. The survey has revealed that 97,2% of the surveyed specialists supposed that there would be stronger encouraging policy measures to promote the growth of private small and medium enterprises. 69,4% of them further argued that small and medium enterprises that operates in the rural and/or mountainous areas should received special treatments. This would be an important factor to restructure the currently imbalance industrial structure, especially among areas thought the countries. This would also release pressure of labor mobility into cities that have been a problem of recent urbanization.

The structure of ownership

The official recognition of the existence and long-term development of the private sector by the Constitution 1992 was the ultimate foundation for the development of private enterprises in industries. Their impressive performance in the *Doi moi* process provided strong evidence for the effectiveness of this strategy. This also induced further supports to the private sector so that all enterprises regardless of the types of ownership are able to compete in a level playfield. In the survey, 85,7% of the surveyed specialists argued that there should be more encouraging policy measure towards private sector development. Whereas only 14,3% considered the possibility of constraining the private sector in favor of SOEs as a reasonable strategy.

The institutional structure of industrial enterprises

The centralization of industrial development in the past periods continues to influence the institutional structure of industrial enterprises. Most of enterprises are organized in relative isolation with the other related enterprises. This was justified by independence of business planning. This inward orientation of industrial enterprises in terms of institutional structure has prevented enterprises from specializing.

The responses of the surveyed specialists are however diversified. 43,3% supposed that there was very little possibility for effective performance of inward-oriented enterprises, whereas 33,3% argued that a fairly good possibility exists for impressive performance. The remaining 23,3% supported this type of institutional structure.

In fact, the current institutional structures of 90, 91 general corporations were probably characterized by this inward orientation. This orientation is only likely to exist due to the presence of monopolies of these corporations in their business fields. This type of institutional structure would encounter difficulties as these corporations would soon restructure to adjust to integration of Vietnam into the regional and the world economy. Over 90% of the surveyed specialists agreed that the establishment of the 90, 91 general corporations have been of poor performance. This finding raises interesting question for future development of these corporations.

b. The selection of products in industrial development

Due to the ambition of building up economic independence, heavy industries were encouraged in a long period of time. Heavy industries therefore absorbed most of investment into industrial development. Given the scarcity of resources after the war, this misleading investment strategy led to unequal attention to light industries. Consumer goods which are of strategic importance to a poor agricultural economy was almost forgot. Heavy industries were considered to produce import substitution. 91,7% supposed that the emphasis on heavy industries was completely misleading. While 86,1% argued that mineral mining were over-encouraged by various investment projects.

c. The subjects of industrial development

85,3% argued that the government should play a leading role in industrial development . Investors ranked at the second. It suggests that the government should take its role in planning and managing industrial development.

The planning role of the government should not overlap the role by enterprises in doing their own business. The development of industries themselves depends on enterprises operating in the play. The fact of industrial development has shown that non-SOEs and the foreign-invested enterprises have experienced higher growth rates, created more employment than those of SOEs. Measures to encourage non-SOEs should be included in building up an industrial policy for Vietnam in the near future.

d. The selection of trade partners

The close door policy before the *Doi moi* process brought Vietnam economy into heavy dependence on the former socialist countries in terms of international economic relations. This trade discrimination was implemented as one policy, among with the others aimed at economic interdependence. It was however deconstructive for industrialization of the economy at that time.

The open door policy led a long-term foundation for developing bilateral and multilateral trade relations with all countries in the rest of the world. This has opened huge opportunities for industrial development. The survey pointed out that 94,3% of the correspondents support multilateral trade relations, especially with (in a order of increasing importance) the USA, Japan, and EU, China, ASEAN, Western Europe, and Korea.

e. Policy measures to promote industrial development

Without policy measures, industrial policy would play in vacuum, and therefore were of no uses. 14 policy measures proposed in the survey were considered as important and appropriate, especially financial incentives (credit, taxes), education and training, information provision, technological development (technology transfer, R&D expenses) quality management, wage policy, and administrative reform. These policy measures have existed in one form or the others. However, the overall impact of these on industrial development has still limited. The following gives some brief comments on these measures.

Capital mobilization and credit policy

Capital requirements for industrial development are financed by both domestic and foreign sources. Before the Doi moi, investment was mostly financed by the budget. Presently, financing industrial development comes from the budget, private domestic savings, and foreign investment flows. Among these sources, private savings are considered as very important resources that have been under-mobilized. Most of private investment recently has focused on trading and services, but industries. Encouraging private investment into industries stays as a challenge to the building up of an industrial policy for Vietnam.

The technological development policy

The transition into a market economy has induced Vietnam to integrate into the regional and global economy. The development of international co-operation has brought into opportunities to upgrade domestic technological capacity. However, FDI flows and other kinds of economic co-operation themselves are not necessarily accompanied by modern technologies and technological transfers, which are essential to upgrade local technological capacity. Experience of the other NIEs have shown that countries are only likely to take advantages of FDI in building up their technological development if they have a comprehensive strategy to exploit their dynamic comparative advantages and their endowment of factors. The technological development of Vietnam has recently revealed remarkable shortcomings. First of all, there has been diversified range of technological development. The real situation of technologies in industrial enterprises is chaotic. In addition to technologies that are completely outdated, there are also technologies of average and modern levels. This diversified range of technological development suggested that there has been no master plan towards technological development in industrial development. Moreover, information on technological progresses is not available for most of the public. This lack of information was one of the main reasons leading to the fact of over-invoicing technologies in most of foreign-invested enterprises. It has also make obstacles for domestic investors to select suitable technologies.

Education and training of the labor force

In principles, education and training has been long considered as the highest national priority. This viewpoint has been emphasized in official documentation, speeches by the Party and the government. However, this priority has not been really realized.

On average, the rate of literacy is rather high. This is one of the most impressive achievements of the Doi moi after amore than 15 years. However, there has been a structural imbalance in overall output of education and training. The most significant imbalance was considered as the lack of skilled workers and the distribution of highly educated people in big cities.

There is also a big need to retrain a large numbers of state officials, business managers. Presently, most of the senior state official and senior business managers in SOEs got their education in the former Soviet Union and other socialist countries. Many of them were grown during the war. Their most experiences were acquired from the central planning mechanisms, and from the war. Retraining this number should be considered as an important content of administrative reforms in the coming years.

The tariff policy

The tariff system has been developed since the early 1990s. After two stages of taxation reforms, there have been remarkable achievements. The integration into CEPT/AFTA marked by the Inclusion List that consists of 1661, the Temporary Exclusion List including 1317 items... attempts to steadily removed TBs and the other NTBs have resulted in relatively liberalized trade policy. At present, 30% of the total tariff items are of zero tariff rates, about 50% of 0-5% rates. However, there have been certain shortcomings. First, protection has been emphasized. In the absence of a clear identification of which industries should be protected, trade protection measures have been executed without specializing in any particular industries. In addition, the Preferential Tariff Rates List that has been in effective since 01 January 1999 consists of 6247 items of goods that are subject to 8-digit HS and 13 tariff rates. This list was considered as relatively complicated and diverged. Third, there has been a discriminatory tariff rate defined by the Special Sales Taxes and the Value Added Tax Laws. This discrimination was justified by promoting some particular industries that are considered to be the future national champions. However, there is lack of information on these industries are considered as priorities. Finally, business community always find confused when obeys taxes due to the lack and incompleteness of under-law instructions.

Chapter III - Vietnam's Industrial Policy toward WTO Accession

I. Vietnam's Situation and Policy Guideline

The trend of rapidly growing globalization has strongly affected all economies around the world. The fast evolving science and technology revolution has been stoutly promoting the specialization and co-operative movement among nations, leading to the high-level internalization of production force. The great-leap in science and technology, especially in information and communications technology, has deepened the interdependence among and between nations and, so shaped the trend of globalization and regionalization.

