

Preface

The Communist Party and the Government of Vietnam are aiming to basically transform the country into an industrialised nation by 2020. As to the driving force for industrialisation, especially over the past few years, the role of foreign direct investment (FDI) has been much emphasised by both the Vietnamese leaders and major international donors.

However, the development of local enterprises is still a critical issue in Vietnam's industrialisation for many reasons. Although the state sector's share of industrial production and enterprise employment has been declining, it is still dominant relative to the domestic non-state sector and FDI sector. While the domestic non-state sector's total industrial output is still smaller than that of the state and FDI sectors, recently it has recorded higher growth rates and created more new jobs than the other sectors. Besides, FDI also needs to develop linkages with local enterprises to take root in the Vietnamese economy. Understanding the potential of Vietnamese local enterprises is therefore an important part of understanding the trajectory of Vietnam's industrialisation.

Indeed, some Vietnamese enterprises, state or non-state, have demonstrated remarkable performance under conditions of transition to market economy and increasing international economic integration. Recognising such a situation, in 2004-2005, the Institute of Developing Economies (IDE) is organising a project titled "Local Enterprises and Industrialisation in Vietnam" in an effort to shed light on the current status of and major factors behind the development of local enterprises in Vietnam. Such factors may include, for instance, market structure, trading system, and organisation and leadership of individual enterprises.

The joint research project on "Domestic Enterprise Development and the Role of Local Governments", which was conducted under the above project, is focusing on one such possible factor influencing the development of local enterprises, namely, the role of local governments. The report consists of two parts. The first part was written by an IDE researcher who is a member of the above project as an overview of national policy on regional industrialisation in Vietnam and functions of local governments in that context. The second part was prepared by a team of researchers from the Central Institute of

Economic Management (CIEM), Vietnam, analysing the impact of local governments on the development of some industrial sub-sectors in their respective territories, based on case studies of 6 sub-sectors in 5 districts in 2 provinces in northern Vietnam.

We hope that this report will serve as a useful reference for further studies on Vietnam's industrialisation and socio-economic development.

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