Against this backdrop, the Communist Party of Vietnam set forth the policy guideline of "openness, diversification and multilateralization of foreign economic relations based on the principle of ensuring independence and sovereignty, equality and mutual benefit"; affirms its determination of building an open economy, accelerating regional and global integration. The Resolution No.04 issued by the Communist Party of Vietnam Central Committee 8th Tenure pointed out that Vietnam needs to "actively and positively access and broaden international market", "accede to APEC (which already realized) and the WTO". To this end, Vietnam officially applied for WTO membership in December 1994.

The recent progress of international integration has brought about great achievements to national economic development. At the Ninth National Congress, the Communist Party of Vietnam reaffirms its guideline of further promoting national industrialization and modernization. The Political Report of the Congress points out that the cause of national industrialization and modernization is carried out on the basis of "building an autonomous economy in tandem with active global economic integration; mobilizing the combined force of internal resources and external supports for the sake of national development".

Acceding to the WTO presents both opportunities and challenges for our economy in general and the industrial sector in particular. For active and successful integration, the impending and imperative tasks are to have thorough understanding of WTO related rules, policies and mechanisms as well as negotiation requirements of interested Working Party members, then find out suitable solutions and a comprehensive roadmap and strategy for the industry.

II. WTO rules on trade in goods, with focus on industrial goods

1. WTO rules on trade in industrial goods

The WTO permits only domestic protections through tariff and a number of non-tariff measures with specific conditions allowed in specific circumstances. When joining the WTO, Vietnam would reduce import duties and apply bound rates (the average rate applied in developing countries is 12.3%); this should be accompanied by the removal of non-tariff barriers (NTBs) (such as quota, licenses, custom formalities, subsidies, state trading and technical specifications) within a specified timeframe. The tariff reduction largely depends on the result of multilateral and bilateral negotiations for specific commodities.

After the establishment of the WTO in 1995, the tariff on industrial goods was reduce from the average rate of 15.3% to 12.3% in Jan 1st 2000, i.e. 20% within 5 years, in which the reductions of developed countries are standing at some 40% (from 6.3% to 3.8%).

Experience learned from the 12 WTO newly acceded countries (up to November 2000) shows that all new members are obligated to commitments on 100% tariff lines (both industrial and agricultural lines) and not impose any surcharge on import goods. The average tariff rates on industrial goods from these 12 members are

10.8%; those on agricultural products are 21.4%. 9 out of 12 countries are required to take part into the Initiative of Tariff Reduction by sector, 8 to joint Agreement on Industrial Communication Products and Agreement on Normalized Tariff relating to Chemical Products. Among the 9 new members, those that join earlier could preserve the bound rates equivalent to average tariff rates of developing countries in the Uruguay Round, and those that join later should commit import duties at lower rates.

2. Specific requirements by Working Party members in negotiations for industrial goods to join WTO

The currently average tariff rate in simple form of Vietnam imposing on imported goods is around 19%, in which the average tariff rate on agricultural products is about 25%, on industrial goods 15%. In addition, some import surcharges are applied to some industrial product groups.

While negotiating for accession to the WTO, apart from multilateral form, acceding countries have to engage in bilateral negotiations with interested members to commit to observing the WTO rules and fulfill specific requirements of each member.

Commitments under the WTO undertaken by a member are the combination of the high-level requirements set forth in the bilateral and multilateral negotiations. Following is the combination of requirements for Vietnam’s industrial goods brought up by Working Party members.

- Commit to 100% industrial tariff in the Harmonized System Code HS 2002 at 8-digit level (more than 7000 items of industrial goods);
- The simple average bound rates on industrial goods should not be above the low bound rate, depending on each interested members;
- Any tariff above the required rates should be reduced by 50%;
- Remove all non-tariff barriers right after joining WTO;

- Join in agreements on sector-by-sector tariff reduction (all tariff lines of the committed sector should be reduced to 0% or according to an agreed schedule) such as Agreement on Information Technology (AIT), Agreement on Tariff Harmonization in Chemicals.

Tariff reduction and non-tariff barrier removal when acceding to the WTO will considerably abolish subsidies and increase competitive pressure on domestic industry.

Following is an analysis on competitiveness of Vietnam's industry under such pressure.

III. The competitiveness of Vietnam's industry on the path to WTO accession

Accession to the WTO is actually to take part in the world market sharing, to gain the advantages in the international trade. It is extremely important for a country to enhance its competitiveness, which is composed by 3 determinants:

- Competitiveness of trade policy system;
- Competitiveness of enterprises;
- Competitiveness of goods.

According to international economists, the competitiveness of an economy is based on 155 criteria, which are divided into 8 groups. It is the combination of sampled survey and public opinions collected from 1,500 world-leading companies and corporations.

However, the relation of these elements plays an important role in defining the competitiveness of an economy. Vietnam is ranked in the low-competitiveness group and its competitiveness has been reducing over the past few years. According to an Assessment of Global Competitive Forum, in 1998, Vietnam ranked 43rd out of 59 East Asia countries selected. In 1999 and 2002, Vietnam fell to 48th and 53rd respectively. Vietnam’s industrial sector is in the same situation.

1. The competitiveness of trade policy system related to industrial sector

Although the Vietnamese government has made efforts to gradually improve the legal framework, it remains a weakness of Vietnam. A number of Laws and Governmental Degrees such as Civil Code, Enterprise Law, and Commercial Code have been issued but are still incomplete and inconsistent.

1.1. Tariff Policies

Since applying for the WTO membership, the Vietnamese Government has been conducting adjustments in tariff policies related to trade in goods, including industrial goods, with the aim of satisfying requirements of the WTO.

Vietnam’s tariff system has only about 13 years of establishment and development, starting from 1990. Reviewing its tariff policy situation, a general and principal feature is indicated that there remain a number of policies, which were issued in a short-term manner, dealing with accidental contingencies. Those policies are unstable and unable to meet long-term requirements, and fail to take advantage of international integration principles. Following is some prominent features of tariff policies of Vietnam:

- Firstly, import duty policies are set up based on the principle of domestic production protection, though it is lacking a lucid guiding light. Lack of a strategy on development of industrial sub-sectors, which have great potential and competitive advantage, poses difficulties for finding out a reasonable protection rate.

- Then comes tariff structure. The tariff schedule of Vietnam has various rates. Industrial goods are subject to a number of tariff rates.

- Thirdly, Vietnam already completed the new updated tariff schedule under the Harmonized System Code HS at 8-digit level (in place since January 1st

1999) and currently in the process of updating the new tariff schedule under the Harmonized System Code HS at 8-digit level for 2002. During the negotiations, Vietnam is required to use the latest harmonized tariff schedule.

- Fourthly, due to the immature competitive practices and experiences of Vietnamese manufacturing sector and the lack of capital, technology and international market accessing experience of Vietnamese enterprises, Vietnam chose a transition and interim plan that allows tax exemption and reduction, which cause some impediments and contradictions to the national treatment (NT) in Special Sale Tax and VAT Laws.

- Fifthly, customs valuation now is still based on the Price Table of the Customs Administration of Vietnam, which runs against WTO rules. For customs valuation based on transaction value, customs staff must be well equipped and trained.

- Last come tariff policy transparence. New policies, including tariff policies applied to trade on industrial goods are published in official news. However, there are some legal documents, which are not made public in a timely and adequate manner. In some cases, there is only a short time from promulgating a document to bringing it into effect, so enterprises have not enough time to prepare their production and business plan.

1.2. Non-tariff policies

Non-tariff measures are used in industrial sector in order to protect domestic production. These measures are diversified and changed from time to time. However, these non-tariff measures go against WTO rules and need to be gradually removed in accordance with the mode of “tariffication of non-tariff measures”.

Some quantitative restriction measures: Industrial goods subject to import ban; Quotas on certain industrial goods; Non-automatic licensing; Regulations on state trading corporations; Regulations on surcharge; Trade procedures and vouchers; Customs procedures.

1.3. Other policies

- Technical barriers to trade (TBT)

Standards applied in Vietnam are basically consistent with ISO standards. However, lack of advanced laboratory system and technical equipment, inadequacy of experienced technical expert and lawyers mistakes find out technical, litigate and defend their grounds when imposing technical barriers to legitimately protect industrial exports and imports. As a developing country, Vietnam need more time to get well awareness of its own standards, popularize them and then readjust and make thorough preparations for applying them effectively as an effective instrument to protect customers.

- Industrial export subsidies:

Although Vietnam does not provide subsidies directly from state budget to export performances, there are some preferences granted to enterprises producing exported products such as textile and garment, footwear. These preferences are under review for being adjusted in line with international commitments, though they are only at a very small level and on a infrequent basis.

- Trade-related investment measures (TRIMs):

TRIMs stipulate that WTO members are not allowed to apply any trade-related investment restriction measure. Details are as follows:

▪ Requiring enterprises to use a certain quantity of domestic products for their processing and manufacturing. In this case, local content policy is not in line with TRIMs.

▪ Import quantity of an enterprise is limited on the basic of its export quantity.

- Export restriction through obligated foreign currency balance between amount of foreign currency spent on imports and the amount earned by enterprise.

Apart from removing local content policy, Vietnam will be obligate to remove a number of trade-related investment measures such as investment preference granted to a number of projects covered in List of Specially Encouraged Investment Projects and List of Encouraged Investment Projects, for example, projects with high local content, projects producing from domestic material sources, projects producing for export at least 80% of products, projects intensively using labor and effectively utilizing natural resources available in Vietnam, projects producing for export at least 30% of products and using many domestic materials (with a value of at least 30% of total production costs).

These regulations will be gradually removed depending on the agreement between Vietnam and WTO members and the process of acceding to the WTO. By and large, Vietnam will try to remove them in the fifth or seventh year after joining the WTO.

Vietnam is now reviewing its current legal documents, compared to WTO rules, and developing a legal reform program geared towards an enabling legal framework in line with internationally accepted practices and norms.

2. Competitiveness of industrial enterprises:

Competitiveness of industrial enterprises is defined as the capacity to survive, sustain or increase profit and market share for enterprise’s products and services in a competitive market. It is also the creativeness and flexibility of domestic industrial enterprises to penetrate into new markets, confront with challenges and make unceasing efforts in the context of global economic integration.

Competitiveness is affected by many factors, which are divided into 2 groups:

external factors and internal factors.

2.1. Internal factors:

- Business strategy is based on enterprise's market analysis, comparative advantages or its orientation to one or more market segments, its concentration on advantageous and competitive products and services, and to avoid the too strong rivals. At present, numerous enterprises still pursue the old thinking from the "subsidized" economy, are not actively working out their own business strategy in line with the Vietnamese policy of international economic integration.

- Science and technology (S&T) level, capacity to access and renovate technology, expenditure for research and development (R&D) are the most determinants for the product quality and utility. Most of technologies currently used in Vietnam are decade-long backward compared with the world standard, consequently causing the limitation of production capacity of superior and high-quality products and services.

According to international economists, there are 6 factors obstructing the process of technology renovation in state owned industrial enterprises: the lack of thorough knowledge on potential market due to inadequacy in promotion activities and market research; the inappropriate knowledge on technology caused by the lack of systematic research; the unavailability of long and middle term capital markets, thus it is difficult for enterprises in choosing capital sources and definitely relying on banking capital; the complicated investment procedures, time and money wasting for approvals of different state agencies causes the loss of business opportunities; the reluctance of a group of workers to the technology renovation as they are poorly trained and too old to absorb new technology; the resistance of enterprises leaders as they are not in competing pressure.

- Products: besides the quality, utility, design, difference or distinguished features over other competitive products, presentation is also an essential factor. Presentation of Vietnamese industrial products has not been up to regional and global standard, so limiting its competitiveness. As for manufacturing products, durable and high tech goods, after-sales services and maintenance attach special importance to product competitiveness.

- Productivity: includes labor-related factors, master elements on productivity, role of education and training staff. Vietnamese workers are usually considered quick minded and skillful ones. If they are well organized and paid, the high productivity and efficiency will be achieved. However, this advantage is not fully exploited in many cases. Labor organization in numerous enterprises is not soundly and well-organized with an overburden payroll (especially for excessive administrative staff); functions and duties are not clearly defined; working discipline is not strictly observed; the rate of formally trained workers is low; working skill is at low level.
All mentioned reasons lead to the inefficiency and low productivity.

- Production and management costs consist of administrative costs for business operation, public relation, and management costs. Under surveys conducted by international organizations and response from enterprises, the input costs in Vietnam are estimated to be much higher than those in neighboring countries, such as telecommunication & transportation service charges, price of monopoly commodities like power, cement.

- Investment for R&D, brand name, trademark, and industrial design: except some large-scale enterprises, most of Vietnam enterprises invest a tiny sum (less than 1% of turnover) in R&D. Many enterprises are satisfied with their processing for oversea- partners, they merely become big processors having no trademarks and products of their own. The role of promotion and marketing activities has not been paid due attention by proper investment that is lowering its efficiency. Some enterprises even have not realized that in the market economy and in the process of economic integration, selling a product is much more difficult than manufacturing.

2.2. External factors:

- Participation of rival companies in business field, the emergence of new competitors.

- Possibilities of introducing substitute products and services, the distinguished feature of products and services.

- Bargaining power of the suppliers of products and services.

- Bargaining power of the buyers.

- Competition between domestic and oversea enterprises in the market.

Normally, among the above-mentioned factors, assessment on competitors should be given priority to, especially in the context of international economic integration. To that end, 3 strategic directions have been mapped out: negotiation (cooperation, joint assessment, and license contracts etc.); disturbance (boycott and supply refusal, pricing discrimination); agglomeration (market expansion merger, market segmentation). The creation and merger of multinationals for market expansion and segmentation is becoming the world current trend. Over recent years in Vietnam, foreign investors tend to merge & turn a joint venture company into wholly 100% foreign invested one.

Meanwhile, Vietnamese enterprises, both state owned and private ones, have neglected the importance of collaboration and merger (in both vertical and horizontal business lines, technology and product development), which will create a capital accumulation and market association under the pressure of foreign partners.

Under the circumstance of Vietnam's market economy and its preparation for WTO accession and from the actual situation of industrial enterprises, 10 reasons for the low competitiveness of Vietnamese industrial enterprises can be pointed out as follows:

- Vietnam enterprises' knowledge and awareness of competition in the market economy is limited.

- Some industries are infant and inexperienced in a competitively playing field.

- Market accessibility, particularly to the global market, is weak.

- Backward technology leads to low productivity and product quality, including that of service products.

- Shortage of capital causes difficulties to the application of new technology, commercially intensive investment or new investment.

- Government's direct subsidies to commodity trading (which go against WTO rules) have not been transformed into the grant for technology development research applicable in production. If successful the competitiveness will be improved remarkably.

- Management knowledge and experience are not duly upgraded to respond with the competition environment of market economy, thus not make full use of local competitive edge.

- Training of a competitive environment and application of new technology to increase competition is inadequate. Modern textbooks and training equipment are not available yet.

- Application of information and communication technology (ICT) for advertisement and e-business and transactions through Internet have not been developed yet, thus fail to attract potential customers, especially international customers.

- Anti-monopoly is planed to be worked out, but in practice, monopoly still exists in some product sub-sectors, thus weaken their competitiveness.

3. Competitiveness of industrial products:

Competitiveness of industrial product is a vital part in the strategy and policy of industrial development. There are a number of foreign and domestic studies of evaluation of competitive advantage, especially when Vietnam joined ASEAN, APEC and is in the negotiation process of WTO accession. In this paper, two most recent study results are introduced as follows:

- Study results done by functional agencies of the Ministry of Industry (MoI).

- Study of the Multilateral Trade Policy Assistance Project (MUTRAP) conducted by MoT and European Community in coordination, has unveiled some figures about the competitiveness of Vietnamese industries in 2000.

However, these above studies are primarily based on the export capacity of goods through the Revealed Competitive Advantage (RCA). To make an in-depth evaluation of competitive advantage of Vietnam industrial goods, it is necessary to do it in comparison with that in other countries, especially ASEAN countries.

At present, evaluation of export capacity is a basic ground for evaluation of competitive advantage because Vietnam is a small purchasing power market and so follows export-oriented strategy. To some extents, it is true in the case of the manufacturing industry through export market share of some Vietnam key products of 1996-2001. According to these above studies, Vietnam industrial goods can be divided in 3 groups as follows:

- The competitive group of products;

- The conditional competitive group of products;

- The uncompetitive group of products.

Below are some evaluations on the competitiveness of basic products in the above groups in the process of WTO accession:

3.1. The competitive industrial group of products:

- Garments and Footwear Industry:

The two industries have attracted a large number of workers thanks to the increase in foreign investment and local production expansion; technology and equipment of the two industries have been modernized and renovated; its products can compete with neighboring countries on the quality and price. At present, the two industries are the key export sectors of Vietnam. In 2000, Vietnam exported US$1.892 billion of garments and US$1.464 billion of footwear. The figure of 2001 is US$1.975 billion and US$1.559 billion respectively and US$2.600 billion and US$1.850 billion in 2002.

However, the two industries keep high content of processing, largely depend on material import for input and market export for output. Moreover, most of their products have to be exported through a third country.

The comparative advantage of the two industries is resulted from low labor cost and skilled & high-qualified workers. However, the productivity is low; production planning from the designing, material purchase to manufacturing, quality inspection is not well organized, causing high production costs. There are few enterprises having the certificate of quality control system ISO.

Garment and footwear exports before 1995 mainly focused on Eastern Europe and SNG markets; after 1995, markets has been expanded to Japan, Taiwan, South Korea, Hong Kong, Germany, France, the Netherlands, Belgium, Canada and the US.

At present, Vietnamese garments are exported to both "quota" and "non-quota” markets. Quotas are mainly set by the EU. Since 1993, garment export value to EU has continuously increased with an annual average rate of 23% to 25%. East and South East Asian countries now are the leading exporters in garment - textile and footwear (account for 43%, 46%, and 70% of the world value of textiles, garments and footwear respectively). Therefore, Vietnam is facing with fierce competition from the neighboring countries to maintain its market share. By 2005, when WTO agreement on Textiles and Clothing comes into effect, Vietnam exports will face with a more severe competition from China, ASEAN and South Asian countries. Domestic garment and textile market is now protected by high import duty (50%). When the tariff is lowered and domestic market opens under WTO regulations, the pressure of competition in domestic market will be higher.

In the context of international economic integration, Vietnam’s garments and footwear industries are able to grow and compete if proper investment in supplementary industries is provided and the competitive edge on price and productivity combining with modern managerial skills are maintained.

- Metal component manufacturing industry:

In tandem with the progress of the whole economy, the investment in infrastructure construction has pushed up the development of the metal component manufacturing industry and none-standard equipment to satisfy the demand of large projects.

Local and foreign invested enterprises have invested in factories specializing in manufacturing large components. Up to now the total capacity has reached 200.000 tons per annum. These enterprises are capable of producing components for hydropower plants, electric transmission pillars, transportation constructions & irrigation works and buildings.

3.2. *The conditional competitive group of products:*

- Mechanical sector:

Vietnam mechanical industry consist of such major specialties as: complete equipment, machinery tool, shipbuilding, dynamic engines, agricultural machinery, motorbike, construction machinery and equipment, mechanical engineering for forestry, agriculture and industry processing, electrical devices and materials, machinery for light industry and mechanical engineering for consumer goods etc.

At present, there are 463 mechanical state owned enterprises (SOEs) nationwide (of which, there are 207 and 256 under central and provincial authority respectively).

Additionally, there are 927 collective production units, 43 private enterprises, and 28,464 households. The total work force is estimated at 197,000 laborers. The fixed assets reach US$400 million with nearly 50 sorts of products. Until June 1998, 154 foreign invested projects have been carried out with the total capital of US$2,090 million, of which these of automobile assembling and consumer goods production account for more than 50%; these material productions for agricultural and mechanical machinery still hold a tiny portion.

In 1986, the mechanical industry has failed to meet the demand of the economy and been overwhelmed by imported goods, even the core products such as: small dynamic engines, toil machines, bicycles and electrical fans etc. have gradually lost its market share.

The annual export of mechanical products gained a modest value of US$8-10 million. Mechanical goods make up only 0.1% of the national export value. The average annual growth rate of the whole industry is 10-14%.

It is generally estimated that mechanical industry’s technology and equipment are 30 to 40 years outdated compared with that of neighboring countries, 50-60 years compared with developed countries because 95% of its accessories are not synchronous. The production line is not completed, specialized. All the above mentioned reasons are causing the ever more weaknesses of the mechanical industry.

In an overall view, the competitiveness of the mechanical industry is low. However, some Vietnam mechanical products are currently able to compete with ASEAN countries in some products such as diesel engines from 6-18 HP, grinding machines and grinding roller sized 70kg/h to 2 tons/h, completed rice grinding processing line, water pumps, sugar cane processing equipment, accessories for cement factories, automobile parts etc.

To enhance the competitiveness, it is crucial for the mechanical industry to promptly renovate its technology so as to produce new products of new design and high quality.

- Electrical equipment manufacturing:

Electric devices are divided into 2 groups: electric devices for manufacturing and electric devices for consumer use. Generally, these products have satisfied 60-100% of the domestic demand; some products are certified to international standards such as wires, cables, generators and measurement devices. However, most of products are of low quality and at higher price than those of neighboring countries, particularly consumer electric devices.

With the current capacity, it is necessary to work out a technology renovation plan for the industry of electrical devices in the production of wires and cables, engines, transformers, electric measurement and tools; to obtain the certificate of quality control system ISO-9000; to actively restructure the management method; to enhance the production and business efficiency.

- Electronics and Informatics:

Over 10 years of development in market mechanism, the electronic and informatics industry has achieved great progress in all economic sectors.

As of 1997, there have been 74 SOEs nationwide with the total capital of VND437.8 million (equivalent to US$38 million); 52 private enterprises and households; 30 joint-ventures with investment capital of US$451 million; 27 wholly foreign owned company with the capital of US$425 millions.

The foreign invested sector grasps a large portion in terms of capital and turnover of the whole industry. Thanks to joint ventures and 100% FDI projects, the technical and material facilities have been built, technology has been renewed; products are more competitive and exported to many countries. Business skills have been improved remarkably; beginning by assembling under foreign trademark, now manufacture of components and spare parts for electronic-informatics products is developing; its local content is increasing. Some enterprises have gained certain successes by manufacturing electronics, informatics products under Vietnam trademarks.

Computer components (ICs) began to be exported to overseas markets, initially reached the export value of US$ 400 million in 1998, which amounted to US$ 500 million if including other consumer electronic goods. The export of electronic goods and computers valued at US$ 782 million, US$ 595 millions, US$ 470 million in 2000, 2001 and 2002 respectively.

Nevertheless, the electronic and informatics industry contains serious imbalance: firstly in product structure, much concentration has been made in producing television, radio, cassette players while leaving out other products for imported ones taking up the market; secondly in investment structure, electronic industrial products have not been invested properly (accounts for only 13% of total investment).

The demand for electronic-informatics products in Vietnam in 2000 fluctuated at the value of US$ 2.4-3 billion; by 2010 this figure will be US$ 11-18 billion. Accordingly, Vietnam will be an attractive and great potential market. And when Vietnam opens its market under the WTO rules, certainly the pressure of competition will be higher.

Investment in software and services sector has been increased, however severe competition will cause difficulties to this sector when Vietnam is integrating into global economy.

- Chemical industry:

At present, some products of chemical industry has satisfied the domestic demand, which are supe-phosphate fertilizers, phosphate, NPK fertilizers, H2SO4 phosphoric acid, H3PO4, HCL, battery, bicycle tires and tubes, motorcycles, automobile, tyres, tubes, detergents, and insecticides. Other products have been produced locally, but its quality is low and production volume is insufficient for domestic demand.

Vietnam has advantages for the development of chemical industry due to its huge potential of natural resources (that is apatite, pyrit, oil and gas, natural rubber). However, backward technology with excessive consumption of raw materials and energy causes high production cost and low quality. The low competitiveness of the industry is presented in details as follows:

▪ Fertilizer production:

• Nitrogenous fertilizer: small scale production (130,000 tons/year), backward technology, high production cost are the main reasons for the uncompetitiveness of

Vietnamese products against imported ones; at the moment, it is not protected by tax policy.

- Phosphate fertilizer: basically has satisfied the domestic market with the annual capacity of over 1 million tons, however, currently only mono phosphate is locally produced, DAP is to be imported.
- NPK fertilizer: its capacity of over 2 millions tons/year has satisfied the domestic demand, but imported DAP, SA, Kali is still required.

▪ Pesticides: domestic market has been fully supplied, but its production is influenced on the import of primary active element.

▪ Basic chemicals: only few of basic inorganic products can be locally made which is limiting the production. H_2SO_4, HCl, H_3PO_4 have satisfied the demand of market. Hard soda, purified chemicals, all kinds of alum are currently to be imported.

▪ Consumer chemicals:

- Battery manufacture: the production has satisfied 70% of domestic demand, but Vietnam only can produce lead battery.
- Detergent: its capacity is 340,000tons/year and good quality secures its competitiveness, market satisfaction, and export.
- Bicycle and motorcycle tires and tubes: satisfy domestic market by its good quality and sufficient supply.

▪ Petrochemistry: is now at the beginning of development, only PVC and DOP can be locally produced but its price is high due to the import of materials for production.

- Paper sector:

The reason for competitiveness of paper industry is that pulp production directly made use from local forests. At present, Vietnam has a program of planting 5 million hectares of new forests, including 1 million hectares of paper materials. Moreover, paper industry has some other advantages such as abundant and cheap labor, and high domestic demand.

Nevertheless, its backward technology, small-scale production, slow rate of forest plantation lead to high wood price and low competitiveness. Kinds of high durable paper, technical papers, high quality papers have not been produced yet.

Paper industry is now protected by tariff and non-tariff barriers. Only sorts of paper as kraft paper for cement coverage and pulp of whitening and un-whitening, which are not locally produced, are still subject to low import duty.

- Porcelain and glass wares:

This is the sector having many advantages such as: various sources of local materials (clay, kaolin silicon, sand etc...); low labor cost, skilled workers; all the products, except consumer porcelain, have the quality equivalent to that of ASEAN. Vietnam is applying IEC standards and management system of ISO-9000 in porcelain and glassware production. Vietnam porcelain products are dominating the domestic market, with the selling price of 3-5% lower than that of neighboring countries, and is exporting to South Korea and Japan.

However, Vietnam industrial glass products are not capable of competing with that of NICs or G7 countries on both quality and product prestige. Consumer porcelain goods can utilize the potential sources of local material and market, however its backward technology with high fuel consumption rate, monotonous package and design, high prices are the main reasons that causes difficulties for these products competing in the international market.

- Exploitation and processing of minerals:

Vietnam possesses abundant sources of minerals, including huge reserves of coal, oil and gas, iron, bronze, zinc-lead, aluminum (bauxite), gold, chrome, gemstones and construction materials etc.... Vietnam now focuses on exploiting mineral to meet the demand of the industrial development. At present, Vietnam only export raw material and low content goods as coal, crude oil, zinc powder, chrome, granite, and precious stones.

Its exploitation and processing equipments are old, backward that leads to high cost, uncompetitive products in the world market.

Chapter IV - Some Policy and Solution Implications for the Industry During WTO Accession Process

Resulted from identified challenges, opportunities and competitive edge for the industry against the background of WTO accession process, below are some general policy and solution implications for the industry to achieve the targets set in the Socio-economic Development Strategy 2001-2010 and to reap benefits from integration into the regional and global economy. They are categorized into 3 groupings:

- State policy and solution;
- Policy and solution for the industry;
- Policy and solution for the enterprises.

These groupings are organically intertwined, so enhancing the competitiveness of the industry.

I. State Policy and Solution

1. Trade Policy

To comply with WTO rules of trade in goods, in tandem with facilitation of the development of domestic production activities, trade policies must pay due attention to import duty, surcharge, certificate of origins, customs procedures and trade promotion.

2. Financial Policy

Financial policy plays as a key lever for economic management, especially in WTO accession process with strict commitments to tariffs reduction and non-tariff barriers removal, and trade liberalization. Therefore, financial policies must be devised for the purpose of sustainable development of the industry and are consistent with WTO rules.

3. S&T Policy

In the cause of industrialization and modernization, the national economy must acquire highly educated intellectuals, advanced science and technology (S&T), which should be made short-cut in many cases, in order to increase productivity and quality, thus improving the competitiveness of Vietnamese-made goods in domestic and international markets.

4. Human Resources Development (HRD) Policy

Formulating integrated programs and plans in developing human resources, having a solid political view, professional skill and foreign languages, including the training of well-skilled workers to meet the growing need of industrialization and modernization cause, and international economic integration as well.

II. Policies and Solutions for the Industry

1. State management reform in the Industry

The current issue is to specify functions, duties, powers and proper decentralization, license, inspection, supervision, and management of the industrial sector in the areas of every provincial Industrial Department nationwide. To this end, MoI is entrusted by the Government to establish a Local Industrial Directorate under MoI, in coordination with provincial Industrial Departments to carry out state management in a systematic and proper way. The research of a streamlined and effective State management apparatus should be regularly conducted.

It is necessary to identify a clear coordination between Ministries in state management of the industrial sector to avoid overlapping since a number of enterprises doing business in the sector are under multi-ministerial control.

To implement state management of the industrial sector in the whole country, the Ministry of Industry should:

- Monitor and review all issues arising from business and production activities of enterprises related to short and long term planning of each sub-sector and articles in order to take proper and responsive adjustments.

- Make synthetic analysis and regular report submitted to the Government.

- Recommend proper mechanism and policy to encourage investment in business and production.

Regarding decentralization and authorization of licensing and management of FDI activities, it is necessary to specify the size and characteristics of projects according to the decentralized and authorized level to the local authorities and provincial industrial zones management units, Ministry of Planning and Investment, in a way that avoid the overlapped control over a license.

Strengthening and consolidating state management in view of industrial development must be geared towards: strengthening and ameliorating management policies to facilitate the industrial development, as well as strengthening inspection and control measures to ensure the development in the right direction. The role played by State agencies is to take charge of the restructuring process, give certain support to enterprises and promulgate market information, work out policies in favor of proper allocation of resources to respond to competitive pressure, ensure appropriate financial source and state budget for optimal use.

Review legal documents and work out a master plan for legal reform, creating an enabling legal climate facilitating the efficient participation of every economic sector. In the immediate period, the Ministry of Industry will complete the Electricity Law, Chemical Law and relevant regulatory documents, which are submitted to the Government for approval.

Strengthen supervision taken by agencies directly in charge and those in charge of economic issues (which are organized by sector and area) must only assume macroeconomic issues. This could avoid the excessive investment in a specific sector while ignoring some others, causing imbalance between supply and demand.

To carry out uniform state management in the industrial sector, it is necessary to merge industrial zone and export processing zones management units into the Ministry of Industry and local ones into provincial or city department of industry.

Once an agency in charge of developing SMEs is established, it will act as a bridge between the Government and SMEs, formulate strategies and policies to facilitate the development of SMEs.

Encourage social organizations to support SMEs in terms of job opportunity creation, establishment of clubs of common interests and consulting center etc. to improve communication and information, consultation, especially those on the market, available loans, technology, management expertise, which are much needed for SMEs.

2. Investment Encouragement Policy for Industry

2.1.For Domestic Investment

- Promulgate policy of capital accumulation and concentration, primarily through the following channels: Investment Budget, Banks, Stock Market, and enterprise's self-accumulation.

- Promulgate policy of capital mobilization, capitalize on domestic resources, build confidence and create favorable environment for investment.

- Encourage domestic investment through the push-up of enterprises reform in the forms of equitization, lease, sale of enterprise to mobilize the idle capital from the people; encourage the private and SMEs participation.

- Promulgate incentives encouraging domestic enterprises to associate and make joint-venture etc. so as to become powerful corporations able to compete in international market.

- Reaffirm active and permanent role played by the private capitalist sector in attracting and accumulating capital for industrial development, job creation, increase in living standard, and contribution to state budget. This sector could be a driving force to prop up industrialization.

- Together with the promulgation of the Enterprise Law, it is necessary to formulate and publicize the strategy and planning of the development of the private economic sector in view of the industrialization and modernization strategy.

- Have a capital-raising mechanism for private capitalist enterprises, encourage private entrepreneurs' investment under the law, and at the same time encourage other forms of capital raising namely financial lease, investment support fund for small businesses.

- Develop State and non-State investment promotion consulting activities; conduct training of management staff for private enterprises.

- Encourage joint ventures between the State and non-State economic sectors on the basis of voluntary, fairness and guarantee of lawful interests of each economic entity; the State economic sector remains the leading role but is not in a position to set any imposition on the others.

- Create a level playing field for every economic sector.

- Apply financial instruments namely accelerated depreciation, tax holiday etc.

2.2. For Foreign Investment

- FDI sector plays an integral and critical part in the national economy.

- New initiatives should be put forth with a view to further attracting foreign investment and technology, especially those from Western Europe and North America.

- Further improve investment climate in a transparent, open and attractive way; reform administrative procedures and create level playing field for both domestic and foreign investors; push up investment in the forms of BOT, BOO and so on.

- Expand capital market by diversification of capital deployment forms and instruments namely joint-venture, associated co., insurance fund etc.

- Coupled with the amendments to the Law on Foreign Investment, structural adjustment of state management of foreign invested activities is much needed, creating a stable and enabling legal environment, publicly streamline procedures on enterprise establishment.

- Give priority to foreign investment in products that are yet to be produced in Vietnam and high-tech products.

3. Incentives for production for exports and profession development, labor attraction

- Labor and employment are burning issues that require the Government to promulgate relevant incentives such as land rental with favorable conditions and price. To promote production for export, the Government should also issue preferences with regard to VAT, corporate income tax, export duty etc.

- Investment planning should be fundamentally changed, geared toward concentrating resources on export-oriented areas and locations and export services.

- Allow enterprises from different economic sectors to directly export their products and access foreign markets, abolish business licenses for products that are not prohibited or limited by the Government etc.

- Improve and enhance the effectiveness of incentive policies encouraging exports; conduct sound implementation of the Law on Domestic Investment Encouragement, resolve problems and disputes, put in place practical incentives favoring enterprises producing products for exports, including materials facilities for making exports, as well as export services.

- Properly adjust exchange rate in favor of export.

- Implement policies and measures that enable enterprises to mobilize investment capital as much as possible from the society.

- Establish export credit guarantee funds and export insurance fund.

- Support and encourage the establishment of market promotion centers for export to provide enterprises with needed information about markets, prices at home or abroad.

4. SMEs promotion policies

The national industry is characterized by SMEs - shaped structure. By and large, SMEs make up a majority in number but they only account for 34% of total production value.

When Vietnam is acceded to WTO and take good opportunities for market expansion, SMEs' share will dramatically increase. Their common weaknesses are lack of information and poor deployment of manpower. But their strength is flexibility and dynamics in terms of structure, chance grasp and change. SMEs represent the most potential sector to thrive in the context of regional and global integration.

SMEs promotion is an important task in the socio-economic development strategy and push-up of industrialization and modernization. As a result, on 23 November 2003, the Government promulgated Decree No.90/ND-CP on the support development of SMEs.

The Ministry of Industry has submitted to the Government a decree on industrial promotion, primarily aimed at developing industrial SMEs and local industries.

5. Policy for developing industrial material zones

To increase enterprise competitiveness, particularly those using agricultural materials at home, it is necessary to formulate policies supporting the development of industrial material zones to reduce production costs and so make sound and active planning.

Planning of material zones should be made in tandem with planning of processing factories.

Allow the processing to set aside 2-3% of material value in price for development of material zones.

Create a relationship between farmers and workers of the factories, between cultivation and processing to harmonize interests. Give priority to development of remote areas.

Encourage material producers contribute their capital (or shares as stakeholders) to the factories. In a factory's structure, it is necessary to establish, if not, an agricultural affairs division.

Guide farmers how to choose good seeds, apply technologies in intensive farming, crop cultivation, cattle, gathering and preliminary processing techniques, maintenance, after-harvest transportation to improve quality of materials and productivity.

III. Solution implications for enterprises: SOE Reform

1. Perspective View

The guiding light for SOE restructuring is how to keep and strengthen key SOEs that are operating efficiently, push up equitization and put in place ownership diversification measures namely selling, hiring and leasing enterprises according to Decree No. 103/1999/ND-CP dated 10 September 1999 of the Government.

One of key factors to enhance Vietnamese enterprises is how to restructure them and thus enhance the competitiveness. Since SOEs are playing the leading role in the national economy and possessing the majority of state estates, technical and natural resources, SOEs restructuring is a matter of critical importance.

SOEs reform strategy (including industrial SOEs) is to increase competitiveness, financial capacity, and so creating a premise for them to maintain the leading role in key sectors.

2. SOE restructuring

SOE restructuring should focus on:

- Reform corporate management mechanism, give autonomy to SOEs, ensure legal status of a enterprise operating under the law.

- Restructure SOEs, push up equitization, strengthen financial monitoring;

- Strengthen some SOEs to become powerful corporations in some certain industrial sub-sectors.

- Undertake diversified ownership to increase effectiveness and efficiency, reduce the number of inefficient SOEs.

To make the restructuring effective, SOEs should be thoroughly sorted out with clear classification criteria and proper solutions for each sort of SOEs.

To reduce and curb rampant establishments of SOEs, investment could be a string attached, responsibilities of investment managers are unified with corporate operators. And at the same time burdensome procedures and unnecessary profiles should be removed.

- Further improve the efficiency of key SOEs. Step by step open the playing field for non-state enterprises to participate, to join capital with such SOEs.

- Develop and complete the model of National Corporations in such a way that are powerful, efficient and highly competitive, and so a backbone of the national economy.

- Provide SOEs with more independence and responsibilities, and clearly define and exercise ownerships.

3. Major solutions for management mechanism

- Create favorable conditions for enterprises to compete with one another in a fair and equal playing field, be they state or non-state owned; Distract non-business purposes from business activities;

- Clearly define rights and assets of a legal person (corporate);

- As for financial policy, the Government only gives priority to a provision of a minimum capital to SOEs that the Government still keeps 100% of ownership and a preferential credit to public utilities.

- Eliminate subsidies under any form for business enterprises. Put in place the mode of limited liabilities for SOEs through SOE corporatization.

- Profit sharing after having paid all taxes and charges under the law.

- Enterprises by themselves decide profits sharing after having paid all kinds of taxes.

Profits are used for re-investment, fund creation, and workers' income. Those given to workers may be transferred as shares in the enterprise.

- Profits used for re-investment are added to state owned capital, equivalent to the per cent of investment capital withdrawn from the budget in enterprise's total investment.

- Clearly define the ownerships of the State and a legal person. The State stands as the owner of the capital invested in an enterprise and only monitor the use of the capital and its effectiveness, rather than control enterprise’s assets. The State also do not directly operate an enterprise but through its representative in the corporate management board, who works under the law and gets benefits as a stakeholder.

- Define suitable corporate governance for each type of enterprise (business enterprise or public utilities):

- For business enterprises: follow the model of a single owned company, to separate state administrative management from corporate governance.
- The State invests in or allots capital to SOEs, so ensuring the start-up capital for their operation, transfer capital to SOEs so as they could equip themselves with their own assets. The invested or allotted capital and assets bought therefrom are considered investment capital or stocks that the State possesses thus stand as a stakeholder. This investment capital/stock is possessed, used and decided by that enterprise. The State does not have the right to transfer this capital and asset.

The enterprise by itself could decide the depreciation level and the State only decide the minimum depreciation level. Enterprise is able by itself to hire and buy a part or the entire another SOE from other economic sectors. Before doing so, it has to formally inform the finance agency and the Ministry in charge.

- Give greater rights to the Management Board. Strengthen the role of the Management Board (MB) in National Corporations and large SOEs. Power and duties of the Chairman and members of the MB should be clearly defined. The MB has the right to choose and sign a contract with a Director General with acceptance of relevant competent authorities; the Director General runs the corporate business under the delegation of the MB.

- Improve the empowerment of the owner of State management agencies. People's Committee of Provinces or Cities directly under the Central Government shall have the following ownership rights: permission to a corporate establishment; formulation of local SOEs restructuring plans; approval of long-term development orientation submitted by local SOEs without the MB; approval of annual plan of local public utilities; approval of capital and asset use plan; and with the Ministry of Finance (MoF) inspect and monitor the capital use, income distribution balance-sheet, personnel (appointment, removal, award and penalty).

- The MoF should promulgate modes of capital and assets mobilization and management, business accounting; unified implementation of these modes; supervision of state capital management and use in enterprises.

- Reform mechanism of inspection and supervision of enterprises, from corporate decision making to corporate performance evaluation through such criteria as profit/income rate, profit/labor, cost/benefit etc. As for public utilities, criteria are quantity level, product quality, services beneficial to the society under the Government policy, rate of product price deduction etc.

4. Acceleration of SOEs equitization process and diversified ownership

- Review and reset the criteria of SOEs that need to keep 100% state ownership, those need to be equitized (less or more than 50%), loosen control of the State over professional fields and areas.

- As for SOEs of 100% state ownership:

▪ Step by step create a legal framework to corporatize those SOEs.

• Separate the SOE ownership from the Government management function; identify a single agency, which is acting on behalf of the Government, to have the right to own and control an enterprise.

• Convert the duties of social responsibilities such as donation, charity etc. from enterprises to local authorities under strict budget regulations.

• Upgrade financial information system and disclose financial and auditing statements; enhance management and accounting capacity.

- Put forth the merit-based, best practices and payment-to-performance mechanisms to encourage managers.

- Establish effective supervision system for 100% stated owned enterprises, including corporatized SOEs.

- As for equitized SOEs:

- Elucidate outstanding equitization-related issues such as asset revaluation, procedures and modes of equitization.
- Reform the policy and mechanism for the investors and stakeholders.
- Establish unemployment benefit fund resulted from negative effects of equitization.
- Strengthen public promulgation and broadcasting activities to make people better understand the benefits of equitization and being a shareholder.

- As for SOEs falling in chronic losses or with no State holding:

- Accelerate the implementation of transfer, liquidation and leasing of SOEs to diversify ownerships and modes of business management.
- Give priority to labor-incentive SOEs;
- Issue policy to resolve the debts of those SOEs that are being transferred, liquidated or leased.

4. Strengthen National Corporations and large economic enterprises

To strengthen National Corporations, it is necessary to reform the capital raising mechanism, export and import regime, credit policies, develop capital market, fund raising principles, labor management, model of the Board of Management and Director General, investment mechanism and so on.

The model of a National Corporation is required to be renewed in the direction of enhancing the powers and at the same time restrain their monopoly. The BM powers should be strengthened.

The National Corporation structural reform should be geared toward the parent-subsidiary Model, in which the "subsidiaries" have their independent legal status.

Capital arrangements vertically from the parent and among the subsidiaries should be properly and harmoniously made.

Liquidation and/or termination of some national corporations that are administratively shaped and inefficient should be further carried out. Strengthening of key national corporations should be in the direction of widening performance dimensions, promoting international cooperation, diversifying business and production activities, and step by step diversifying ownerships to be financially viable.

CONCLUSIONS AND RECOMMENDATIONS

The industrialization models witnessed so far in the world can be noted as follows: import substitute industrialization; industrialization oriented to essential domestic demands, above all, agriculture and industry; industrialization based on maximum extraction and processing of raw materials at home in order to meet the demand of the domestic and foreign markets; industrialization based on the full employment of the home workforce; export-oriented industrialization … In Vietnam, opinions differ, some stressing one model while other opt for another. Under the present conditions, nevertheless, Vietnam may not follow any one definite model, but may have to devise a model of its own, combining all the above-said model or taking one as the foundation. This model for Vietnam may be industrialization with export as the main orientation, while taking into account a reasonable development of some import-substitute lines, the essential domestic demands, the efficient extraction and processing of raw materials, the full employment of workforce…

This model is possible for Vietnam because the Soviet style industrialization model that Vietnam put in to practice has proved inappropriate. Under the present world conditions, Vietnam may take full advantage of the world markets, and foreign funds and technologies to develop the export processing lines in the country; also it may import everything to meet the domestic demands.

Realities in the world in the recent decades have shown that almost all the countries pursuing the export oriented model have achieved greater successes than those taking other models. Every country has the model modified in accordance with its peculiar traits. South Korea, for scarcity of raw materials, emphasizes the utilization of manpower. Singapore, for a highly propitious physical location, stresses services, processing, assembly for export … Vietnam's industrialization model may focus on export, but as Vietnam is rich in natural resources, it may stress the extraction and processing of raw materials; as it has abundant manpower, it may concentrate on full employment of the workforce; as it is favorably located, it may promote such services as deriving from its advantage. Besides, the Vietnamese domestic market will not be a small with a population of about 80 million, so Vietnam's industrialization model may also take into account the demands of the domestic market.

Another noteworthy feature is that the NIEs have practiced their export-oriented industrialization model under very different world context than those at present. At that time, with the ongoing cold war, they might take advantage of Soviet-U.S. conflict to seek privileges and favors concerning market, fund and technology from the Western powers. Now, those conditions no longer exist. At that time, trade protectionism was not so acute as now; not many economic blocs appeared with so rigid a policy as now… Also, the world economy was developing more favorably, at higher growth rate…

With such drastic change of the world conditions at present, Vietnam, or any other nation, can not inflexibly apply the export-oriented industrialization model of the cold war time. Under the new world context, the very concept of export has undergone a significant alternation. Now, export envisages not only commodities or services, but also capital, technology, manpower, managerial art and search for market… Even so, it is not sufficient. A country wishing for success in export also has to integrate itself with the world community and open the door for world economic relationship to take roots in its own soil. In other words, the period of economic integration, in regions and the world, has started, and the industrialization strategy of every country should take it into account.

APPENDIX

Structure of gross output by economic sector years 1990 – 2000 (by gross output)

Unit: %

	Economic Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A	B	1	2	3	4	5	6	7	8	9	10	11
	Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
1	**State sector**	**58.0**	**55.8**	**55.3**	**56.4**	**57.1**	**50.4**	**49.3**	**48.0**	**45.9**	**43.4**	**42.2**
	Central	36.3	35.3	35.3	36.6	37.0	32.9	32.5	31.4	30.2	28.7	27.6
	Local	21.7	20.4	20.0	19.8	20.1	17.5	16.7	16.6	15.7	14.7	14.6
2	**Cooperative and private sector**	**32.4**	**31.5**	**29.4**	**28.2**	**27.6**	**24.6**	**24.0**	**23.1**	**22.1**	**21.9**	**22.6**
	Cooperative	9.1	4.8	2.8	2.1	1.1	0.6	0.6	0.6	0.6	0.6	0.7
	Private	1.0	1.4	2.8	4.0	2.4	2.2	2.4	2.4	2.2	2.2	2.2
	Household	22.3	25.2	23.8	22.1	21.4	17.6	16.1	14.7	13.8	13.0	12.4
	Mixed	0.0	0.0	0.0	0.1	2.7	4.2	5.0	5.5	5.5	6.1	7.3
3	**Joint venture sector**	**9.6**	**12.7**	**15.2**	**15.4**	**15.2**	**25.1**	**26.7**	**28.9**	**32.0**	**34.7**	**35.2**

The industrial growth rate by economic sectors years 1990 – 2000 (By gross output)

Unit: %

	Economic Sector	1991/ 1990	1992/ 1991	1993/ 1992	1994/ 1993	1995/ 1994	1996/ 1995	1997/ 1996	1998/ 1997	1999/ 1998	2000/ 1999
A	B	1	2	3	4	5	6	7	8	9	10
	Total	**110.4**	**117.1**	**112.7**	**113.7**	**114.5**	**114.1**	**113.8**	**112.5**	**111.6**	**115.5**
1	**State sector**	**106.2**	**116.1**	**114.8**	**115.2**	**114.9**	**111.6**	**110.8**	**107.7**	**105.4**	**112.4**
	Central	107.5	117.0	116.8	115.0	116.1	112.7	109.9	108.2	106.0	111.0
	Local	104.1	114.8	111.4	115.5	112.6	109.3	112.7	106.9	104.3	115.1
2	**Cooperative and private sector**	**107.4**	**109.4**	**108.1**	**111.3**	**116.9**	**111.5**	**109.5**	**107.5**	**110.9**	**118.9**
	Cooperative	58.9	68.8	84.7	58.6	85.0	105.3	109.8	114.3	125.2	132.5
	Private	163.5	230.9	160.8	68.8	114.5	122.6	115.6	104.8	109.9	115.8
	Household	124.7	110.3	104.7	110.4	110.7	104.3	104.0	105.5	105.6	109.7
	Mixed					182.0	136.5	124.2	113.5	123.0	138.1
3	**Joint venture sector**	**145.6**	**140.3**	**113.6**	**112.8**	**108.8**	**121.7**	**123.2**	**124.4**	**121.0**	**117.3**

Structure of gross output by activities years 1995 – 2000

Unit: %

ISIC Code	Activities	1995	1996	1997	1998	1999	2000 (Prel.)
A	B	1	2	3	4	5	6
	Total	**100**	**100**	**100**	**100**	**100**	**100**
C	**Mining and quarrying**	**13.4**	**13.5**	**13.6**	**14.0**	**14.6**	**13.2**
10	Mining of coal and lignite; extraction of peat	1.6	1.6	1.7	1.4	1.2	1.2
11	Extraction of crude petroleum and natural gas	10.5	10.6	10.6	11.2	12.2	10.9
13	Mining of metal ores	0.2	0.2	0.1	0.1	0.1	0.1
14	Other mining and quarrying	1.1	1.1	1.2	1.3	1.0	1.1
D	**Manufacturing**	**80.6**	**80.3**	**80.1**	**79.8**	**79.2**	**80.8**
15	Food products and beverages	26.1	26.2	25.3	24.1	22.4	20.1
16	Manufacture and tobacco product	4.0	3.6	3.3	3.2	2.8	2.9
17	Manufacture of textiles	6.0	5.4	5.4	5.5	5.0	4.8
18	Manufacture of wearing apparel	2.9	2.9	3.2	3.1	3.1	3.1
19	Manufacture of leather product	3.4	3.8	4.9	4.7	4.6	4.5
20	Manufacture of wood and of products	3.2	2.7	2.3	2.0	1.9	1.9
21	Paper and paper products	1.9	1.9	2.0	2.1	2.1	2.1
22	Publishing and printing	1.5	1.3	1.2	1.2	1.2	1.1
23	Coke and refined petroleum products	0.3	0.2	0.1	0.1	0.1	0.1
24	Chemicals and chemical products	4.9	5.3	5.4	5.4	5.7	6.1
25	Rubber and plastics products	2.2	2.4	2.6	2.9	3.2	3.5
26	Non metallic mineral products	8.8	8.6	9.1	9.1	8.8	8.9
27	Manufacture of basic metals	3.3	3.5	3.0	2.7	3.0	3.1
28	Fabricated metal products	2.3	2.5	2.6	2.8	3.0	3.2
29	Machinery and equipment n.e.c.	1.3	1.3	1.2	1.4	1.3	1.2
30	Office, accounting and computing machinery	0.0	0.0	0.0	0.2	1.0	2.6
31	Electrical machinery and apparatus n.e.c.	1.1	1.1	1.2	1.5	1.7	1.9
32	Radio, TV and communication equipment	2.0	2.6	2.4	2.3	2.4	2.4
33	Medical and optical instruments, watches	0.2	0.2	0.2	0.2	0.2	0.2
34	Motor vehicles, trailers and semi-trailers	1.4	1.2	1.2	1.1	1.1	1.1
35	Manufacture of other transport	1.8	1.7	1.4	2.2	2.7	3.6
36	Manufacture of furniture; manufacturing	1.9	1.9	1.9	1.9	2.0	2.2
37	Recycling	0.1	0.1	0.1	0.1	0.1	0.1
E	**Electricity, gas and water supply**	**6.0**	**6.2**	**6.3**	**6.2**	**6.2**	**6.0**
40	Electricity, gas, stream and hot water supply	5.3	5.5	5.7	5.6	5.6	5.5
41	Collection purification of water	0.7	0.7	0.6	0.6	0.6	0.5

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